Feasibility Study for Integrated Tax Management System

Final Report
Public Version

Submitted to:

Kenya Revenue Authority
Domestic Tax Department
(DTD)

United States Trade and
Development Agency (USTDA)

Submitted by:

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August, 2006
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Table of Contents

CHAPTER 1: Executive Summary

CHAPTER 2: Approved Deliverable for Task 1a: Situational Assessment Findings Report

CHAPTER 3: Approved Deliverable for Task 2a: Preliminary Requirements Definition Report

CHAPTER 4: Approved Deliverable for Task 1b: Redesigned Business Processes Report

CHAPTER 5: Excluded from Public Version of Report

CHAPTER 6: Approved Deliverable from Tasks 3 & 4: Procurement and Implementation Strategy for ICT

CHAPTER 7: Approved Deliverable from Task 5: E-government Legal Review

ANNEX I: Current KRA Processes

ANNEX II: KRA Forms

ANNEX III: Tax Compliance Information Sources

ANNEX IV: Final Team Leader Presentation: Overview of ITMS

ATTACHMENT I: Final Terms of Reference for Feasibility Study

Feasibility Study for Integrated Tax Management System

Final Report

Chapter 1

Executive Summary

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(USTDA Grant GH04142396)

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Preface

This Final Report of the Feasibility Study for an Integrated Tax System for the Kenya Revenue Authority (KRA) summarizes the results and findings for the Tasks as outlined in the modified Terms of Reference (see Attachment I) for the Study. As agreed with the Kenya Revenue Authority, the Final Report was submitted within two weeks of receiving approval for all deliverables under the contract between the KRA and DevTech Systems, Inc. (DevTech). During the months of September, October, and November, the KRA held several internal meetings to discuss the major findings from the Feasibility Study. This time was used to build consensus for the proposed Modernization Plan.

DevTech and The M Group express their appreciation to the Kenya Revenue Authority for its professionalism, collaboration and dedicated support to the work carried out under this Feasibility Study. The KRA ICT staff, under the leadership of Senior Deputy Commissioner Ezekiel Saina, was particularly helpful in responding to requests for information and providing the necessary support to carry out this Feasibility Study. This includes the generous support of Mrs. Elizabeth Meyo and Mr. George Muraguri. The KRA's logistical support from Mr. Paul Kimotho was likewise appreciated. This support was essential to the successful execution of this complex, innovative initiative that is on the cutting-edge of the modernization plan for the Kenya Revenue Authority. Furthermore, DevTech and The M Group appreciate that the KRA has been able to utilize the results from this Feasibility Study and the contents of this final report to advance its progress towards an Integrated Tax Management System. It is because this report has been critical to the internal process of change that the revised Final Report is being submitted several months after original submission. Rather than being considered a delay this reflects earnest efforts at change.

DevTech would also like to recognize the support of The United States Trade and Development Agency in this endeavor. In particular, the USTDA was especially helpful in adjusting the Terms of Reference to address the updated needs of the KRA.

DevTech and its subcontractor, The M Group, as well as the individuals who conducted this Feasibility Study, worked diligently to collect information, research options, and present the information as contained in the deliverables in a manner to provide the KRA the necessary information to make decisions regarding its Revenue Administration Reform and Modernization Program. When information did not exist or where assumptions were made these are explicitly contained in this final report and all of the deliverables. The Team made every reasonable effort to anticipate changes and provide the information in a useful manner so that the KRA would be able to utilize the Feasibility Study for future decisions and through the procurement process.

Table of Contents

Preface i

Abbreviations and acronyms iii

CHAPTER 1: Executive Summary 1

1. Introduction 1

2. Importance of this Study 1

3. Review of Feasibility Study Tasks 3

Task 1a: Situational Assessment 3
Sub-Tasks Completed *3*
Deliverable Summary *4*
Task 1b: Business Process Improvement 5
Sub-Tasks Completed *5*
Deliverable Summary *6*
Task 2: Products Requirement List 7
Sub-Tasks Completed *7*
Deliverable Summary *8*
Task 3: Implementation Strategy and Task 4: Communications Strategy 9
Sub-Tasks Completed *9*
Deliverable Summary *9*
Task 5: Legal and Regulatory Review 11
Sub-Tasks Completed *11*
Deliverable Summary *11*
Task 6: Final Report 12
Sub-Tasks Completed *12*
Deliverable Summary *12*

4. Expected Development Benefits of Project 14

Infrastructure/Industry 14
Market-Oriented Reforms 14
Human Capacity Building 14
Technology Transfer and Productivity Enhancement 15
Other Considerations 15
Host Country Development Impact 16

5. Potential Sources of Supply 17

CHAPTER 2: Approved Deliverable for Task 1a: Situational Assessment Findings Report

CHAPTER 3: Approved Deliverable for Task 2a: Preliminary Requirements Definition Report

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Abbreviations and acronyms

C&C	Collections and Compliance
CBK	Central Bank of Kenya
COTS	Commercial Off-the-Shelf *or* Customizable Off-the-Shelf
CSD	Customs Services Department
DFID	Department for International Development
DLN	Document Locator Number
DM	Debt Management
DTD	Domestic Tax Department
EFT	Electronic Funds Transfer
ETR	Electronic Tax Register
GUI	Graphic User Interface
HR	Human Resources
ICT	Information and Communications Technology
ISO	International Organization for Standardization
IT	Information Technology
ITD	Income Tax Department
ITMS	Integrated Tax Management System
KBS	Kenya Bureau of Standards
KRA	Kenya Revenue Authority
KREISA	KRA Enterprise Information System Architecture
KSh	Kenya Shillings
LTO	Large Taxpayers Office
MIS	Management Information Systems
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MVR	Motor Vehicle Registration
PAYE	Pay As You Earn
PIN	Personal Identification Number
PIT	Personal Income Tax
PSV	Public Service Vehicle
RARMP	Revenue Administration Reform and Modernization Program
RMS	Records Management System
RTD	Road Transport Department
SAC	Senior Assistant Commissioner
SD	Stamp Duty
SDC	Senior Deputy Commissioner
SDL	Sugar Development Levy
SL	Standard Levy
SOW	Scope of Work
TIS	Tax Information System
TOR	Terms of Reference
TPC	Tax Procedures Code
UPS	Uninterrupted Power Supply
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
VAT	Value Added Tax
WAN	Wide Area Network
WLAN	Wireless Local Area Network

CHAPTER 1: Executive Summary

1. Introduction

The Kenya Revenue Authority (KRA) has been engaged in revenue administration reform for several years. Among the KRA's impressive, recent accomplishments is the integration of formerly separate departments for income taxes and value added taxes (VAT) under a new Domestic Tax Department (DTD). The integration was completed in October 2004, and the DTD was organized under a functional organization structure, as recommended by the International Monetary Fund (IMF) and most donor organizations based on international best practices.

Modernization of the Kenyan tax administration is timely, as the country becomes a leader in democracy in Africa, marked by the population's overwhelming support of the country's first new president in 24 years in 2002. The new government and its development partners are undertaking an ambitious agenda of reform, with a focus on the implementation of key measures to fight corruption and promote good governance, among other initiatives.

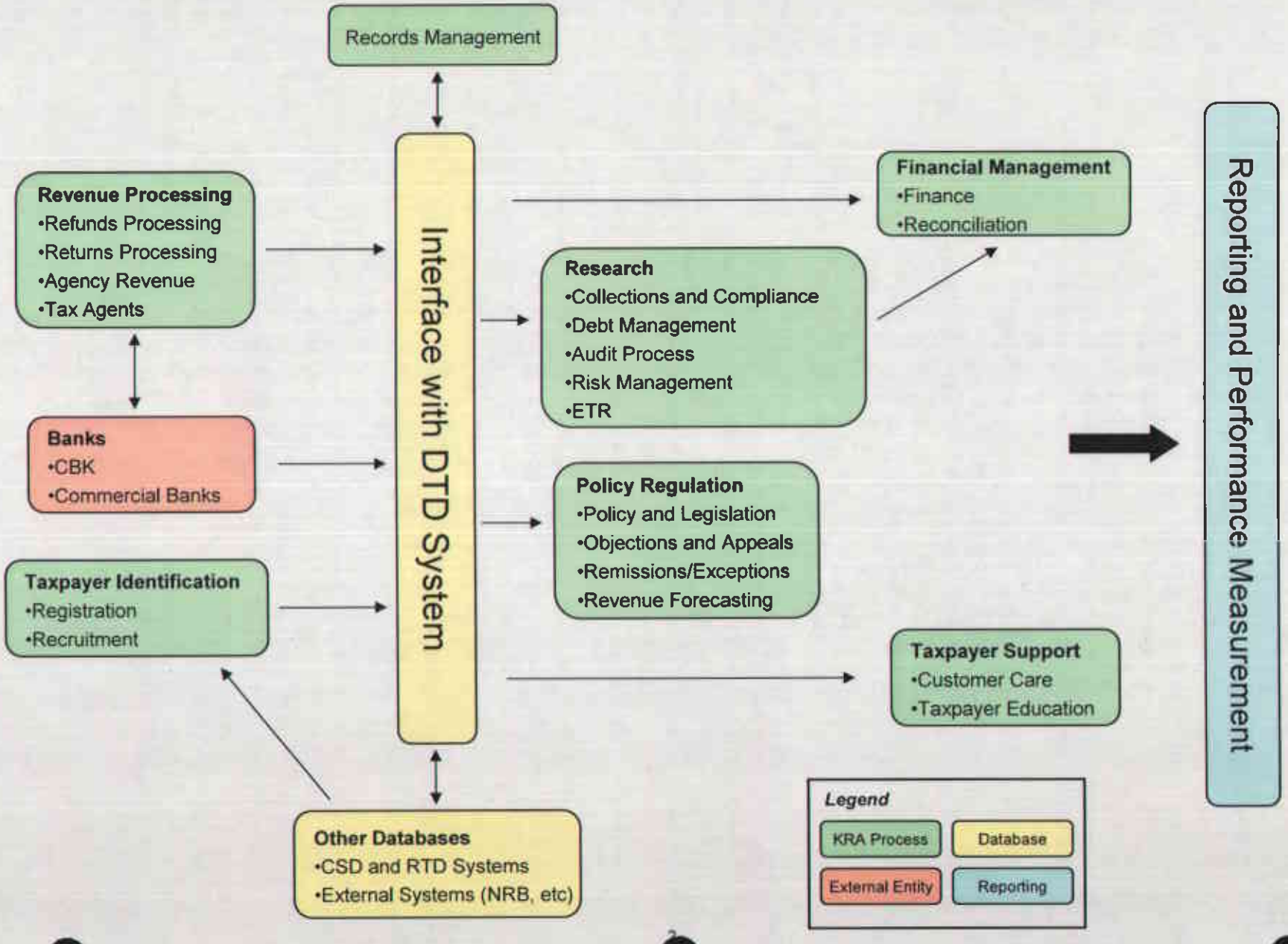
In 2002, the KRA completed a comprehensive *KRA Enterprise Integrated System Architecture* (KREISA) plan to guide the development of an integrated system to improve the agency's performance. In order to facilitate this modernization effort, the KRA applied for, and received a grant from the United States Trade and Development Agency (USTDA) to contract a United States-based firm to conduct a Feasibility Study of the modernization effort in the Domestic Tax Department (DTD). In addition, the KRA has been receiving technical assistance from a United Kingdom Department for International Development (DFID)-funded advisor to complete a KRA-wide ICT Strategy. The Feasibility Study and KRA ICT Strategy together are meant to propel the KRA towards a successful modernization of its systems and operations.

DevTech Systems, Inc. (DevTech), a U.S.-based consulting firm, was awarded the contract for the USTDA-funded Feasibility Study designed to help facilitate the KRA's acquisition and implementation of a modern computerized integrated tax management system (ITMS).

2. Importance of this Study

The creation of an integrated system will allow the various KRA business processes and functions to supply and receive information from one another, dramatically increasing the checks and balances of the tax administration, as well as increasing the efficiency of agency operations and level of service to the taxpayer. This system will move the KRA towards its goal of being a hallmark of international best practices. Figure 1 illustrates a high-level model of the proposed integrated system (based on these best practices) that encompasses the details included in the Redesigned Business Process Report (see Chapter 4) and the schematic on page 13 of this Chapter. Internally, the improved communications between departments brought about by automated processes and the increased access to data and reports can significantly improve KRA officials' ability to complete their day-to-day tasks, reduce backlogs, and ultimately increase the agency's revenue.

Figure 1: High-Level Model of Integrated System



The DevTech Team includes The M Group, Inc., a consulting firm focused on improving tax and revenue administrations. The Modified Terms of Reference for the study contained the following major tasks:

- Task 1a: Situational assessment to document an overview of the KRA's current functions, processes, infrastructure, regulations, and organization (Chapter 2 of this report);
- Task 1b: Business process improvement (BPI) exercise to further detail the KRA's current business practices and make recommendations for improvement (Chapter 4 of this report);
- Task 2: Requirements definition that outlines specific requirements for the new system, including cost considerations[1] (Chapters 3 and 5 of this report);
- Task 3: Development of an implementation strategy (Chapter 6 of this report);
- Task 4: Expansion of the Communication aspects of the Information and Communication Technology (ICT) strategy to complement the DFID-financed KRA-wide IT strategy (Chapter 6 of this report);
- Task 5: Legal and regulatory review of critical areas of consideration in the procurement and implementation of the ITMS (Chapter 7 of this report); and
- Task 6: Final Report that includes an Executive Summary of all work completed during the Feasibility Study, and approved versions of previous deliverables (Executive Summary of this report and subsequent chapters).

This final report includes the following sections:

- Section 2: Review of the Feasibility Study Tasks
- Section 3: Potential Sources of Supply for Integrated System and Components
- Section 4: Expected Development Benefit of the Project

3. Review of Feasibility Study Tasks

During the Feasibility Study, a deliverable was produced for each Task[2], submitted to the KRA, reviewed in detail by the relevant KRA officials, and revised by the Contractor to incorporate the KRA comments. The final approved versions of each Deliverable are included as Chapters attached to this Final Report. A brief description of the actions completed by the Contractor and highlights of all aspects of the requirements of the new system, potential costs of procurement and implementation, a proposed implementation strategy, and a high-level implementation plan are included as follows.

Task 1a: Situational Assessment

Sub-Tasks Completed

Beginning in February 2006, the DevTech Team conducted on-site situational assessments of the KRA/DTD's current functions (including an organizational analysis), processes, activities, technology infrastructure, and ICT strategy as related to KRA's management functions. The

[1] Please note that Task 2 was split into a Task 2a and Task 2b. Task 2a was completed between Tasks 1a and 1b, and used the information gathered in the Situational Assessment to complete a preliminary products requirement list. Task 2b was done after Task 1b, and refined the preliminary products requirement list based on the improved business processes designed in Task 1b. Task 2b is entitled "Final Products Requirement List."

[2] With the exception of Tasks 3 and 4, which were combined into one report in accordance with the TOR.

Team reviewed the various functional components at the Head Office and in field stations of the integrated nation-wide organization. The team visited with managers and staff from each of the KRA's functional areas to gain an understanding of the agency's organization, processes, and operations. Due to the fact that the business process analysis as documented in the KREISA report was completed more than four years ago at a time when income tax and VAT were separate organizations, it became immediately clear to the Team that a new business process analysis and re-design process was necessary. The KREISA report was therefore not largely applicable to the current organizational structures. In order to respond to this change in circumstances, DevTech in close coordination with the KRA and USTDA adjusted the content of the first Deliverable to provide a situational assessment that recommended general improvements for the DTD's core business processes based on international best practices and identified possible "quick-win" actions to be considered by KRA officials for implementation in the short-term. As part of the situational assessment, the DevTech Team also completed an initial legal review of the procurement law and regulations in order to identify any significant problems early in the process. Following the completion of the Situational Assessment, the KRA and DevTech agreed to a modified Terms of Reference, which was submitted to the USTDA for approval and eventually incorporated into a Grant Agreement Modification and Contract Modification.

Deliverable Summary

Based on the assessment, several important observations about the DTD's current functional organization structure were made, and recommendations given for possible improvements based on international best practices. Examples of organizational issues include fragmented chain-of-command issues and overlapping business processes among various functional components, which were causing significant confusion of staffs about respective responsibilities (e.g. where do compliance verifications stop and audit functions begin?). The KRA was found to be very receptive to these recommendations, and in some cases quickly implemented proposed changes.

Six proposed organization charts were included in Annex 2A of the *Task 1a* report, and changes to several staffing practices of the DTD and the KRA were recommended. These changes were designed to improve the execution of the DTD's core business processes. Recommendations were based on international best practices. The highlights included:

- Recommendation of a new, high-level position – Senior Deputy Commissioner (SDC) – Operations - reporting directly to the Commissioner, who would have line authority in the chain-of-command to all Station Managers;
- Re-definition of the primary role of the SDCs and staffs in the Head Office – from a current mix of operations/normative roles to a normative and functional-support role exclusively;
- Delegation to functional managers and staff in stations and the Large Taxpayers Office (LTO) of exclusive responsibility to conduct tax administration operations with taxpayers;
- Re-alignment and consolidation of various functional components to facilitate more efficient and more effective execution of business processes in Station and LTO operations, e.g. re-alignment of Taxpayer Recruitment under a compliance functional component rather than under Taxpayer Services; and consolidation of Debt Management, Collections, Compliance Monitoring and Taxpayer Recruitment in Head Office, LTO and Station organization structures;

- Adoption and application of staff specialization to a much greater extent than is currently the case starting with recruitment, training and assignment – particularly for auditors, who cannot develop the experience and expertise required to represent the KRA and the DTD, especially on LTO audits, under the current short-tenure assignments to various functional DTD components;
- Consolidation of the four Nairobi stations to two stations to permit formation of larger functional components (audit, debt management, etc.) and facilitate much more staff specialization as well as much more efficient and effective span-of-control technical/supervisory staffing ratios, which at the time were seen as very "top-heavy".

For improvements in the execution of the DTD's core business processes, numerous recommendations and suggestions were made throughout the report, e.g. a different approach to "comprehensive audits" of taxpayers which will direct the time of auditors to high-risk, productive audits based on risk-analysis assessments and away from audit activity which is known in advance to be low-risk and unproductive, and also places heavy burdens on taxpayers. Another example of recommendations for improvement included in this report was a workflow diagram for a proposed centralized tax declaration and document processing center.

From the review of the DTD's current functions, business processes, activities, technology infrastructure and overall operations, the foundation components and features of an Integrated Tax Management Systems were described in the Task 1a report. In addition, descriptions of the databases of other KRA departments and the links to those systems, which the new ITMS would need to provide for the DTD's main users were also described. The databases discussed in this section are Customs (Simba); Domestic Excise Taxes; Road & Transport (RTD); and Agency Revenue (Stamp Duty, Sugar Development Levy and Standard Levy).

The Contractor utilized the findings of the *Task 1a: Situational Assessment* to develop the two subsequent components of this Study – *Task 1b: Business Process Improvement,* and *Task 2: Requirements Definition.* Task 1b built on the business process overview from Task 1a, detailed KRA business processes, and made recommendations for improvement, while Task 2 was to focus on development of detailed features required in the new ITMS software to help identify products which would be available in the international markets which meet these requirements.

Task 1b: Business Process Improvement

Sub-Tasks Completed

Task 1b: Business Process Analysis and Improvement was based on 12 weeks of technical assistance building on the first two deliverables under this study, namely:

- Deliverable from Task 1a: Situational Assessment Findings Report
- Deliverable from Task 2a: Requirements Definition Report[3]

The KRA had identified business process improvement to be a critical step in assisting in the eventual identification and acquisition of an Integrated Tax Administration Management System. In order to build ownership internally for the changes, the KRA DTD requested that DevTech

[3] See following section on Task 2, which describes the distinction between Tasks 2a and 2b, along with the rationale for separating the Tasks.

work alongside business analysts from the respective KRA departments to accomplish this task. This collaboration of DevTech and KRA Business Analysts assisted KRA DTD in conducting a critical assessment of the organization to help identify business problems and propose solutions.

Two sensitization sessions with KRA DTD business analysts were conducted to demonstrate:

- How to evaluate processes for potential improvement; and
- How to utilize and interpret flowcharts as a tool to assist the organization in understanding how it currently operates.

Specifically the Contractor performed the following tasks (*the outcome of which are summarized below*):

- Reviewed the documentation of the current business processes and mapped current business processes;
- Identified processes to be re-designed in order to embrace best practices or to be automated; and
- Completed the business process improvement, including developing process models utilizing Microsoft Visio and identifying solutions available in the market.

Deliverable Summary

The business process analysis was meant to bring the KRA more in line with similar Tax Administrations' policies and practices, and their use of new technologies. Improved business processes provide for a more efficient lodging of all returns, streamlined payment mechanisms, and improved efficiencies for both taxpayers and the KRA. Consolidation of processes to eliminate redundancies such as repeated Taxpayer document submission and KRA repeated data capture is outlined in the report where relevant. The process recognizes the consolidation of three separate tax regimes into one Department, and the harmonization of processes and procedures in law. The implementation of the Integrated Tax Management System (ITMS) provides for a new management methodology in tracking Taxpayers, collecting debt, identifying non-filers, and provides performance measurement systems to manage resources within the KRA and compliance with Tax Payers code. Overall, the recommended processes provide the avenue for streamlined and responsive operations which support voluntary compliance with Taxpayers.

The *Deliverable from Task 1b: Business Process Improvement* report is organized by DTD Business Process (see Attachment I for a detailed list), with each current process described, outlined, and diagrammed. Following the description of the current process, areas of concern are highlighted, and solutions to these challenges offered. Where possible, these solutions are specified as one of four types: *Organizational, IT/Integrated System, Procedural* and *Policy*. The purpose of these notations is to assist the KRA identify those processes improved further on application of available technologies and those that are improved based on administrative improvements. Finally, improved processes are outlined and diagrammed for easy reference.

The processes outlined in the Task 1b report provide improvements from the use of technology and administrative changes. The "quick wins" listed are for the most part administrative changes, such as organizational changes, policy changes, or involve the use of existing data or technology possibilities within the KRA. Changes of a technological nature are included in the

ITMS/Records Management System (RMS) systems that have been outlined, such as e-filing, electronic risk management, and scanned images for all documents. The full breadth of the timing of the implementation of the technological improvements ultimately depends on the final selection of the ITMS software and its components and capabilities.

It is important to note that the improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. Some functions, such as debt management, require *more* processes to become effective in achieving their goals. Some processes can be streamlined through automation, for example through the reduction of many registers that will not be required in the electronic environment. Other processes, such as electronic reconciliation in Finance, do not remove the requirement of the task completion, but do remove much of the manual work in completing the tasks.

To ensure the recommendations from the Task 1b report would also assist KRA DTD in meeting the requirement for the International Organization for Standardization (ISO) 9000 for Quality Management Systems, the ISO process approach was utilized. The process approach is built on the belief that a desired result is achieved more efficiently when activities and related resources are managed as a process. If effectiveness and efficiency are not achieved, the process has failed and needs attention. This becomes apparent quickly in a tax processing environment because the output of one process becomes the input for the next one.

Task 2: Products Requirement List

Sub-Tasks Completed

The initial project plan for the Feasibility Study proposed a single *Task 2: Products Requirement Definition* that would begin concurrently with the later stages of the Situational Assessment, the input of which would allow the project team to formulate a definition of requirements for the new system. In the early stages of implementation of Task 2, it became clear that given the emphasis that would be placed on the later Business Process Improvement exercise, the Situational Assessment would not be enough alone to define a clear products requirement list. As such, the project evolved to have a *Task 2a: Preliminary Products Requirement List*, that would flow from information gathered during the initial Situational Assessment, and a *Task 2b: Final Requirements List* that would be an updated Task 2a report based on input and requirement validation/negation as a result of information gathered through the *Task 1b: Business Process Improvement.*

The results of the situational assessment were utilized to prepare the deliverable for *Task 2a: Preliminary Products Requirement List*, which presents the preliminary requirements for a modernized and automated ITMS. The purpose of this report was to review the current state of information systems at the DTD, identify feasible solutions that would serve to guide the automation process, and list the preliminary product requirements. In addition, this report highlighted immediate decisions required that would affect the final requirements definition (Task 2b). It was understood that the decisions and recommendations of *Task 1b: Business Process Improvement* may alter or change the requirements specified in the Task 2a report, and as a result DevTech would finalize the requirement specifications in Task 2b. As such, the *Task 2b: Final Requirements List* report updates the original requirement definitions provided in the Task 2a report to incorporate the re-engineered processes and BPI recommendations.

As part of the final requirements definition, DevTech conducted a thorough analysis of the available Commercial Off-the-Shelf (COTS) integrated tax administration systems. This analysis included on overview of the various available packages, areas of sensitivity when working with COTS systems, advantages of COTS systems, and a discussion of "required" versus "desired" components of a COTS system. The DevTech Team worked closely with KRA counterparts to use this analysis to develop a scorecard that would be used to rank systems from potential vendors of COTS systems.

Deliverable Summary

Taking into account the general ICT situation in Kenya, availability of telecommunication network access points, and the KRA's systems, the Final Requirements List presents implementation scenarios for KRA's consideration and briefly discusses implementation strategies. In particular, the report reviews various e-filing scenarios implemented by tax administrations around the world and examines their merits/demerits in KRA context. Based on the analysis conducted during a four-week on-site technical assistance assignment, this report made the following observations and recommendations:

- Due to the twin challenges of inadequate telecom infrastructure and unavailability of ICT resources throughout the taxpayer base, the Contractor Team recommended a phased implementation strategy for e-filing and e-servicing. A recently introduced technology, 2D barcoded forms, is recommended to help bridge the gap between current paper-based return filing and complete e-filing. With 2D barcoded forms, the forms have a barcode that is updated as the form is completed by the taxpayer on his/her machine. The "updated" barcode has the same information as the form and can be scanned by a reader to directly capture the information from the form. In effect, this technology would require tax forms to be re-designed with the barcode and may address some of the issues which KRA is currently facing with return backlogs.

- Furthermore, the Team recommended that the KRA segment its taxpayer base in three segments: i) highly IT mature taxpayers such as LTO taxpayers, ii) taxpayers with some access to Information Technology, and iii) taxpayers with no access to information technology. Different filing methods (current manual filing, bar-coded forms filing or electronic filing) would be appropriate for these different segments. As acceptance rates for electronic filing increase, some of the current hand-written filing options could be eliminated in the future.

- A taxpayer PIN registration/de-registration methodology needs to be decided and formalized. This decision would entail determining the make-up of individual and corporate PINs, whether to use National Registration Bureau personal IDs as PINs for individuals or not. Furthermore, a decision on whether or not to use corporate registrar's office to register corporate taxpayers needs to be made.

- To adequately specify the system, another important decision to be made is the degree of e-filing to be pursued at the outset and how to segment taxpayers to design different filing modes for them. The network bandwidth and processing capacities available at KRA as well as in the taxpayer base may affect the degree of e-filing to be pursued.

- KRA also needs to decide what payment options it wants to avail to taxpayers (for example, cash, check, wire transfer, debit card or credit cards, etc.). Different payment options would result in different requirements for the final system. Some of the payment options may be limited by the Kenyan law.

- Self-imposed requirements for tax return processing timelines need to be established. It would entail how soon the monthly VAT returns should be processed and how soon income tax returns should be processed and refunded. The processing window for various tax returns would dictate the throughput requirements for the ITMS. These decisions together with the detailed BPR would help formalize requirements in Task 2b.

The Task 2a report identified 101 functional and technical requirements that are necessary for the ITMS based on the current organization and business processes, as well as international best practices. These requirements were sharpened and redefined through Tasks 1b and 2b. The above decisions were highlighted at this stage of the modernization process due to their overall significance and impact on the requirements definition and ITMS-installation.

The revised 2b report identifies **256 functional and technical requirements** that are necessary for the ITMS based on the current organization and business processes with enhancements recommended by the Task 1b (BPI) and the international best practices. This deliverable can be used in conjunction with the Deliverable from Task 1b to prepare the Requirements and Specifications document for any resultant procurement. As such, the deliverable from Task 2b is **not** included in the Public Version of this Final Report.

Task 3: Implementation Strategy and *Task 4: Communications Strategy*

Sub-Tasks Completed

Due to the interconnectivity of the two tasks, one combined deliverable was submitted for *Task 3: Implementation Strategy* and *Task 4: Communications Strategy*. The DevTech team examined the current availability of technology and the communications infrastructure of both the KRA and Kenya to devise the optimal proposed solution for procuring and implementing the ITMS in a manner consistent with the KRA-wide modernization strategy. This report presents a procurement and implementation strategy, including telecommunications infrastructure upgrade requirements, for the envisaged Integrated Tax Management System (ITMS) for the Domestic Tax Department (DTD) of the KRA. The document offers recommendations and guidance for the procurement and phased implementation of priority components of software implementation, linkages to the existing DFID-funded ICT Strategy, and implementation requirements and costs. This overall implementation strategy is consistent with the DFID-funded KRA ICT Strategy, which provided an overall road map for the modernization of the KRA's ICT framework.

Deliverable Summary

Due in large part to the KRA's goal of procuring, customizing, testing, and implementing the new ITMS by June 2007, commercial off-the-shelf (COTS) software is considered to be the most expedient and optimal solution. Given the short time frame, the DevTech Team recommends

simultaneously targeting both COTS suppliers and other government revenue authorities who may have tax administration systems that can be adapted to meet the KRA's needs.

In recognition of the compressed time frame for implementing a complex information system, DevTech recommends a phased acquisition/development and roll-out. As such, in consultation with the KRA/DTD and as a direct result of the business process analysis and redesign effort, the DevTech has identified priority components for implementation. These components, which are expected to be the most critical and to generate immediate results, include Records Management, Registration, Returns Processing, E-filing, Payments Processing, Revenue Accounting, and Performance Measurement.

Implementation of the new ITMS will require a significant level of training and skills development, as well as increased staffing levels in some areas. In the report, DevTech summarizes these requirements.

Finally, the Team conducted a rapid assessment to prepare a breakdown of estimated costs to implement the new ITMS. This estimated cost is provided as a basis for planning purposes, and is itemized by training, hardware, software, and telecommunications upgrades. The total estimated cost of procurement and implementation of the ITMS, and the upgrading of the telecommunications framework to a level that can support the modernized system will be approximately US$ 9,006,623.

Based on the analyses conducted to date by the DevTech Team, it is recommended that the KRA/DTD proceed with the acquisition and implementation of the ITMS. The KRA has placed the implementation of the new integrated system as a top priority with a June, 2007 deadline. It is anticipated that the KRA will **not** seek new donor funding for this implementation. As part of the Implementation Strategy, DevTech and the KRA built on the Task 2b: Requirements Definition to develop a detailed specifications document that could be sent to specific vendors. Note that this document is not included in the Public Version of this Final Report.

It is fully expected based on the situational assessment and identification of redesigned processes that the investment in the new ITMS will be offset by savings realized as a result of more efficient automated processes, and increased revenue collected due to improved controls and processes such as debt collection management. Furthermore, a more streamlined tax administration will be in line with efforts by the Government of Kenya to improve the competitive position of the Kenyan economy and reduce corruption in the public sector.

Though difficult to quantify, there will be cost savings from the improved business practices of e-filing (savings from reduced data entry staff) and Records Management System (RMS) procedures (savings on prime office rent and courier charges for the movement of paper, and reduced staff for filing and retrieval.) The initial expense of telecommunication upgrades and installation will be offset by savings in reduced costs for data and voice communication.

- The timely collection of debts and improved enforcement activities should result in increased revenue collection. A conservative estimate would be a five percent increase, and likely higher.

- The debt collection improvement on principal amount owing alone for active debt would result in approximately $15 million dollars (nearly KSh1.1 billion) from current reported debt.
- The increased revenue collection from improved controls, risk management, recruitment, and data analysis within KRA and from external sources will improve revenue collection by at least five percent.
- Based on current DTD revenue collections of approximately annual $2.8 billion, a potential five percent increase in revenue collection represents an additional $140 million (approximately KSh10.2 billion) of increased revenue for the Government of Kenya.

Task 5: Legal and Regulatory Review

Sub-Tasks Completed

The deliverable for *Task 5: Legal and Regulatory Review* explores legal and regulatory issues relevant to the procurement and implementation of the new Integrated Tax Management System (ITMS). A brief discussion of legal issues related to procurement was included in the Task 1a report (see Chapter 2 of this Final Report, the Deliverable from *Task 1a: Situational Assessment Findings Report*, Section 9 for more detail). This review found that the procurement process is in line with internationally accepted standards, but does still involve major areas of concern such as the bias towards national suppliers and the need to reinforce anti-corruption measures.

During the course of the study, the DevTech Team consulted closely with the KRA to maximize the functionality and usefulness of deliverables, particularly on the legal review task. Initially, it was envisioned that the KRA may need guidance on procurement issues and regulations that may need to be considered for the procurement of a new system. However, Kenya has a relatively new Public Procurement Law, which clearly details the process a public agency such as the KRA must follow. After having recently procured a modernized system for the Customs Department, the KRA was familiar with the legislation and its related issues. As such, there were not any significant unfamiliar legal or regulatory issues that would hamper the procurement of the new system. Following further consultation with the KRA, it was determined that the one area in which the KRA needed assistance regarded the implementation of the system, and specifically understanding the area of e-government and related e-commerce issues. As a result, the Task 5 report is focused on a discussion of relevant legal and regulatory issues regarding e-government.

Deliverable Summary

The Task 5 report briefly describes the legal framework and precedents for e-government initiatives as relating to the KRA, highlights general challenges faced when working within this e-government legal framework, and then focuses on specific issues regarding the KRA's plans for implementation of an e-filing system. The three main issues facing the KRA when implementing e-filing are:

- The ability for a taxpayer to provide an e-signature of digital signature;
- The legality of making e-filing a mandatory requirement for certain taxpayers; and
- Obtaining proof of submission or non-submission of returns.

For each of these challenges, considerations and recommendations are made that can assist the KRA in the implementation of e-filing in the new Integrated Tax Management System. The primary legal and regulatory issues related to the procurement and implementation of the new system are those related to e-based transactions. The laws relating to e-based transactions are still being developed government-wide in Kenya. KRA's participation in the development of these laws is important due to the nature and sensitivity of the data to be protected. The remaining critical legal issues to address are integrity and privacy of taxpayer data, particularly as the system is implemented by a third party. Consequently, it is expected that KRA standards for electronic data may need to be higher than those of other Kenya government agencies.

Task 6: Final Report

Sub-Tasks Completed

As the culmination of five months of close collaboration between DevTech and The M Group technical experts and Kenya Revenue Authority officers and staff, the deliverable for *Task 6: Final Report* provides an Executive Summary of all activities completed during the Feasibility Study, approved versions of each of the previous deliverables, and a discussion of expected development benefits of the implementation of a modernized integrated tax system in Kenya. As part of the concluding meetings between the DevTech Team Leader and KRA leadership, the Team Leader presented an overview of the Integrated Tax Management System (ITMS) to KRA officials. This presentation is included in Annex IV of this Final Report.

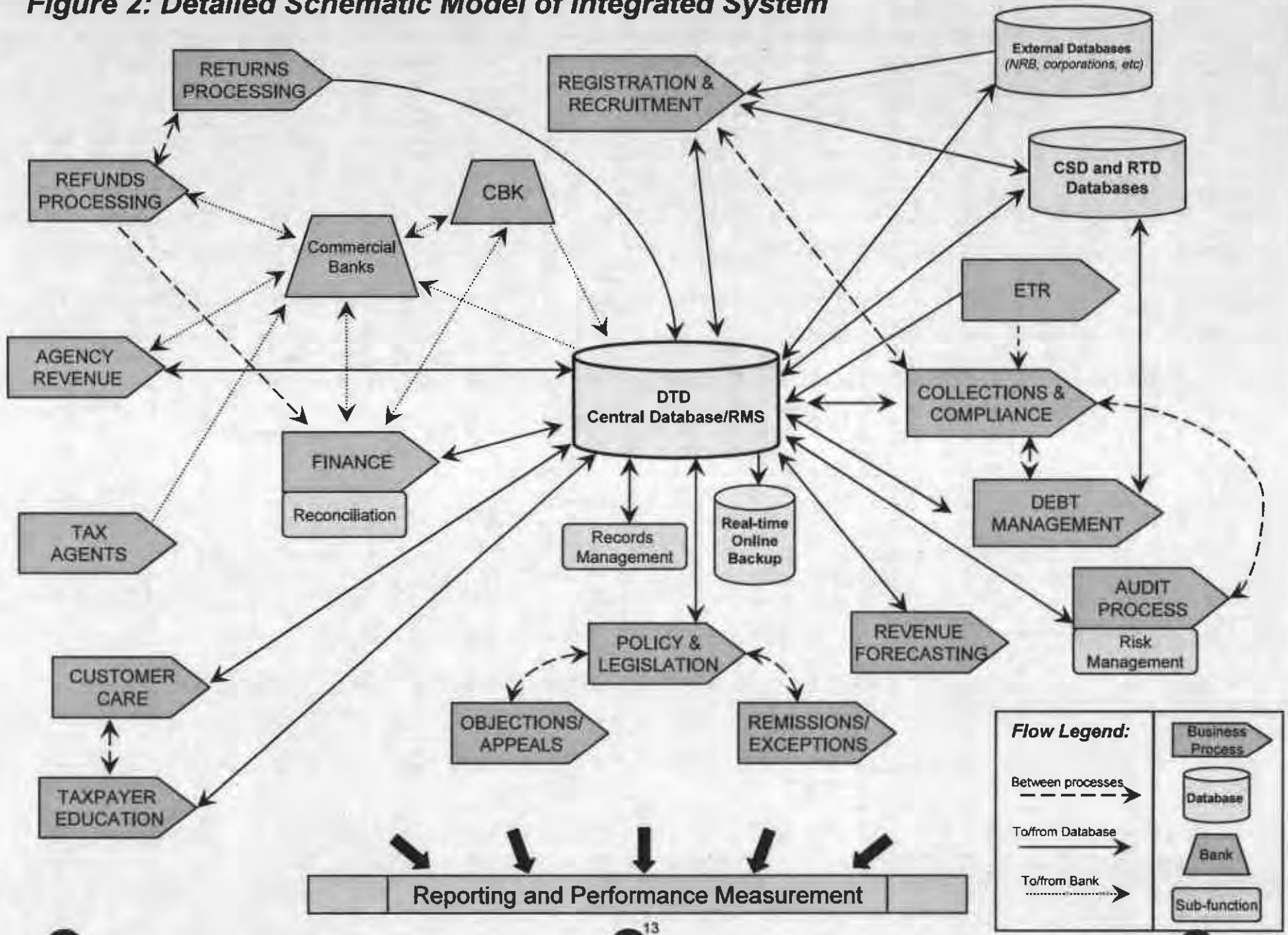
Deliverable Summary

The Executive Summary of the Final Report of the Feasibility Study for an Integrated Tax System for the Kenya Revenue Authority (KRA) provides an overview and brief description of each of the six tasks that were completed in the study, and captures the key findings of each project deliverable. Figure 2 is a detailed schematic model of the proposed integrated system that depicts the integration of the processes and functions that were handled in the project. The figure illustrates the level of integration of the various system components, and emphasizes the interrelated nature of the processes and functions in the envisaged system. This supplements the flow diagrams for the various improved business processes included in Chapter 4 of this Final Report. The business process improvement exercise identified critical linkages between processes (for example, between Registration and Collections & Compliance), linkages to banks, and linkages to databases external to DTD, all reflected in Figure 2.

This final deliverable also discusses expected development benefits of the implementation of such a system in Kenya. The study finds that there would be noticeable positive benefits in the areas of infrastructure and industry, market-oriented reforms, human capacity building, technology transfer and productivity enhancement, an increased tax base, and a general improvement in the country's overall development.

Finally, a comprehensive list of potential suppliers for both COTS integrated tax administration systems and non-integrated solutions is provided. This list includes primarily United States sources of supply, but does include some non-U.S. sources as well.

Figure 2: Detailed Schematic Model of Integrated System



4. Expected Development Benefits of Project

The implementation of a modernized integrated tax system within the Kenya Revenue Authority (KRA) will have wide-ranging benefits beyond simply improving efficiency and effectiveness of KRA operations. There will be both direct and indirect benefits to the infrastructure and industry of Kenya; the improvements from regulatory and institutional change will have benefits to taxpayers and the economy; and the implementation of the new system will build human capacity and technological capacity of the KRA, its employees, and the country itself.

Infrastructure/Industry

The infrastructure in Kenya in general is slowly improving in regards to roads, communications, and availability of world-class goods and services. The ITMS, when fully implemented, provides the foundation for the KRA to become a modern, effective and responsive tax administration. Furthermore, the ITMS will provide an impetus for other infrastructure improvements throughout the country.

The project builds on the current infrastructure in Kenya to provide electronic submission of tax returns in line with the communications improvements being implemented in the country. As the country's infrastructure improves (for example with the upcoming introduction of fiber-optic communications networks) the systems described in this report will be positioned to seamlessly take advantage of such improvements to provide even more efficient services to taxpayers and the Revenue Authority. The e-commerce tax regime described in this report is designed to ease the tax administration burden on taxpayers, thus providing another incentive to bring foreign investors to Kenya.

Market-Oriented Reforms

The project implies a heavy use of electronic technology, e-filing returns and image capture for records management. At some point in the near future, the KRA will declare some level of e-filing to be mandatory. To support the heavy use of e-commerce, the laws of Kenya must be strengthened to ensure that unscrupulous taxpayers cannot exploit legal loopholes. The *Task 5: E-government Legal Review* section of this document specifically deals with these issues. The KRA can be a leader and play an active role in the development of appropriate legislation. The technological advances involved in the new system and its continued development progress very quickly. It is critical that the legislation keep pace with the new technology and systems.

The gains in productivity and efficiency that will result from the modernized system will have a significant positive impact both on the KRA and the country's taxpayers. The economy of Kenya will prosper with a more modern and efficient tax administration, reducing the administrative burden on taxpayers, and assist in attracting foreign investors.

Human Capacity Building

The project recommended a series of general organizational changes within the KRA and specific changes within the Domestic Tax Department. The information provided in the *Task 1a: Situational Assessment* is focused in large part on these organizational changes. Some of the recommended changes were immediately implemented by the organization in line with the best

practices of a modern tax administration. Other organizational changes will likely take place with the implementation of the integrated tax management system technology and communications capabilities.

A significant general skill level will be obtained in the use of computers and management of a tax administration in an electronic environment. The project set the ground work for these general skills to be achieved, starting with immediate benefits and building over the next few years. Specific skills in the field of technology will be achieved once the new tax management software has been obtained and staff hired and trained to manage the platform.

These events will provide for other upcoming organizational changes, such as the establishment of a computerized risk management unit, data analysis unit, and a modified taxpayer recruitment and compliance unit. These changes will enhance the already implemented organizational changes in management reporting in line operations.

Technology Transfer and Productivity Enhancement

The KRA's modernization efforts in general, and this focus of this Feasibility Study in specific, are by their nature an introduction of new technology, and are designed to enhance productivity. The implementation of modern technology and transfer of skills will significantly improve productivity and revenue collection. The mandatory and elective e-filing of tax returns of a number of types will not only reduce the requirement to data capture information, it will make the information immediately available to others in the KRA for monitoring, compliance and reporting. The use of electronic funds transfer (EFT) data will allow for the electronic reconciliation of revenue collections from banks and the electronic reconciliation of payments to returns, which is currently an onerous task.

The project also outlines the use of electronic records management imaging and tracking technologies. This will create efficiencies in the storage, retrieval, and general management or tax returns and correspondence. Scanned images of taxpayer returns and correspondence will be available for viewing from any location within KRA within the authority to do so. This has a major impact on human resources and physical location and structures of records depositories.

The general public and taxpayers will see significant improvement in paying taxes and fees in daily transactions such as land transfer Stamp Duty. Land transfer Stamp Duty returns will be available for payment at the bank immediately after issue, and transactions can be completed in a manner of hours instead of the current days.

Other Considerations

The project will enhance the capabilities of identifying taxpayers who are not already in the tax system. This will be a significant improvement over the very low current level of taxpayers, which is currently approximately only 850,000 of personal and business taxpayers in a population of over 30 million. It is generally recognized that an effective way of increasing tax revenues to build general infrastructure is to increase the taxpayer base and to improve on compliance. This project significantly improves on both of these areas using technology, procedure changes, organizational change, and human skill capacity building.

Host Country Development Impact

The implementation of a new integrated tax system within the KRA will mark a significant step to raising the level of development in Kenya. As recognized in the Definitional Mission for this Feasibility Study, increasing government revenues would be difficult by simply increasing tax rates. With the KRA collecting roughly 95% of the total government revenue, sustaining an optimal level of government revenues requires improving KRA's processes and operations in order to reduce leakage (through corrupt acts) and the administrative costs of collecting revenues, thereby increasing efficiency. The International Monetary Fund "Integrating and Strengthening Tax Administration Report" of May 2004 concluded that "administrative efficiency gains will be an important element in the strengthening of overall revenue performance" in the country.

The combined goal of improving the KRA's business processes and performance in functional areas such as Returns Processing, Taxpayer Registration, and Auditing will improve tax compliance. This is an essential step to creating a sustainable and effective tax base without reducing the competitiveness of the economy and Kenyan business. The government of Kenya has traditionally collected between 20 and 25 percent of GDP from tax revenue, with this past year's rate being close to 25 percent. This level is much higher than peer developing countries and comparable to that of Japan and Korea, although significantly less than advanced industrial countries in Europe. Nevertheless, the tax base is still relatively small and revenues associated with economic activities that for competitive reasons may benefit from lower tax rates, cannot be reduced without compensating revenues.

Improving governance at the national level and increasing government revenue will allow a greater level of investment to improve the country's human and capital resources. Furthermore, an improved tax administration system will streamline and reduce the cost of tax compliance for businesses. A basic indicator of competitiveness is the number of days to start a business. Kenya is significantly above the median of peer countries with the level of 54 days. Although not the sole reason for this relatively long period of time, improving the efficiency of the KRA is an important element. In addition, efforts to improve the operations of the KRA should allow the country to improve its ranking for two related Millennium Challenge Corporation indicators—Fiscal Policy and Control of Corruption—two areas in which Kenya has had below average scores.

5. Potential Sources of Supply

As described in the report for Tasks 3 and 4, after close consultation with the KRA, the DevTech technical team recommends the use of a customizable off-the-shelf (COTS) system as the ideal candidate for the integrated tax system solution. Such products are readily available, able to be quickly installed and implemented, and have a relatively larger technical support network in comparison to a customized system. Potential suppliers of such systems can be found worldwide. Below is information on the leading commercial suppliers of COTS tax administration systems.

COTS Integrated Tax Administration System Suppliers:

Bull USA

Point of Contact: Peter Stavropulos
Address: 296 Concord Road, Billerica, MA 01821
Telephone: 978-294-5654
Fax: 978-294-7999
Website: www.bull.us

SAP

Address: Ronald Reagan Building, International Trade Center, 1300 Pennsylvania Ave., N.W., Suite 600, Washington, DC 20004
Telephone: 1-800-872-1727
Fax: 202-312-3501
Website: www.sap.com

CRC SOGEMA

Point of Contact: Wendy Osmond
Address: Complex St.Charles, East Tower, 1111 St.Charles Street West - Suite 454, Longueuil (Quebec), Canada, J4K 5G4
Telephone: (450) 651-2800
Fax: (450) 651-1681
Website: www.crcsogema.com

Crown Agents

Point of Contact: David Evans
Address: St Nicholas House, St Nicholas Road, Sutton, Surrey, SM1 1EL, UK
Telephone: +44 208 643 3311
Fax: +44 208 770 0194
Website: www.crownagents.com

Table 1 below provides a thorough review of non-integrated products that can be used to complement an integrated system, and/or to provide additional functionality to such a system. Suppliers are divided into the following areas:

- Business Intelligence: These products could provide potential added-value to the KRA's audit function and to the Collections and Compliance department;

- Citizen Relationship Management: Relevant to providing improved Taxpayer Services;
- Case Management and Workflow/Enterprise Resource Planning: These systems could be redundant depending on the level of implementation of a COTS system, but are included for informational purposes;
- Documents and Records Management: These products could be considered as potential solutions for the need for a Records Management System;
- Electronic Forms: Useful for e-filing and proposed 2D bar-coded forms;
- Joined-Up Government: Such solutions could be applied in the future to integration across offices and agencies;
- Mobile Government Solutions: For future consideration as telecommunications infrastructure improves to allow mobile communications for employees; and
- Web Portals: These solutions may provide additional functionality and services in regards to e-filing.

Table 1. Summary of Commercial Suppliers of Non-Integrated Products

Tool	Company Name	Product Name	Other Complementary Products/ Services	Company Website	Case Studies / Brochures	Contact Information
Business Intelligence	IBM	IBM iSeries™ or IBM AS/400® ; IBM pSeries® or IBM RS/6000® ; IBM zSeries® or IBM S/390®	Tivoli Storage Manager, WebSphere Application Server, WebSphere Commerce Suite, WebSphere Payment Manager	www.ibm.com	State of Michigan enhances e-government with help from IBM Global Services	1133 Westchester Avenue White Plains, NY 10604 Tel. 888-839-9289 ews@us.ibm.com
	Siebel	Siebel Business Analytics	Siebel Intelligence Dashboard; Siebel Answers; Siebel Mobile Analytics; Siebel Advance Reporting Edition; Siebel Miner and Siebel Data Mining Workbench; Siebel Real-Time Decisions Engine; Siebel Marketing Segmentation	www.siebel.com	Siebel Business Analytics 7.8	500 Oracle Parkway Redwood Shores CA, 94065 Tel: 650.506.7000
	Computer Associates	CleverPath™ Aion® Business Rules Expert		www.ca.com	Service Availability	One CA Plaza Islandia, NY 11749 Tel: 631 342-6000 Fax: 631 342-6800
Citizen Relationship Management	Siebel	Siebel Call Center & universal Application Network	IBM's DB2 and Hardware; Accenture Consulting Services; and Natural Adabas for Back Office	www.siebel.com	Siebel Achieving a Single View of the Taxpayer & SARS Single View of Tax Payer Solution	500 Oracle Parkway Redwood Shores CA, 94065 Tel: 650.506.7000
	IBM	WebSphere Customer Center; WebSphere Data Integration Suite		www.ibm.com	El Salvador Tax Authority	1133 Westchester Avenue White Plains, NY 10604 Tel. 888-839-9289 ews@us.ibm.com

Tool	Company Name	Product Name	Other Complementary Products/ Services	Company Website	Case Studies / Brochures	Contact Information
Case Management and Workflow / ERP (Enterprise Resource Planning)	ILOG	ILOG Jrules (Business Rules Platform)		www.ilog.com	ILOG Jrules & ILOG Rules	1080 Linda Vista Ave. Mountain View, CA 94043 Tel: 800-367-4564 Fax: 650-567-8001
	SAP	SAP for Public Sector: The Business Process of Tax and Revenue Management: SAP Enterprise Service Architecture & SAP Tax and Revenue Management		www.sap.com	SAP Enterprise Service Architecture & SAP Tax and Revenue Management	1300 Pennsylvania Av NW Suite 600, Washington, DC 20004 Tel: 1-800-872-1727 Fax: 202-312-3501
	CGI / AMS	Strata		www.cgi.com	CACS and Strate for Government & Strata Enterprise	901 E Street, NW Washington, DC 20004 Tel: 703 227-6700 Fax: 703 227-6688
	Siebel	Universal Customer Master; Universal Application Network; Siebel Data Quality		www.siebel.com	Sieble The Forrester Wave Customer Data Integration	500 Oracle Parkway Redwood Shores CA, 94065 Tel: 650.506.7000
	Microsoft	BizTalk & SharePoint		www.microsoft.com	Microsoft SharePoint Case Study & Microsoft BizTalk (CitiGroup and BizTalk)	One Microsoft Way Redmond, WA 98052-6399 Tel: 800.642.7676
	Oracle	Integrated Case Management Solution;		www.oracle.com	Oracle Integrated Case Management Solution	500 Oracle Parkway Redwood Shores CA, 94065 Tel: 650.506.7000
	Computer Associates	CleverPath™ Aion® Business Rules Expert		www.ca.com	Business Rules Expert to Ensure Policy Accuracy	One CA Plaza Islandia, NY 11749 Tel: 631 342-6000 Fax: 631 342-6800
	Singularity	Singularity Process Platform		www.singularity.co.uk	Singularity Process Platform	11 Penn Plaza 5th Floor New York, NY 10001 Tel: 212 946 2685 Fax: 212 946 2808
Document and Records Management	Adobe	Adobe Intelligent Document		www.adobe.com	Adobe Government Forms	345 Park Avenue San Jose, CA 95110-2704 Tel: 408-536-6000 Fax: 408-537-6000

Tool	Company Name	Product Name	Other Complementary Products/ Services	Company Website	Case Studies / Brochures	Contact Information
Electronic Forms	IBM	DS4100, McDATA Fibre Channel Switches/Directors, xSeries Servers	IBM Global Services, IBM Integrated Technology Services; Tivoli Storage Manager for System Backup and Recovery	www.ibm.com	Santa Barbara Sheriff's Department wields innovation to fight fraud and inefficiency.	1133 Westchester Avenue White Plains, NY 10604 Tel. 888-839-9289 ews@us.ibm.com
	IBM	EFP-Taxes (Electronic Forms Processing - Taxes); E-Filing Product; Electronic Forms Processing Licensing		www.ibm.com	N/A	1133 Westchester Avenue White Plains, NY 10604 Tel. 888-839-9289 ews@us.ibm.com
	Adobe	Tax and Revenue Authorities		www.adobe.com	Tax and Revenue Authority solutions	345 Park Avenue San Jose, CA 95110-2704 Tel: 408-536-6000 Fax: 408-537-6000
	Parascript	Parascript® *Form*Xtra® Enterprise	Parascript SignatureXpert	www.parascript.com	Parascript® FormXtra® Enterprise & The frontline Defense against signature fraud	6899 Winchester Circle, Suite 200 Boulder, CO 80301 Tel: 888-772-7478 Fax: 303-381-3101
	FormScape	Complete ERP Document Lifecycle Solution		www.formscape.com	Complete ERP Document Lifecycle Solution	3900 Paramount Parkway Suite 200 South Morrisville, NC 27560 Tel: 888-237-4350
Joined-Up Government (Integration)	IBM	IBM WebSphere Information Integrator ; IBM DB2® Universal Database(tm) ; IBM Tivoli® Storage Manager		www.ibm.com	Shandong unifies tax system	1133 Westchester Avenue White Plains, NY 10604 Tel. 888-839-9289 ews@us.ibm.com
	Oracle	Interaction & Collaboration suites		www.oracle.com	The Unified Workplace	500 Oracle Parkway Redwood Shores CA, 94065 Tel: 650.506.7000
	BEA	BEA WebLogic Integration		www.bea.com	N/A	2315 North First Street San Jose, CA 95131 Tel. 800.817.4BEA Fax. 408.570.8901
	SAP	SAP Enterprise Service Architecture		www.sap.com	SAP Enterprise Service Architecture	1300 Pennsylvania Av NW Suite 600, Washington, DC 20004 Tel: 1-800-872-1727 Fax: 202-312-3501

Tool	Company Name	Product Name	Other Complementary Products/ Services	Company Website	Case Studies / Brochures	Contact Information
Mobile Government Solutions	Adea	Consulting		www.adeasolutions.com	Adea Government Solutions	7701 Las Colinas Ridge 8th Floor Irving, TX 75063 Tel: 888.590.ADEA Fax: 972.764.1701 sales@adeasolutions.com
	Adesso	Smart Data Management		http://www.adessosystems.com	N/A	One Liberty Square 7th Floor Boston, MA 02109 Tel: 617-224-0870 Fax: 617-224-0871 sales@adessosystems.com
	Apriva	APRIVA S5700 / S6700 / S7700 / SX200-C / SX510-C Smart Card;	Sensa Management Server - Administration; Sensa Mail Server - Enterprise Mail Server Inteface; Sensa RIM 857/957 DoD CAC-enabled Clients Sensa Pocket PC 2003 DoD CAC-enabled Client; Sensa Pocket PC 2003 Soft Token Client	www.apriva.com	N/A	6900 E. Camelback Road Suite 700 Scottsdale, AZ 85251 Tel: 480-421-1210 Fax: 480-421-1211 sales@apriva.com
	Avaya	Avaya Government Teleworker solutions		www.avata.com	Avaya Mobile Solution	211 Mt. Airy Road Basking Ridge, NJ 07920 866-GO-AVAYA
	BEA	BEA WebLogic Mobility Server		www.bea.com	BEA Mobility Server Datasheet	2315 North First Street San Jose, CA 95131 Tel. 800.817.4BEA Fax. 408.570.8901
	WaveLink	Mobile Application Development & Mobile Infrastructure Management	Studio COM & Studio Edge	www.wavelink.com	End-to-End WLAN Management	11335 NE 122nd Way Suite 200 Kirkland, WA 98034 Tel: (425)823-0111 Fax: (425)823-0143
	HP	Services & Products packages		www.hp.com	Mobile Government Solution	3000 Hanover Street Palo Alto, CA 94304-1185 Tel: (650) 857-1501 Fax: (650) 857-5518

Tool	Company Name	Product Name	Other Complementary Products/ Services	Company Website	Case Studies / Brochures	Contact Information
Web Portals	Citrix	Citrix Presentation Server™, Citrix® NetScaler® Citrix Metaframe	Siemens Business Services & Microsoft's Windows Terminal Server	www.citrix.com	Norwegian Revenue Service; State of Minnesota; Danish municipalities	851 W. Cypress Creek Rd. Fort Lauderdale, FL 33309 Tel: 800-424-8749 Fax: 954-267-9319
	Vignette	Application Portal : Vignette Portal & Vignette Builder	Vignette Business Integration studio	http://www.vignette.com/	Government of Madrid; Vignette Postal Service US Case Study	1301 South MoPac Expwy Suite 100 Austin, TX 78746 Tel 888.608.9900 Fax 512.741.1537 usinfo@vignette.com
	PeopleSoft	Peoplesoft Enterprise Government Portal			N/A	500 Oracle Parkway Redwood Shores CA, 94065 Tel: 650.506.7000
	BEA	BEA WebLogic Portal		www.bea.com	N/A	2315 North First Street San Jose, CA 95131 Tel. 800.817.4BEA Fax. 408.570.8901
	SAP	SAP for Public Sector: The Business Process of Tax and Revenue Management		www.sap.com	SAP for Public Sector: The Business Process of Tax and Revenue Management	1300 Pennsylvania Av NW Suite 600, Washington, DC 20004 Tel: 1-800-872-1727 Fax: 202-312-3501
	Microsoft	SharePoint Portal Server 2003		www.microsoft.com	N/A	One Microsoft Way Redmond, WA 98052-6399 Tel: 800.642.7676
	CGI / AMS	Single Window Government		www.cgi.com	Single Window Government	901 E Street, NW Washington, DC 20004 Tel: 703 227-6700 Fax: 703 227-6688
	IBM	E-Government Portals	IBM's Application Framework for E-business	www.ibm.com	N/A	1133 Westchester Avenue White Plains, NY 10604 Tel. 888-839-9289 ews@us.ibm.com

Feasibility Study for Integrated Tax Management System

Final Report

Chapter 2

Deliverable from Task 1a: Situational Assessment

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Feasibility Study for Integrated Tax Management System

Deliverable 1: Situational Assessment Findings Report

Submitted to:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted by:
DevTech Systems, Inc.

March, 2006
Revised June 7, 2006

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Feasibility Study for Integrated Tax Management System

(USTDA Grant GH04142396)

Submitted To:

Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted By:

DevTech Systems, Inc.

Primary Authors:

Arturo Jacobs, Allan Robinson, and Sampat Saraf

March, 2006

Revised June 7, 2006

DEVTECH

the group inc.

Table of Contents

Executive Summary **1**

1. Background **3**

2. Criteria, Standards and References Applied in the Situational Assessment **4**

3. Scope of Work (SOW) **5**

4. Functional Organization Structures – International Best Practices **7**

4.1 Levels and Roles of Hierarchy in Functional Organizations 7

4.2 Decentralization of Operations and of some Support Functions 8

4.3 Specialization and Allocation of Operations and Support Staffing 9

4.4 Delegations of Authority 10

5. Review and Assessment of the DTD's Current Organization Structure and Staffing Practices **11**

5.1 Situational Assessment 11

5.1.1 Chain-of-Command Issues 11

5.1.2 Issues about Respective Roles of the Head Office and Field Stations 12

5.1.3 Staffing Issues 12

5.2 Improvements Recommended for Current Organization Structure and Staffing Practices 13

5.2.1. Organization Structure 13

5.2.2. Staffing Practices 15

5.3 Quick Wins Organization Structure and Staffing Practices 16

6. Assessments of the DTD's Core Business Processes, Recommendations, and 'Quick Wins' **17**

6.1 ICT Infrastructure and Support 18

6.1.1 Situational Assessment 18

6.1.2 Recommendations for KRA's ICT Department 22

6.1.3 Quick Wins – ICT 26

6.2 Taxpayer Services – Head Office 27

6.2.1 Situational Assessment 27

6.2.2 Recommendations for Taxpayer Services 30

6.2.3 Quick Wins – Taxpayer Services 34

6.3 Tax Programmes (Small & Medium Taxpayers) – Head Office 35

6.3.1 Situational Assessments 35

6.3.2 Recommendations for Tax Programmes 37

6.3.3 Quick Wins – Tax Programmes 39

6.4 Tax Policy and Legislation 39

6.4.1 Situational Assessments 40

6.4.2 Recommendations for Objections and Appeals 41

6.4.3 Quick Wins – Objections and Appeals 41

6.5 Electronic Tax Registers (ETR) 41

6.5.1 Situational Assessment 41

6.5.2 Recommendations for Electronic Tax Register (ETR) 42

6.5.3 Quick Wins – ETR 42

6.6 Large Taxpayers Office 42
6.6.1 Situational Assessment 42
6.6.2 Recommendations for Large Taxpayers Office 44
6.6.3 Quick Wins – LTO 44
6.7 Station Operations 45
6.7.1 Situational Assessment 45
6.7.2 Recommendations - Stations 48
6.8 Finance – Support Services 49
6.8.1 Situational Assessment 49
6.8.2 Recommendations for Finance 50
6.8.3 Quick Wins – Finance 50
7. Description of Computerized Links with Other KRA Departments Required for ITMS 53
7.1 Customs and Excise Department (CED) – Simba 53
7.1.1 Overview 53
7.1.2 Business Process Improvements Recommended 53
7.1.3 Quick Wins 54
7.2 Domestic Excise Taxes 54
7.2.1 Situational Assessment 54
7.2.2 Recommendations for Excise Taxes 54
7.2.3 Quick Wins – Excise Taxes 55
7.3. Road and Transport Department (RTD) 55
7.3.1 Overview 55
7.3.2 Recommendations for Road and Transport 56
7.3.3 Quick Wins – RTD 57
7.4 Agency Revenue 57
7.4.1 Overview 57
7.4.2 Business Process Improvements Recommended 58
7.4.3 Quick Wins – Agency Revenue 59
8. ITMS Features and Components Required by the DTD's Main Users 61
8.1 Components 61
8.2 Tax Type Support 65
8.3 Tax Administration Functional Operations 65
9. Preliminary Legal Analysis of Procurement Regulations 69
9.1. Background 69
9.2 Procurement Process (Methods specified in the EAPPR and PPDA) 72
9.2.1. Open Tendering (national and international) 72
9.2.2 Restricted Tendering (national and international) 72
9.2.3 Quotations and Proposals 73
9.2.4 Direct Procurement / Single Source Procurement 73
9.3 Institutional Framework 73
Annex 1: Situational Assessment I
Annex 1A Current Organizational Charts III
Annex 1B KRA Officials Contacted during Assessment XI

Annex 2: Recommendations ..... **XV**

Annex 2A Proposed Organizational Structure XVII

Annex 2B Proposed Centralised Tax Declaration and Document Processing Work Flow Diagram XXV

Annex 3: Quick Wins for KRA Offices ..... **XXIX**

Abbreviations and acronyms

C&C	Collection and Compliance
CBK	Central Bank of Kenya
CED	Customs and Excise Department
DFID	Department for International Development
DL	Driver's License
DLN	Document Locator Number
DM	Debt Management
DTD	Domestic Tax Department
EFT	Electronic Funds Transfer
ETR	Electronic Tax Register
GUI	Graphic User Interface
HQ	Headquarters
HR	Human Resources
ICT	Information and Communications Technology
IMF	International Monetary Fund
IT	Information Technology
ITD	Income Tax Department
ITMS	Integrated Tax Management System
KRA	Kenya Revenue Authority
KREISA	KRA Enterprise Information System Architecture
KSh	Kenya Shillings
LTO	Large Taxpayers Office
MIS	Management Information Systems
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MVR	Motor Vehicle Registration
PAYE	Pay As You Earn
PIN	Personal Identification Number
PIT	Personal Income Tax
PRO	Principal Revenue Officer
PSV	Public Service Vehicle
RARMP	Revenue Administration Reform and Modernization Program
RTD	Road Transport Department
SAC	Senior Assistant Commissioner
SD	Stamp Duty
SDC	Senior Deputy Commissioner
SDL	Sugar Development Levy
SL	Standard Levy
SOW	Scope of Work
TIS	Tax Information System
TOR	Terms of Reference
TPC	Tax Procedures Code
UPS	Uninterrupted Power Supply
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
VAT	Value Added Tax
WAN	Wide Area Network
WLAN	Wireless Local Area Network

Executive Summary

The Kenya Revenue Authority (KRA) has been engaged in revenue administration reform for several years. Among the KRA's impressive, recent accomplishments is the integration of formerly separate departments for income taxes and value added taxes (VAT) under a new Domestic Tax Department (DTD). The integration was completed in October 2004, and the DTD was organized under a functional organization structure, as recommended by the International Monetary Fund (IMF) and most international donor organizations based on international best practices.

DevTech Systems, Inc. (DevTech), a U.S.-based consulting firm, was awarded a Contract for a United States Trade and Development Agency (USTDA)-funded feasibility study designed to help facilitate the KRA's acquisition and implementation of a modern computerized integrated tax management system (ITMS) to support the needs of the DTD's main users. The DevTech Team includes The M Group, Inc. Of six major tasks which comprise the feasibility study, this report presents the findings and recommendations of the situational assessment (Task 1A).

Between February 10 and March 1, 2006, a DevTech Team conducted on-site situational assessments of the DTD's current operations, which are carried out in the various functional components at the Head Office and in field stations of the integrated organization. The documented business process analyses which are currently available are the KREISA reports completed more that 4 years ago for income tax and for VAT as separate organizations and are therefore largely not applicable to the current organizational structures. Therefore, the situational assessment provided in this report recommends general improvements for the DTD's core business processes based on international best practices[1]. Possible "quick-win" actions to be considered by KRA officials for possible implementation in the short-term are also recommended. This report also includes a legal review of the procurement law and regulations.

Although not required by the TOR for Task 1A[2], this report also includes several important observations about the DTD's current functional organization structure and suggests possible improvements based on international best practices which deserve immediate attention by the KRA and the DTD. Examples of organizational issues include fragmented chain-of-command issues and overlapping business processes among various functional components, which are causing significant confusion of staffs about respective responsibilities (e.g. where do compliance verifications stop and audit functions begin?).

Six proposed organization charts are included in Annex 2A of this report, and changes to several staffing practices of the DTD and the KRA are recommended. These changes are designed to improve the execution of the DTD's core business processes. Recommendations are based on international best practices. The highlights are:

[1] The KRA and DevTech will finalize a modified Terms of Reference (TOR) that will revise the scope of remaining activities.

[2] The organizational assessment is part of Task 3 in the TOR included in the original grant agreement.

- Recommendation of a new, high-level position – Senior Deputy Commissioner (SDC) – Operations - reporting directly to the Commissioner, who would have line authority in the chain-of-command to all Station Managers;
- Re-definition of the primary role of the SDCs and staffs in the Head Office – from a current mix of operations/normative roles to a normative and functional-support role exclusively;
- Delegation to functional managers and staff in stations and the Large Taxpayers Office (LTO) of exclusive responsibility to conduct tax administration operations with taxpayers;
- Re-alignment and consolidation of various functional components to facilitate more efficient and more effective execution of business processes in Station and LTO operations, e.g. re-alignment of Taxpayer Recruitment under a compliance functional component rather than under Taxpayer Service; and consolidation of Debt Management, Collections, Compliance Monitoring and Taxpayer Recruitment in Head Office, LTO and Station organization structures;
- Adoption and application of staff specialization to a much greater extent than is currently the case starting with recruitment, training and assignment – particularly for auditors, who cannot develop the experience and expertise required to represent the KRA and the DTD, especially on LTO audits, under the current short-tenure assignments to various functional DTD components;
- Consolidation of the four Nairobi stations to two stations to permit formation of larger functional components (audit, debt management, etc.) and facilitate much more staff specialization as well as much more efficient and effective span-of-control technical/supervisory staffing ratios, which are now very "top-heavy".

For improvements in the current execution of the DTD's core business processes, numerous recommendations and suggestions are made throughout this report, e.g. a different approach to "comprehensive audits" of taxpayers which will direct the time of auditors to high-risk, productive audits based on risk-analysis assessments and away from audit activity which is known in advance to be low-risk and unproductive, and also places heavy burdens on taxpayers. Another example of recommendations for improvement included in this report is a workflow diagram for a proposed centralized tax declaration and document processing center.

From the review of the DTD's current functions, business processes, activities, technology infrastructure and overall operations, the foundation components and features of an Integrated Tax Management Systems are described in this report. In addition, descriptions of the databases of other KRA departments and the links to those systems, which the new ITMS would need to provide for the DTD's main users are also described. The databases discussed in this section are Customs (Simba); Domestic Excise Taxes; Road & Transport (RTD); and Agency Revenue (Stamp Duty, Sugar Development Levy and Standard Levy).

Task 2 of this Study will next focus on development of detailed features required in the new ITMS software to help identify products which may be available in the international markets which meet these requirements.

1. Background

The KRA has had a very active program of revenue administration reform for several years organized around seven component projects which comprise its Revenue Administration Reform and Modernization Program. Among many of the KRA's numerous, major accomplishments is the establishment in October 2004 of an integrated domestic tax department (DTD) organized on a functional basis as recommended by the International Monetary Fund (IMF) and most international organizations. With the new organization structure, the DTD has now provided a framework on which to base further reforms in systems, procedures, policies, and main business processes which will promote the efficiency and effectiveness in tax administration that have been enjoyed by modern tax administrations around the world.

DevTech Systems, Inc. (DevTech) was awarded a Contract for a United States Trade and Development Agency (USTDA)-funded feasibility study to be completed for the Kenya Revenue Authority (KRA). This study is meant to assist the KRA's Domestic Tax Department with its plan to implement a computerized integrated tax management system (ITMS) that would automate revenue administration, with the objectives of (a) enhancing revenue, and (b) streamlining revenue administration. The KRA believes that automation will help it achieve the government's objective of improving services to the public, program delivery, and reducing administrative overhead costs.

2. Criteria, Standards and References Applied in the Situational Assessment

The criteria and standards used for our observations and general recommendations for the situational assessments are grounded on best international practices developed over the years by international organizations such as the IMF, the World Bank, USAID, and the Department for International Development (DFID) of the United Kingdom. Tax Administration Advisor Arturo Jacobs prepared this report, with the collaboration and substantial input of Tax Administration/Customs Advisor Allan Robinson and Information Technology Advisor Sampat Saraf. The professional experiences of the consultants engaged in Task 1A activities in tax and/or customs administration and on numerous projects around the world were brought to bear in making the situational assessments and recommendations described. The on-going KRA experiences and DTD experiences and practices are also reflected in the assessments and recommendations in this report, with the inclusion of the information and requests reported from numerous visits and interviews of DTD's officials in Nairobi and at the Thika Station. Annex 1B shows a list of the KRA and DTD officials interviewed by the consultants' team.

Additionally, several very pertinent, key documents were consulted and utilized for this assessment and related recommendations, among which are the following documents (not all-inclusive):

- "Kenya – Next Steps in Revenue Administration Modernization" - IMF Fiscal Affairs Department, Mission Report November 2005
- "Kenya – Integrating and Strengthening Tax Administration" – IMF Fiscal Affairs Department, Mission Report May 2004
- ICT Strategy report recently issued by Advisor Gerhard Olivier, financed by DFID.
- KRA documents, particularly several reports issued in 2002 by the KRA Enterprise Information System Architecture (KREISA) Project. While this work focused on functions, business process, procedures, business rules, information flow and technology architecture by tax type – *before integration* – they are very comprehensive and still very useful.

3. Scope of Work (SOW)

The Terms of Reference (TOR) outline six (6) major Tasks for this study. This report encompasses the TOR's Task 1A, which is described below:

Task 1.A: Situational assessment

> *Task Objective*: To review and assess existing government networks and legacy systems, and current functions, processes, activities, and technology infrastructure, regulations, ICT strategy (for ongoing and planned initiatives) as related to the KRA's tax management functions nationwide.

Deliverable: Situational Assessment Findings Report which includes for the functions reviewed an assessment of current operations; recommendations for proposed redesign based on international best practices; and possible "quick wins" to be considered by KRA officials for implementation in the near-term, which are not dependent on the ITMS.

This report focuses mainly on the responsibilities, activities and business processes of the functional organization components of the KRA's recently established Domestic Tax Department (DTD):

- Taxpayer Services – Returns Processing; Refunds Processing; Taxpayer Education and Taxpayer Registration
- Tax Programmes – Audit; Collections and Compliance Monitoring; and Debt Management
- Tax Policy and Legislation – Objections & Appeals, Direct and Indirect Taxes
- Electronic Tax Register
- Large Taxpayers Office – Tax Programmes & Objections and Appeals
- MIS
- Finance and HR support services – Includes Revenue Accounting

Since the primary objective of this feasibility study relates to computerization, this report also includes descriptions of computerized links with other KRA departments required by the DTD's main users in the desired ITMS – e.g. computerized links with Customs (Simba); Road Transport and others' computerized databases.

Fundamental to the on-going delivery of business processes efficiently and effectively, functional tax administrations must establish an **organization structure** in which the various functional components (audit, collection, etc.), each with well-defined responsibilities, work in harmony with each other. The IMF stated in its November 2005 Mission Report that the KRA has made very significant gains in the structural aspects of the DTD's organization structure and should begin to switch its emphasis to initiatives which will improve its business processes and operations. We agree in part! In our assessment, we noted several important organizational issues which have surfaced and need to be addressed before or concurrently with business process improvement initiatives designed to improve operations. Examples of organizational obstacles that

have arisen in the execution of business processes include confusion among DTD staff about respective roles of the different levels of the functional organization's hierarchy; chain-of-command fragmentation; non-separation of taxpayer-service and compliance functions in the organization structure; and overlap of business processes among various functional components and confusion of staffs (e.g. where do compliance verifications stop and audit functions begin?).

Since organizational issues are critical to the successful implementation of the ITMS, we have included several important observations about the DTD's current functional organization structure, and suggest possible improvements based on international best practices. These issues would best be addressed before, or at least concurrent to, the business process redesign.

4. Functional Organization Structures – International Best Practices

At this early stage of development, our overall assessment of the DTD's functional organization structure is that the DTD's structure does not yet reflect several key features of modern, successful functional Tax Administrations around the world. Modern, successful Administrations are those which meet the following international standards:

(1) Define and communicate clear roles for each functional and line level of the organization hierarchy;

(2) Provide clear communication channels among different levels and among interdependent units;

(3) Direct the allocation of the bulk of its resources to the front-line functions and to those staff functions directly related to tax compliance, enforcement and to taxpayer service;

(4) Encourage development and application of technology in all functions, including internal management information systems; and

(5) Provide functional and management training, career opportunities and a work environment to help attract and retain a high caliber career workforce.

Below are fuller descriptions of some of the international standard cited above, which we used for our assessment of the DTD's current organizational structures and practices.

4.1 Levels and Roles of Hierarchy in Functional Organizations

In countries with Tax Administration which have a large number of employees (3000+), the organization usually establishes at least a 3-level hierarchy, i.e. a Head Office, Regional Offices, and District Offices. Complementary/counterpart support functions to the core functions, each with a different role, are usually established at <u>each</u> of the three levels of the organization.

In countries with smaller Tax Administrations in terms of overall staffing (less than 3,000 or less), the principal roles of the Head Office and Regional Offices described below are combined, and the monitoring and control of the execution of work plans are added to the directive, normative and functional-support responsibilities of the Head Office staffs. The Commissioner has the <u>directive role</u> for all levels of the organization. The respective roles for the Commissioners chain-of-command at the 3-levels of the functional organization are:

- The Commissioner has the directive role in the chain-of-command. His Head Office senior staff plans, directs and evaluates all tax administration programs in the country. The Head office senior staff develops strategic and annual work plans for all functions. Furthermore, it also establishes policy and designs

methodologies and standards for work performed at all levels, i.e. the normative role;

- The Regional Director(s) (2nd level) report to the Commissioner. The Regional Directors' staffs monitor and control the execution of annual work plans at District Offices (3rd level) and provides functional guidance to functional counterpart units in District Offices (Audit, Collections, etc.), i.e. the functional-support role.
- District Directors or Station Managers at various locations (3rd level) report to the Regional Directors. The District Directors' compliance and taxpayer service staffs (3rd level) represent the operations role of the Tax Administration, and thus implement and execute all programs and work plans developed by the Head Office and conduct all service and compliance operations with taxpayers. The senior compliance and taxpayer service managers report to the District Directors.

The normative role of tax administration deserves special mention in a country's economic development. Clear policies and methodologies established by the normative senior staffs at the Head Office guide the consistent application of tax laws, tax policies and administrative policies at the execution level. The need for consistent application of tax laws and policies throughout the country stems from many sources, but high among them is the requirement of any Tax Administration for a fair, transparent and predictable tax system in order to stimulate the high levels of domestic and foreign investment required for economic growth. Therefore, the normative role of the Head Office's senior staff is critical for success in operations and in promoting voluntary compliance by taxpayers.

4.2 Decentralization of Operations and of some Support Functions

As noted above, the Head Office personnel of most successful Tax Administrations engaged in normative roles do not also carry out core tax administration operations, such as taxpayer audits, directly with taxpayers. Instead, operations associated with the core functions in a given geographical area are the overall responsibility of operations offices at Regional Offices (smaller countries) or District Offices (larger countries) and their respective sub-offices in defined territorial areas at various locations. Since Head Offices of most countries are always located in the capital city, where many enterprises and individual taxpayers have their offices and residences, a "separate" organization structure is also established in the capital – responsible to the Commissioner in the chain-of-command structure – to conduct operations with taxpayers of all the core functions in the capital and surrounding area. The required "separate" structure established is often a "Regional" office in the capital – preferably but not necessarily with premises at a different physical location than the Head Office.

There are some exceptions in various countries to the practice of decentralization of functions, usually due to the varying sizes of the Tax Administration in terms of staffing and the number of taxpayers/cases in special categories. Operations exclusively for large taxpayers and for tax fraud investigations are examples. The number of taxpayers involved in smaller countries in these programs may dictate operations based at only one

or two sites, from where the specialists travel throughout the country to conduct audits and investigations.

For most core functions of tax administration, however, the practice of geographic decentralization and dispersion is very important, as explained further in Section 4.4.

4.3 Specialization and Allocation of Operations and Support Staffing

Full, functional organizations need to be staffed with three categories of personnel - management, technical, and administrative-support personnel – each category organized around their respective, specialized functions of tax administration. The three categories of staff are to be recruited and specifically trained to specialize in the performance of their respective roles and responsibilities, and they are expected to continually dedicate their time exclusively to the performance of those roles and responsibilities on a daily basis. For example, Collection Officers, Auditors and their respective managers do not each perform dual roles of Collection and Audit functions, nor switch from one type of work to another periodically. It is recognized that the KRA policy is to transfer staff periodically. This is a policy which warrants further discussion, as the transfer of staff results in lower levels of expertise in the specific functions of tax administration as well as lost efficiency when individuals must be trained in a new function.

To the maximum extent possible, each of the core tax administration functions and the support functions (Legal, etc) are staffed with full teams/groups of management, technical (inspectors, auditors, etc) and administrative support (analysts, lawyers, etc.) personnel at centralized locations, as described below in conjunction with centralized staffing. The term "full teams/groups" relates to management span-of-control – groups large enough under each manager to permit specialization and efficiency but small enough to be manageable. One manager to 8-12 specialists is a good span-of-control.

Another integral concept of functional organizations is "centralized staffing" i.e. sufficient staffing is provided at strategic locations throughout the country, where each of the core functions of tax administration – taxpayer service, taxpayer registration, audit, collection, etc. – can be carried out efficiently and effectively. The central geographic locations and sub-offices established are accessible to a high percentage of the taxpayers in that tax jurisdiction, even where multiple cities and towns are involved. The office locations are also those where most taxpayers in the wider geographic area will still "feel the presence" of the tax authorities. To have the "tax-authority presence" felt by taxpayers in sites remote from the various offices, technical personnel travel from offices to remote sites periodically and perform their audits, collect tax arrears, hear taxpayer appeals, etc. Very small staffs (two or three) are installed to receive tax declarations and to provide service and assistance to taxpayers at offices very remote from central and larger sub-offices. Modern toll-free telephone and electronic systems are also installed at centralized sites and linked to remote locations to supplement limited, on-site service.

The functional organization and centralized staffing practices for Regional (or District) operations Offices and their sub-offices facilitate the practices of job specialization and

specialized training. For example, Audit organization units at each Regional Office have full groups of well-trained auditors (8-12) who specialize in various types of taxpayer audits. All of the auditors, with their respective managers, are under one Audit Division/Section Head at that office. The chain-of-command and application of formal delegations of authority place each Division Head under his/her respective Regional (or District) Office Director.

4.4 Delegations of Authority

In the most successful Tax Administrations, the 2 main levels of the hierarchy - the Commissioner at the Head Office; and the Station or District Managers responsible for the daily execution of the basic tax administration operations are given sufficient authority and resources from the Ministry of Finance and/or Commissioner General's and higher levels of government to make and carry-out technical and administrative decisions. They run their respective organizations with a high degree of independence, while being held fully accountable for the tax administration's results and other expectations agreed upon.

In fact, modern organizations rely heavily on a cascading system of delegations of authority – with some limitations, of course (e.g. for official decisions on tax cases with high tax/revenue values; purchases of capital equipment; etc.) reserved for successively higher levels of the hierarchy. In the traditional chain-of-command of 2-tier hierarchies, the Commissioner, who receives his delegations of authority from the Commissioner General of the Revenue Authority, formally delegates authority to Station Managers. In turn, Station Managers make similar delegations of authority of a lesser but still substantial degree to their functional Assistant Commissioners of Audit, Collections, Compliance Monitoring etc. Assistant Commissioners, in turn, delegate to Principal Revenue Officers (PRO) and Supervisors; and finally, Principal Revenue Officers (PRO) delegate to technical personnel. Given sufficient authority, respective levels are able deal with most operations, personnel, and administrative matters expeditiously with a high degree of independence and get their annual work plans done efficiently and effectively – and productively.

Through modern management information systems, on-site reviews, internal audits and other activities, the Head Office continually monitors the proper exercise of authority at all levels of the organization.

5. Review and Assessment of the DTD's Current Organization Structure and Staffing Practices

As noted earlier, some of the organizational components in which the current business processes of the DTD now reside need to be adjusted and fine-tuned in order for the respective processes to be performed in harmony with each other day-to-day, and maximum efficiency and effectiveness of the overall DTD organization can be made possible. Furthermore, there are some serious DTD staffing issues and practices that represent significant departures from those of modern functional organizations and are hampering the on-going integration and execution of operations. We strongly believe that recommendations made in this report for improvements based on international best practices in the current organization structure and staffing practices need to be considered by the KRA simultaneously with the forthcoming, specific analysis, improvement and redesign of the DTD's core business processes.

5.1 Situational Assessment

As a new department established on a functional basis, the DTD designed several new charts for its organization. The organizational issues and our recommendations involve six (6) of the principal organization charts, and they are shown in Annex 1:

- Chart A-1: Head Office - Commissioner Level
- Chart A-2: Head Office – Senior Deputy Commissioner (SDC) Level
- Chart B-1: Head Office – SDC Level – Tax Programmes (Small & Medium Taxpayers)
- Chart C-1: Head Office – SDC Level – Taxpayer Services
- Chart D-1: Head Office – SDC Level – Large Taxpayers Office (LTO)
- Chart F-1: Station Manager Level (Large)

Our assessments of the issues related to each organization chart are discussed below and are followed with specific recommendations for improvement in Section 5.2 below and with "quick-win" suggestions wherever possible in Section 5.3.

5.1.1 Chain-of-Command Issues

From our analyses of the charts and visits with many managers throughout the DTD, we concluded that there is considerable confusion among all levels of the DTD's staff about the chain-of-command. One example of the widespread confusion is the performance contract executed on July 1, 2005 for the year 2005-2006 between the Deputy Commissioner – Collection and Compliance Programme in the Head Office and the Collection and Compliance Manager South of Nairobi, with the Station Manager South of Nairobi also a signatory on the performance contract. In this one case, the Collection and Compliance Manager South of Nairobi has multiple "bosses" and no clear chain-of command. This performance contract represents all performance contracts currently in effect in the DTD. Station managers need to take full responsibility of the operations in their respective stations. The station managers should report to the SDC Regions/Operations.

5.1.2 Issues about Respective Roles of the Head Office and Field Stations

The principal roles required to be performed by Senior Deputy Commissioners (SDCs) of the Head Office and their staffs need to be clarified and restricted to normative and support roles. SDCs and their respective staffs are currently very heavily involved in day-to-day operations with taxpayers – a role which is exclusively reserved for field Stations in best international practices (except for LTOs, which are Station operations organizations also). It would be helpful to develop operational guidelines that create uniformity of interpretation and application of formal policy, guidance and direction throughout the department.

- Conversely, SDCs and staffs in the Head Office are only lightly involved in the normative and support roles for stations and therefore provide very little policy and procedural guidance to stations for operations with taxpayers.

- The large void in formal policy and procedural manuals relating to the integrated functional organization, causes lack of uniformity regarding interpretation and application of formal policy, guidance and direction throughout the DTD at this stage (one notable exception is Audit – The Audit Handbook, 1st Edition 2005, which is what is needed in all functions. We understand that there is also a Draft Debt Management Handbook under development. Development and issuance of both Handbooks are positive examples of the role which should be played by SDCs at the Head Office);

5.1.3 Staffing Issues

Section 4.3 above describes the highly specialized-staff needs and practices; the recommended staff allocation mixes; and the span-of-control practices of technical, supervisory and support staffs in the various organizational components of modern, successful functional Tax Administrations around the world. Contrary to those common practices of integrated functional Tax Administrations, the DTD's (and KRA's) policies and practices for many years have inhibited specialization of staff and created inappropriate span-of control practices which lead to inefficient utilization of staff resources.

With regard to current recruitment, training and assignment-of-personnel practices, the KRA currently recruits graduates from recognized universities in several fields:

- Accounting/Auditing/Business Administration
- Economics/Statistics/Communications/Finance/Computer Science
- Bachelor of Laws (LLB)

Graduate trainees selected are given 18 months of general training at the KRA level. Upon assignment, trainees are given on-the-desk training for 6 months. During their KRA careers thereafter, officers can be assigned and re-assigned between programmes many times, as KRA needs dictate, to a variety of positions – indeed, many are. Officers may be in audit for some period of time but can then re-assigned/promoted to collections and compliance monitoring – or to debt management – or to taxpayer service – or vice versa – etc over a period of several years. For example, the Audit Programme staffing currently is 266. After undergoing in-depth training for the newly drafted Audit Handbook a few

months ago, 26 percent of the auditor staff which had been trained has been promoted or re-assigned to other programmes. The practice of "one-officer-for-all-positions" produces significant opportunity losses in the KRA's training investments and expertise of its staff! KRA policy on staff movements encourages rotation of staff from one program to the other after a given period of time.

Current span-of-control practices of the KRA and DTD generally establish spans-of-control which are much too small across-the-board in all functional components in relation to recommended practices internationally. For example, at the Thika Station:

- There are three Audit teams, each with a team leader and two auditors;
- There are two Debt Management teams, each with a team leader and two officers;
- In Collection & Compliance Monitoring, there is one group of six officers.

The Thika Station is a medium Station but is still representative of the very small span-of-control staff allocations throughout the DTD. We visited a large station, East Nairobi, where there are very similar staffing patterns. These practices have produced a **top-heavy** organization, with too many team leaders/supervisors/managers at all levels of the organization at the expense of technical personnel to perform the compliance and service functions in greater scope for greater compliance, enforcement and service coverage.

5.2 Improvements Recommended for Current Organization Structure and Staffing Practices

5.2.1. Organization Structure

The chain-of-command for functional Tax Administrations suggested by international best practices is described in Section 5.1.1. In the example of performance contracts now in effect in the DTD described above, under international best practices, the Station Manager of South Nairobi should report directly to the Commissioner – DTD, and the Collection & Compliance Manager of South Nairobi would report to the Station Manager of South Nairobi. However, the traditional chain-of-command suggested by international best practices would make the Commissioner's span-of-control too large – 16 Stations Managers, several SDCs of the Head Office, etc. – all reporting to the Commissioner. This situation is also anticipated in international best practices. Therefore, as has been done in several countries very successfully, *a Senior Deputy Commissioner needs to be established to be responsible for day-to-day tax administration at all Stations – SDC - Operations.* All Station Managers would report directly to the SDC – Operations, who would report to the Commissioner. The chain-of-command would be clear, and the Commissioner would look to one senior official for primary responsibility for operations. Other SDCs at the Head Office – for Taxpayer Services, Tax Programmes, etc. – would also report to the Commissioner.

With regard to the roles currently being exercised by SDCs and staffs in the Head Office, they need to be "divorced" from operations roles reserved exclusively for Station Offices. Instead, responsibilities of the SDCs and staffs at the Head Office would involve program and policy formulation of the DTD, including:

- Annual and Strategic work plans
- Staffing and budget allocation to the Stations
- Developing functional written procedures and guidelines
- Designing management reports, determining frequency and analyzing program results
- Training, personnel evaluation and promotion standards
- Development of specific programs to address noncompliance
- Developing integrated compliance programs
- Developing case selection criteria and standards
- Evaluation of Station programs
- Identify best practices in the regions and implement throughout the organization
- Private rulings, regulations and draft legislation
- Developing and implementing information technology solutions to operational programs
- Budget formulation, allocation and monitoring budget execution

There are several other major organizational changes by functional organization we recommend, which are addressed in Section 6 below. Section 6 deals with our situational assessment and recommendations regarding the DTD's core business processes. The additional organization-structure changes recommended are intended to **separate** taxpayer service and compliance functions in the organizational structure and to help minimize current overlaps and confusion in the DTD about respective responsibilities of audit, compliance verification and debt management activities. The organization-structure changes include realignment of certain responsibilities, e.g. taxpayer recruitment aligned under Collections and Compliance Monitoring rather than with Taxpayer Services, as is currently the case.

Graphically, major organization changes recommended are described in a set of proposed organization charts shown in Annex 2A. These six charts propose to replace the current organization charts shown in Annex 1A. Annex 2 contains:

- *Chart A-1: Proposed Head Office - Commissioner Level.* This chart shows the new position of SDC – Operations and reflects the re-defined chain-of-command discussed above.

- *Chart A-2: Proposed Head Office – Senior Deputy Commissioner (SDC) Level.* This proposed chart establishes the SDC - Taxpayer Service exclusively as a taxpayer registration, service and education component (includes payments reconciliation and refunds) and realigns Taxpayer Recruitment away from Taxpayer Service to the office of the SDC – Tax Programmes. Additionally, Debt Management and Collections and Compliance Monitoring are combined.
- *Chart B-1: Proposed Head Office – SDC Level – Tax Programmes (Small & Medium Taxpayers).* The inclusion of Taxpayer Recruitment and consolidation of Debt Management and Collections and Compliance Monitoring are reflected in this chart. Collections and Debt Management are aligned under a Senior Assistant Commissioner (SAC). Compliance Monitoring and Taxpayer Recruitment are aligned under the other SAC.
- *Chart C-1: Proposed Head Office – SDC Level – Taxpayer Services.* Explained in Chart A-2, above.
- *Chart D-1: Proposed Head Office – SDC Level – Large Taxpayers Office (LTO).* The proposed LTO chart reflects the changes proposed and explained above in charts A-2, B-1 and C-1.
- *Chart F-1: Proposed Station Manager Level (Large).* The proposed Station organization structure mirror the changes proposed in the Head Office described above.

Another very important organizational change recommended not clearly reflected in the organizational charts above but mentioned earlier involves the need for the KRA and the DTD to give the station offices exclusive responsibility for conducting operations with medium and small taxpayers – and of course, the LTO with large taxpayers. Since the bulk of economic activity and registered taxpayers are in the Nairobi geographical area, the LTO and the Nairobi stations would carry out a very large part of the tax administration operations of the DTD. In this respect, we agree with the observations of the IMF – the four (4) Nairobi stations should be consolidated into two (2) stations as soon as possible, and eventually into one. The small staffs in the four (4) stations create too many unnecessary boundaries and overlaps in responsibilities and do not permit staffing practices which are integral parts of modern functional organizations, such as specialization of staff and efficient, economical spans-of-control.

5.2.2. Staffing Practices

In contrast to the KRA's recruitment, training and personnel-assignment practices, modern Tax Administrations recruit separately and specifically for each of the specialty functions of functional organizations and train graduate trainees extensively in course and on-the-desk . For example, auditors recruited must be university graduates in the field of accounting, which will be their main focus in tax audits. Their tax administration classroom and on-the-desk training focuses on accounting-related functions of tax administration, i.e. auditing, examination of books and records, tax law provisions, etc. They gain progressive experience first with simple desk audits for a few months; then with simpler field audits for several months; and then with more complicated audits of larger enterprises; etc. As auditors gain more and more experience, those with the best

experience and performance are continually promoted competitively to top levels of the Audit technical ranks. The "best" get selected to be auditors "at the top", which often means to the LTOs of the Tax Administration. Their technical careers stay within the Audit function. The best technical auditors are the ones then promoted competitively to the supervisor/management ranks of the Audit function – not to other compliance functions!

The functional specialization practices described above – from the recruitment stage to the promotion to the supervisory/management ranks – are applied to the other technical positions as well, e.g. officers recruited and trained for collection and compliance monitoring and debt management must have university degrees in business administration, economics or related fields but are not required to be graduates in accounting as required for auditors. They go through similar training, with course materials pertinent to the functions they will perform, e.g. conducting investigations to find assets of taxpayers with tax arrears.

Significant amount of work needs to be done in re-structuring current Human Resources policies and practices for the DTD to establish recruitment, training and specialization programs as described above for modern tax administrations. Obviously, the KRA at the corporate level will need to authorize such re-structuring. Furthermore, if authorized by the KRA, there will undoubtedly still be a need to consult Kenya's civil service and labour laws before changes can be made.

With regard to management span-of-control throughout the DTD, Section 4 above describes the "full teams/groups" staffing practices recommended for the DTD – i.e. groups large enough under each manager to permit specialization and efficiency but small enough to be manageable. One manager to 8-12 specialists is a good span-of-control. Smaller spans-of-control are applicable in LTOs, where teams of three or four auditors, each with a team leader, rather than conduct audits on the most complicated cases of the country's taxpayers.

5.3 Quick Wins Organization Structure and Staffing Practices

We understand that the DTD's Commissioner has already acted to establish a Senior Deputy Commissioner for Operations based on our verbal recommendation to that effect made early during our visit. This is outstanding! More quick wins can be realized with immediate consideration and implementation of as many organizational changes recommended above as possible.

6. Assessments of the DTD's Core Business Processes, Recommendations, and 'Quick Wins'

This section summarizes by functional area the situational assessment of existing networks and legacy systems, current functions, processes, activities, and technology infrastructure. Based on this assessment, the consultants make two sets of recommendations. The first set presents the overall recommendations, some of which require decisions by the KRA, which precede and/or inform the remaining tasks under this Feasibility Study. The second set presents 'quick wins' that represent immediate actions that can take place directly the DTD, notwithstanding the completion of the Feasibility Study.

This review and assessment was completed within the context of identifying those processes that will need to be re-designed in order to conform to international best practices in tax administration. This review and assessment of the current execution of the DTD's business processes reveals several instances of non-conformance with the attributes of the best international functional administrations described in Section 4. Many of the gaps are directly attributable to in-transition challenges, i.e. the inability of the DTD - understandably - to very quickly integrate previously separate income tax and VAT systems, organizational components, staff, and business processes at the operations (station) level to perform in an integrated mode.

The documented business process analyses which are currently available are the KREISA reports completed more that 4 years ago for income tax and for VAT as separate organizations and are therefore largely not applicable to the current organizational structures. Therefore, there is a high degree of confusion widespread among the DTD's staff at all levels about respective responsibilities of the different organization levels and components.

Our assessments of core business processes reported below reflect the DTD's current operations – not the business processes as they should be performed in the DTD based on international best practices. Our recommendations and quick wins described for the respective functional areas are intended to assist the KRA now during its transition into the new functional organization. Our assessment and recommendations - and the forthcoming business process redesign and modeling cannot and will not replace the urgent need for the DTD to continue to develop policies, procedures, handbooks and other directives which are needed to support the understanding and execution by respective functional staffs of business processes in an integrated functional organization, which are largely non-existent at this stage (exceptions noted earlier were the newly developed Audit and Debt Management Handbooks).

Furthermore, a modern ITMS is indispensable to fully support the organizational structure and operations of an integrated functional organization such as the one in which the DTD has embarked. Successful execution of the business processes of every function of a modern Tax Administration requires effective use of modern computer systems. To

perform their respective jobs well, employees in each organizational component of a functional organization rely heavily on information, and unless this information is accurate and complete and can be retrieved in a timely manner, the information is rendered virtually meaningless. A very formidable impediment for the DTD is the huge inadequacy of its current computerized system.

For the reasons stated above, and because the primary objective of this feasibility study relates to automation of the business processes of the DTD's ICT Infrastructure and Support organization, these areas are addressed first. The remaining processes will be reviewed by functional area in order of the current organizational chart.

6.1 ICT Infrastructure and Support

The KRA Management Information Systems (MIS) Department (soon to be renamed the ICT Department) supports the KRA's information and communications technology needs. The MIS Department provides support to each of the KRA Departments and the 25 remote stations.

6.1.1 Situational Assessment

This situational assessment reviews briefly the hardware and network capabilities, current applications, and organizational issues. Task 2 will address these issues in greater detail.

6.1.1.1. Hardware Capabilities

The DTD systems (both income tax and VAT) currently run on an Oracle 9i (Version 9.2.0.1) database management system on Compaq Alpha servers ES40. The servers have two processors each running at 500 MHz and having a RAM of 4 GB. The servers are on a cluster configuration with two nodes and a storage area. The storage area has a storage capacity of 212 GB. In addition, the servers have local disk capacities of 54 GB and 72 GB, respectively. The operating system in use is TRU 64 Unix Version 5.1b. KRA has unlimited licenses available for the Oracle database management system.

The HP (formerly Compaq) Alpha servers will not be supported in a few years. In fact, HP will stop selling new Alpha servers some time this year (2006). The intent of HP is to offer a migration path away from Alpha to their more powerful server family. When a vendor stops supporting a particular platform, it becomes increasingly difficult and expensive to get replacement parts and service for the platform. This makes upgrading away from the Alpha servers imperative for KRA with or without a new integrated tax management system for DTD. If this migration process is not started, KRA may find itself in a similar situation as they are currently facing in supporting the old Olivetti printers.

DLT tapes are used to backup data on a daily, weekly and monthly basis. The daily backups are retained for a month in an internal safe at KRA. The weekly backups are kept for 5 years and are stored both in internal safe at KRA as well as at Forodha House. Monthly backups are kept at a bank for up to 10 years. A maintenance and support contract for maintaining the servers is in place with a vendor. The contract specifies that

if the problem can not be resolved in 24 hours a replacement server would be provided. Currently, there is no disaster recovery process; however, there are plans in works to have a mirror site for disaster recovery.

6.1.1.2. Network Capabilities

Currently, the KRA WAN consists of 25 remote stations (not all of them are DTD stations). The connectivity of remote stations to KRA WAN is as shown in Table 1.

Table 1: KRA WAN by stations[3]

Station		Service/Technology	Departments	Redundancy
1	Mombasa	Kenstream+ Kenpac	RTD,DTD &CSD	Vsat
2	Voi	No connection	N/A	N/A
3	Machakos	Kenstream	RTD&DTD	N/A
4	ICD pepe	Kenstream	CSD	N/A
5	Forodha	WLAN	RTD	N/A
6	JKIA	WLAN	CSD	Kenstream
7	ICD Embakasi	WLAN	CSD	Kenstream
8	Ngong	Kenstream	RTD	N/A
9	Kiambu	Analogue	RTD	N/A
10	Thika	Kenstream+ Kenpac	RTD&DTD	N/A
11	Nyeri	Kenstream+ Kenpac	RTD&DTD	N/A
12	Embu	Vsat	RTD&DTD	N/A
13	Meru	Kenstream	RTD&DTD	N/A
14	Nakuru	Kenstream+ Kenpac	RTD,DTD &CSD	Vsat Via KSM
15	Eldoret	Kenstream+ Kenpac	RTD,DTD &CSD	Vsat
16	Malaba	Vsat	DTD	N/A
17	Bungoma	Kenpac	RTD&DTD	N/A
18	Kakamega	Kenstream	RTD&DTD	Vsat Via Kisumu
19	Kericho	Kenstream	RTD&DTD	Vsat Via KSM
20	Kisii	Kenstream	RTD&DTD	Vsat Via KSM
21	Kisumu	Kenstream+ Kenpac	RTD,DTD &CSD	Vsat
22	Garissa	Kenpac	DTD	N/A
23	Malindi	No connection	N/A	N/A
24	Kerugoya	Analogue	RTD	N/A
25	Times tower	E1x2		

[3] VSAT (point-point 128Kbps shared between 8 stations).
Ken stream (Digital point-point terrestrial link, 128Kbps dedicated)
Ken Pac (Analogue 9.6Kbps shared)

6.1.1.3. Applications

The applications supporting VAT and Income Tax, though housed in the same database are not integrated and are essentially independent. Inconsistent data and data anomalies could reside in the databases supporting the two systems. The Income Tax system does not offer GUI based user interface and only provides character-based interface, while the VAT system has a Graphical User Interface (GUI). Furthermore, the data in the databases is not clean as duplicate and invalid Taxpayer Personal Identification Numbers (PINs) exist. Further complicating factor in current situation is that a clean linkage between the Income Tax application and VAT application can not be established because a clean mapping from Income Tax PIN to VAT PIN or vice versa does not exist. A process to cleanse the Taxpayer PIN database has been underway at KRA; however, it appears to be in the planning stages currently.

The PAYE tax process in the computerised system is currently limited to payment information from the withholder. The amounts withheld for individual taxpayers are not being captured. Any integrated solution would require the individual accounts for which income tax was withheld and the respective amounts so that individual taxpayer's current account can be established. The current interface with the National Bank is not fully automated and there are several areas of human interference. The interface from the bank to DTD should be seamless. From the Central Bank of Kenya (CBK), the interface is via Electronic Funds Transfer (EFT) after a diskette has been forwarded to the bank.

Currently, LTO does not have a separate station code which causes productivity loss in searching for LTO information in the database. MIS is working on providing LTO with a separate station code. The LTO does have a station code in the DTD VAT system.

There are a few other types of revenue (other than Income and VAT) which are collected by the DTD department, namely, domestic excise, stamp duty, standards levy and Sugar levy. Currently, only standards levy data on forms SL-2 are captured on the VAT module. Domestic Excise and Sugar Levy are not captured electronically, while it is possible to download EFT and capture stamp duty returns.

The DTD application is supported by six developers in the Wilson Airport location and a team of systems administrators and database administrators are stationed in Times Tower which currently houses 800 PCs (277 of them supporting DTD). The systems administrators and database administrators currently work until 7 PM every weekday as the systems are not running 24x7. With KRA's goal to encourage e-filing and e-services to taxpayers, a plan to provide 24x7 support from the systems administrators and DBA may be required.

The current PC to employee ratio is about 1:4. Plans are underway to increase the ratio to about 90 percent in near future. The increase in this ratio would also entail increased staffing requirements for the Help Desk function. Currently, help desk has a staff of 32 at headquarters and 15 at remote sites. Furthermore, the help desk facilities are not available at several remote sites. Instead, the help desk call is logged at either Nairobi or Mombasa and support staff has to travel to problem site causing delays in receiving requisite

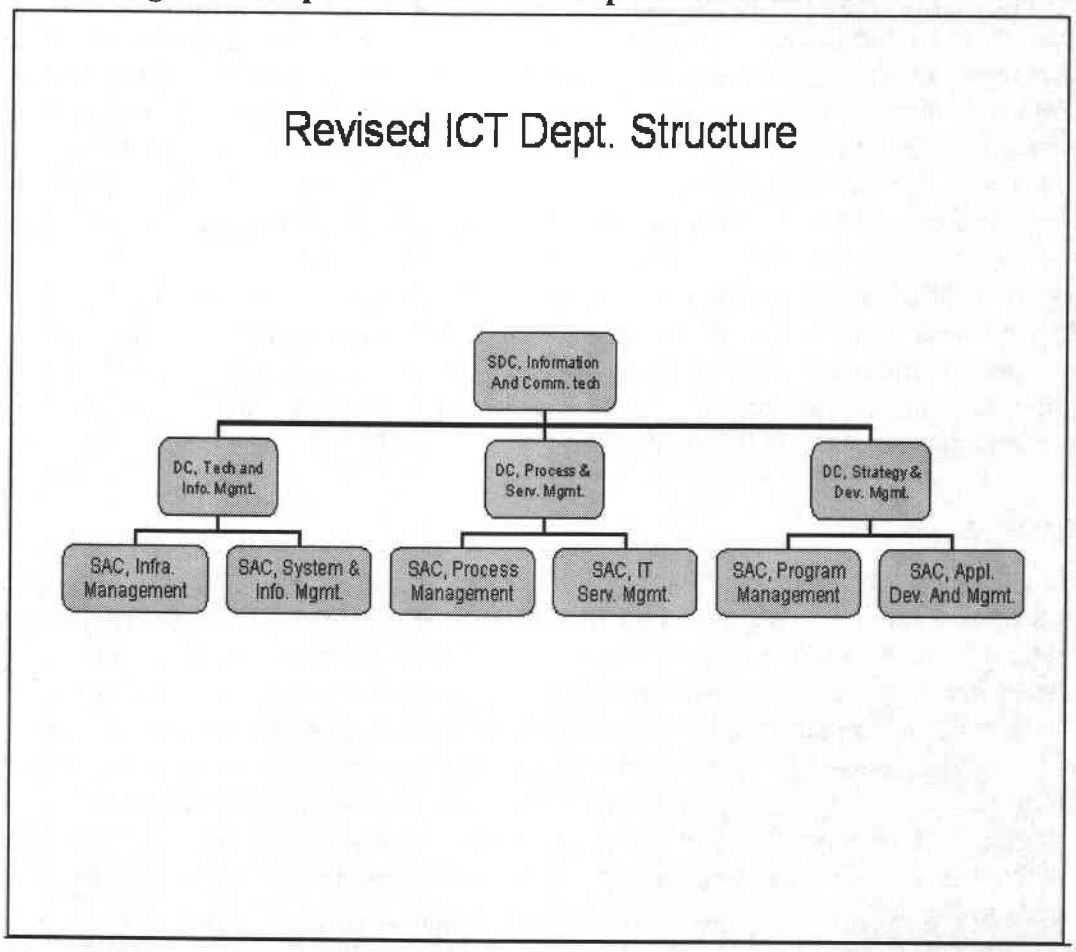
service. The help desk group is currently using a software tool Track_It! to manage the tickets. As PC to employee ratio increases, the Help Desk would have to get more efficient as well as need to use more automated ticket management systems.

Another issue which was observed was that the field office staff is inadequately trained in the use of computers. As KRA tries to migrate to more IT-based tax administration and embarks on increasing PC to staff ratio, it becomes imperative to build on the basic IT training that has been ongoing, and have a broader training program to educate staff on basic IT skills.

6.1.1.4. Organization Structure:

The ICT department's organization structure has recently been revised to reflect a function-based organization. The reorganization was done to remove duplication, facilitate integration and create efficiency. Figure 1 shows the new organization structure of the ICT department.

Figure 1: Proposed Revised ICT Department Structure



KRA has recently acquired a modernized Customs solution (Simba) by a government to government acquisition from Senegal. In order to acquire DTD systems on a similar arrangement, KRA officials have been visiting several tax administrations to identify suitable domestic tax administration systems.

Even though the ICT department has been re-organized on the functional lines, much work needs to be done to progress toward ISO-9001 and CMM certifications. A recent certification analysis of Capability Maturity of the department yielded an average CMM score of 1.61 from a possible maximum of five. Several organizational processes expected in a typical ICT organization such as of Service Level Management, Change Management, Configuration Management, Incident Management, Problem Management, Release Management, Service Desk, Security Management, Disaster Recovery, Availability Management, Capacity Management and Financial Management for IT are rudimentary at best.

6.1.2 Recommendations for KRA's ICT Department

Based on the current situational analysis described above, there are several operational and/or process improvements that can be undertaken at the KRA's ICT department, as part of the overall modernization effort. These process improvements would increase efficiency of the ICT department and would improve its service delivery to its users. Some of these business improvements are described below. These improvements described are not dependant on acquisition of an integrated tax administration system for DTD and can be started even before the ITMS is acquired. In fact, several of these improvements should ideally be completed prior to acquisition of the new ITMS system.

For ease of reference we have organized these recommendations by whether they relate to business processes, ICT infrastructure, or organizational issues. For those recommendations that related to business processes we have identified their linkage to other sections of this report, and the priority for these actions during the course of implementation of the Feasibility Study.

6.1.2.1. Processes

A. PIN Cleanup: Earlier reports, such as IMF reports and ICT strategy report have highlighted incorrect taxpayer PIN data to be one of the major problems facing KRA. Having a clean PIN database is of paramount importance, definitely for integration, but also without integration. Incorrect PIN data compromises the taxpayers' and staff's confidence of computerized reports. The erroneous data could also lead staff to waste precious resources chasing dead ends for revenue recovery and compliance. The need for having a clean Taxpayer PIN database gets added urgency in the face of KRA's goal to integrate the Income Tax and VAT tax systems. Unique primary key for a relational database is a requirement and as PIN would be that key for the Integrated Tax system, it needs to be cleaned up before acquired system can be initialized with KRA's data. Two types of problems with PIN data at KRA have been noticed – having duplicate PINs for the same taxpayer, and not having clean mappings between Income Tax PIN, Personal ID numbers and VAT PINs. A clear mapping between the VAT system and ITD system does exist. The fact that KRA has a PIN clean-up project underway implies that the MIS staff

understands the importance. Several sort routines and exception ad-hoc reports should be designed to get short-lists of duplicated PINs and inconsistent information in the two databases to target the clean-up process.

B. PIN Database feed to RTD and Customs Could be Real Time: Currently, the PIN database under the income tax system is referenced by RTD and Customs system for verification but these systems receive an extract from the Income Tax Department (ITD) system to get PIN database information. Instead, the RTD and Customs systems could access the PIN databases on a real-time basis by making a system ID and password available to the RTD and customs users with read-only access. This would eliminate the time lag between when a PIN is created in the ITD system and when RTD and customs have an access to it. Furthermore, because of the time lag, recently inactive taxpayers could also be able to register vehicles and import goods. Similarly, reverse data feeds from RTD and customs could be established to help DTD and VAT to trace non-filers and help in audits. However, there is a readily available username and password for query purposes that can be used by the offices from RTD and CSD with read-only access if they requested this access.

⇒ *Linkage(s)*: These recommendations (A&B) directly affect the business process improvement for Taxpayer Registration and the Taxpayer current account (see Section 6.2.2.4). Priority: High

C. All backlogged data should be captured electronically: Currently, KRA has a project underway to capture backlogged data for income tax returns from 2002-2004. It would foster a smoother transition to an integrated system if the data capture exercise is completed before the implementation of new system. It was also noticed by the team that VAT debt for taxpayers is being maintained manually in manual files in field offices because VAT-20 data despite being shipped to headquarters is not captured electronically. The integrated system would need an initial view of the taxpayers' debts to pursue existing debt management cases. Getting a clean initial data load to the new system is very important for maintaining the integrity of the system going forward.

⇒ *Linkage(s)*: This recommendation should be addressed during the business process redesign of the Returns Processing (see Section 6.2.2.1). Priority: Medium

D. ETR information feed for VAT Audits: KRA should investigate developing automatic monthly and annual report feeds from the ETR at client locations to KRA's computers. The full transaction level of detail does not have to be fed the KRA's computer systems but if annual and monthly reports are fed into a database, the audits could be targeted more effectively and precious audit resources do not have to be spent on unnecessary manual audits for VAT purposes.

⇒ *Linkage(s)*: This recommendation should be addressed during the business process analysis of the Electronic Tax Register (see Section 6.5.2). Priority: Low

E. Standardization of Station IDs: In the field visits it was highlighted that the stations IDs in VAT and ITD systems are not synchronized currently. The station ID definitions in the two systems should be made consistent. The Integrated Tax System would definitely require harmonization of station ids across the application systems.

Furthermore, KRA should continue the standardization of station IDs in various application systems now (without waiting for the ITMS) as substantial consistency and cross-referencing productivity improvements could be achieved by having uniform station id codes across the applications. In addition, LTO indicated that it should have its own station code so the data search for LTO information can be made more efficiently.

⇒ *Linkage(s)*: This recommendation should be addressed during the business process redesign of the Station Operations (see Section 6.7.2). Priority: Medium

6.1.2.2. ICT infrastructure

A. Develop plan for Upgrading from Alpha servers: The current Income Tax and VAT systems are running on HP (previously Compaq) Alpha servers. HP has announced that it would stop selling new Alpha servers starting October 2006 and would discontinue support of the server in a few years after that. This move is to support HP's stated server strategy to move from five product lines to three based on two industry standard architectures x86 and Itanium®. For Tru64 UNIX customers, a transition path to HP-UX 11i on HP Integrity servers facilitated by a full suite of transition tools and services is promised by HP. As the Alpha servers are now more than 5 years old, they have served their useful life, the upgrade of the servers is definitely due. KRA expects to upgrade the servers as part of Integrated DTD system procurement. However, because Alpha servers have now become technologically obsolete, it may be beneficial for KRA to develop plans for upgrading from the Alpha server platforms to higher platforms whether or not integrated system is procured or not.

B. All Remote Sites should be connected to WAN: Two of the remote sites are currently not connected to the KRA WAN. Since KRA's mission is to provide e-services to the taxpayers and to be a leading tax authority in the world, it should try to get all of its sites connected. The connection project currently underway should be fast-tracked. Being connected to the WAN would become important when computerized HR would be implemented. Furthermore, being connected to WAN would foster a sense of belonging to the remote field staff.

C. Plan Mirror Site for disaster recovery: Currently, disaster recovery and a mirror site for disaster recovery have not been implemented at KRA. However, if KRA starts providing significant e-services to taxpayers and automatic linkages are established between banks and KRA, it becomes important to have a mirror site, preferably far from Nairobi, so the processing could continue seamlessly from the recovery site in the event of a disaster. Heightened terrorism related concerns and natural disasters witnessed in recent years have underscored disaster related vulnerabilities of various Government entities around the world and KRA should address these vulnerabilities proactively.

D. Security Policy and Plan: KRA WAN is currently protected by a firewall and the KRA web-site is located outside the firewall as best-practices indicate. A process to implement demilitarization zones has been going on. In addition, the applications have their own application level security. For the VAT system, the system administrator assigns access to different parts of the application system to individuals via passwords. This assigning of access at individual level presents a problem for the VAT system users

and administrators causing unnecessary work for VAT systems administrators. Furthermore, when an individual moves from a job to another, his access privileges need to be changed. This contrasts with Income Tax system where access to application parts is controlled by the group the user belongs in. As ITD security policy is more in line with international best practices and easier to manage for both systems administrators and users, VAT system password security policy should be synchronized with the ITD system password policy. Furthermore, the security policy should be strengthened so that the users/systems administrators or database administrators would be restricted from updating their own personal tax records.

6.1.2.3. Organizational Issues

A. Organization Change for around-the-clock support: With KRA's goal to provide web-based services and on-line linkages to outside agencies and banks, it becomes imperative that a policy to provide around-the-clock (24X7) operation at the DTD systems needs to be developed. It may involve providing for shift work for the operations staff and plans for providing basic facilities operations in weekend hours.

B. Help Desk needs to be Re-organized to Support Stations: Currently, the helpdesk facility at the stations is provided by either the Headquarter (Nairobi) helpdesk staff or by Mombasa (regional office) help desk staff depending on the station location. The stations do not have their own local help desk support. This causes stations to log hardware/software troubles with one of these offices and on occasion a few business days are lost before the issue gets attention from the support staff. Furthermore, the distance to be travelled and travel time lost causes significant inefficiencies in the help desk operations. To alleviate these problems, a first-level help desk support should be local at the stations. The second-level and higher level support could still reside at the HQ or the Regional office. Furthermore, remote log-in features of Track_It! software should be used whereby the help desk staff could log on to the user's workstation remotely and diagnose the issue. The remote service option of Track-It! should be implemented without waiting for the Integrated Tax System to arrive.

C. Training Staff on Use of IT: When visiting the field offices it became clear that most field staff's computer related proficiency was minimal at best. This minimizes the use of technologies in the field. With KRA's emphasis on e-filing and computer-based audits, it becomes very important that field staff as well as headquarter staff is well versed in the use of computer technology. The specific training on ITMS and its features could be provided when the ITMS is implemented, however, basic computer related hardware and software training could be provided currently. It should be KRA's goal to get the organization technologically capable and ready to accept computerised solution by the solution is implemented.

D. KRA should budget for back-up generators for the field offices: As KRA's reliance on computers increases and given that reliability of power in Kenya is poor, KRA needs to provide for backup generators for field offices in case they encounter extended power outage. Use of UPS alone would not address the extended power outage situations.

6.1.3 Quick Wins – ICT

The previous section highlighted recommended improvements which KRA's ICT department should undertake to progress towards its mission of being a leading tax authority in the world and be prepared for the future Integrated Tax Management System. This section would outline some the quick solutions which KRA could undertake to make faster progress towards its goals without having to wait for the ITMS solution.

A. Remote Access module of Track_It!: The remote access module of Track_It! Help desk product should be implemented. Currently, help desk is configured to provide local help desk services at the sites, instead problems have to be logged with either Nairobi or Mombasa. With remote access module, help desk staff would be able to log on to the users' workstations remotely to diagnose the problems. This would reduce unnecessary travel from regional help desk offices to stations. It would also improve the response time to field staff on help desk issues reducing the down-time experienced by the field staff. Eventual direction which KRA needs to move toward is to provide first-level help desk support at the field offices. Second level and escalated issues could still be handled from the regional offices.

B. Availability of VAT system passwords to sites: Unavailability of VAT system passwords has been underscored as an impediment to the use of VAT system by the stations. Both the East Nairobi staff and the Thika office staff mentioned this problem in their use of the VAT systems. The non-filers list generated centrally by headquarters is not accessible to field offices because of password issues. This is a quick fix which could be addressed. Furthermore, VAT system password policies need to be synchronized with the ITD system password policies to be in line with the international best practices.

C. Auto Reconciliation of Payment VAT returns: Currently, the VAT-3 returns are deposited with one of three approved commercial banks which a payment when the taxpayer wants to make a payment. The commercial banks provide a copy of the VAT-3 returns together with a spreadsheet showing EFT deposits to KRA's account. Station staff manually reconciles the payment returns with the amount actually deposited. A simple program could be written to get the VAT-3 returns inputted to the VAT system and cross-check it with an EFT deposit information on a diskette from the banks to highlight any discrepancies. It would be a quick hit as minimal resources would be required to implement it and the precious field office staff time being wasted on manual reconciliation could be saved for other productive uses.

D. Availability of UPS at Returns Processing: KRA is trying to clear the ITD return backlog for years 2002-2004 by hiring casual staff at a fast clip. However, the data entry stations they work on are not equipped with UPS causing re-entry when power interruptions occur. Having a UPS would be a simple quick fix to alleviate this problem and would help KRA clear the backlog quicker.

6.2 Taxpayer Services – Head Office

Taxpayer Services at the Head Office provides centralized service for Income Tax returns nation wide, and Nairobi VAT return centralization. Records management for the Nairobi returns is also provided by this unit.

6.2.1 Situational Assessment

Based on the current functional organizational structure Taxpayer Services, returns process, refunds processing, taxpayer education, and taxpayer registration (and recruitment) are reviewed in this section.

6.2.1.1 Returns Processing

There are several issues relating to tax policy or administration which have created enormous work burdens on the returns processing function – much of it unnecessary. Among these tax policy and administration issues are:

- Compulsory filing of personal income tax returns (PIT) which greatly increased the volume of tax returns filed for processing (centralized at the Head Office) – more than 90% of which are nil returns
- The need to prepare and mail more than 2 million pre-addressed PIT every year since 2003 even though only 750,000 file returns
- The requirement to register taxpayers and issues PINs to huge numbers of people who have no tax responsibilities
- Too many differences required for filing various types of returns for the different taxes at different locations
- The non-acceptance so far of instituting bi-monthly filing of VAT returns rather than monthly.

All of the issues described above—among others—have been addressed by the IMF in their 2004 and 2005 mission reports and are highlighted for the business process redesign and improvement to be undertaken in subsequent tasks:

⇒ Backlog: Returns Processing in the Head Office has a large volume of multi-year backlogged work of Income Tax returns that is now being addressed through the hiring of casual staff on two shifts. There is a serious security issue here because tax returns are stacked on the floor and all around the premises awaiting processing—without any security. The Value Added Tax (VAT) returns are pretty much up to date.

⇒ VAT: No computer system exists to support the VAT withholding tax program.

⇒ Location: Income Tax returns are centralized, while VAT returns are processed in the stations, with the exception of Nairobi stations which are processed in this unit. VAT withholding returns centralized. The efficiency and accuracy of processing returns, availability and locating of returns for stations and headquarters units is of major

operational concern to all, albeit progress is being made in catching up on the Income Tax returns.

⇒ Human Resources: The use of casual employees creates some problems as they are not trained to review the returns before data entry. There is a fairly high rate of error in returns processing as a result of poor submission and untrained casual staff.

⇒ UPS Backups: In the processing of returns, it is noted that the power interruptions are frequent. The servers and workstations appear not to have UPS support. This causes a significant reduction in production in the keying of returns while waiting for servers and applications to re-boot after the frequent power fluctuations. Literally, batches of up to 49 returns that have been keyed, can be lost with interrupted power and have to be re-entered. Frequent power interruptions, albeit for a minute or two, but enough to cause server and workstation re-start with loss of data.

⇒ Printing VAT Returns: Currently the worksheet from the keying of VAT returns are printed on the 4th floor, two floors above where the returns are keyed. This printer is not working, so many returns have been keyed and are waiting for the print outs to be attached so processing can continue. This is a loss of processing efficiency.

⇒ Batches: The batch process differs between Income Tax and VAT. Vat batches can be added to at anytime and are continuous regardless of stations. Income Tax batches are required to be by stations, therefore if 50 returns are not available for a batch (which is required amount for each batch), the return processing must be stopped waiting for more returns to arrive from the stations and be added to the batch. This creates a delay in processing of returns. It also depicts the different filling procedures between Income Tax and VAT.

⇒ Records Management: The physical storage of return documents is problematic, and they are not currently stored in generally accepted documented records management methodology. It is very difficult to find the physical hard copy of the returns.

⇒ Calculation Errors: When calculation or other minor errors are detected at data entry and verification, and increased revenue is identified, the return is sent to debt management for collection. This often creates unnecessary delays, and sometimes ignoring of additional small revenue collections. The process is very labor intensive and appears to have some small revenue loss.

⇒ Capturing Supplier Information: VAT clients have a requirement to include all their suppliers on the return, including PIN numbers. This is an unusually high administrative demand and burden on taxpayers. Many returns do not include a PIN number, or have false PIN number. Return processing staff try to identify the correct supplier PIN where missing or incorrect. Temporary PINs are assigned where the suppliers PIN cannot be identified. These temporary PIN appear to left in the PIN database for long periods of time. Some suppliers will have many temporary PINs by design. While the intention of this requirement is for recruitment and non-filer

purposes, DTD does not have the staff or computer programs to astutely follow-up the discrepancies.

⇒ Station Identification: It is noted that Station ID numbers are different for Income Tax and VAT in the computer systems. This is an issue that we understand that MIS is in the processing of resolving.

⇒ Postal Codes: The Kenya Post Office has introduced Postal Codes. Returns that are mailed out to postal address without postal codes, and returns are being returned by the post office.

6.2.1.2 Refunds Processing

⇒ Refund processing is completed in one area for all DTD claims, Income Tax, VAT and Excise. This unit appears to be well managed and is without backlogs of work.

⇒ The long period of time for KRA to pay claims is problematic for this unit due to many hostile phone enquiries received. The root of the problem is the limited budget authorized by Treasury each month mentioned in the recent IMF reports, and will not be dealt with further here.

⇒ The computer system used to process VAT returns appears to be simple, efficient and a very useful tool. It is noted that to verify the calculations within the claim, an excel spreadsheet is used and attached to the claim. There are approximately 400 returns per month. VAT refunds for exported goods have significant delays while waiting for CED to confirm the export.

⇒ Income Tax refunds less than KSh30,000 are required to have only calculation check completed on the return. The calculation check is completed by returns processing, which means the Income Tax file is sent back to Return Processing, and then awaited return back to the Refund's unit processing. This is an issue of checking the quality of the data entry in Returns Processing.

⇒ The desk review of refunds is assigned in the VAT refund module to auditors by claimant alpha prefix. Approvals are by manual and computer signature/validation.

⇒ Control procedures appear to be very appropriate in this unit.

6.2.1.3 Taxpayer Education

Taxpayer education is completed through methods including: seminars, trade show attendance, personal visits, tax clinics, and a series of well written publications. These publications are prepared and distributed to clients and somewhat to staff. Seminars are delivered from HQ in the Nairobi area, and by some stations/districts outside of Nairobi (technical staff is added as required. New taxpayers' seminars are presented each month. Education materials appear to be in short supply. Station/District officers are often not aware of new publications issued to the public & media.

6.2.1.4 Taxpayer Registration & Recruitment

⇒ PIN administration is controlled centrally by MIS in Returns Processing. The PIN is made up of 11 characters, one alpha to identify business or individual, 9 numeric numbers, and 1 alpha check digit. For commercial entities and subsidiaries, there is not a current policy related to linking PINs.

⇒ In addition to KRA use of PIN's, many outside organizations also use the PIN information, such as electricity applications, bank loans, land registry, company registry, etc. These requirements place a greater importance of ensuring the PIN information is accurate.

⇒ There are many PINs issued for which there have been no Income Tax returns received, especially for individuals. It is noted that 3 million returns are sent out based on the PIN database, but only 750,000 Income Tax returns are received back from this mailing. Part of this may be due to the requirement for PIN for reasons other than Income Tax related for individuals. It is likely that the PIN database is severely flawed in accuracy.

⇒ In VAT return processing, it is a requirement for client to list all suppliers giving the details including the PIN if known. PIN lookup is attempted to locate the number by VAT return staff. There is a high rate of temporary PIN's issued for those suppliers whose PIN cannot be found.

⇒ The PIN is the most discussed problem in every unit in KRA. The issues of duplicate numbers, updating the PIN database, online connectivity for KRA users (CED and RTD), and other issues.

⇒ There is a PIN de-registration process after verification that a business has closed. Non-filers database is with now with the compliance section of DTD.

⇒ DTD is embarking on a program of cleaning the PIN database (see above). As there is activity on the maintenance of the PIN, now would be a good time to consider a change to the make-up of the PIN, procedures, and to define the requirements of the new integrated computer system for DTD.

6.2.2 Recommendations for Taxpayer Services

6.2.2.1 Return Processing

Annex 2 is a workflow diagram which represents a *centralized processing center* "pipeline" for tax returns and documents based on international best practices which we have adapted for possible use by the DTD. However, without a modern ITMS, it will be very difficult to make substantial improvements in returns processing in the short-run.

Several observations and suggestions to considered during business process redesign are described below.

A. E-filing: Overall, returns processing by the DTD can be helped significantly with the *mandatory e-filling of LTO Taxpayers and voluntary e-filling for medium and small business*, and individual taxpayers. Future integrated DTD tax systems must provide for e-filing of all types of returns.

B. Batches: KRA may wish to consider changes to the batching system for the Income Tax function to be more in line with VAT batching. This would eliminate the delays in waiting for claims to make up the batch of 50 from some stations. This is an issue of an efficient "pipeline" processing.

C. File Locator: Consideration should be given to a file locator program for storing paper returns that would allow the location of any return document regardless of station or return type. This would make the pipeline processing much more efficient, as all types of returns would be put in a batch regardless of type or location. This should be a requirement of the integrated tax system.

D. Electronic Document Storage & Files: Consideration should seriously be given to scanning returns in images after the acceptance of them. The scanned image should be made available on the computer system(s) for reference rather than requiring the hard copy. Hard copy returns could then be moved to a properly protected remote file storage area. This would be in addition to the file locator program. While e-filling will reduce the record management requirement, hard copies of returns will continue to be processed for many years to come.

E. Calculation Errors: In many tax administrations, Income Tax return calculation errors that indicate more tax to be paid generates an automatic computer based letter of demand to the taxpayer. The letter would notify the taxpayer of the error and indicated that re-assessment by audit review is still possible. This process makes a timely demand on the taxpayer and may lead to the collection of these debts in a timelier manner. There would be a reduction in manual labor required to manage these small amounts. Debt management should be notified by computer listing when payment has not been received within 30 days for follow-up.

F. Regulations: Many VAT administrations ask return filers to list the top 3 or 5 suppliers on their returns. This provides a more manageable comparison for the tax administration and does not place an onerous demand on tax payers. DTD should consider revising their requirement for VAT returns to include up to 5 top suppliers. As this would provide a manageable exception list for checking, the revenue results from supplier return discrepancies would likely increase. Thus, this change in policy would reduce the burden on taxpayers, the workload on scarce DTD resources, and likely increase revenue through manageable compliance lists.

G. Station Codes: It is our understanding that MIS is working on standardizing the station codes. This really needs to be completed before the introduction of an integrated computer system, and assumingly before amalgamation of the VAT and Income Tax databases.

H. Postal Codes: A project of placing postal codes in the PIN database needs to undertaken in the Income Tax system. Postal codes appear to be available in the VAT system. Perhaps this issue can be resolved for traders in the database merger of Income Tax and VAT databases. Individual taxpayers need to be updated with the postal codes to resolve the returns from Kenya Post. Obtaining an electronic database of postal codes may be helpful in this regard.

I. Infrastructure: As the processing of returns currently and persistently has significant backlogs, and many casual employees are being used on two shifts to catch up, consideration should be given to investing in workstation and server UPS's to maintain availability to current applications and avoid the loss of data that requires re-entry time and again.

6.2.2.2 Refunds Processing

In many modern tax administrations the bulk of refunds processing is a function of the Returns Processing function where there is automatic authorization of refund claims of e.g. less than KSh50,000. Some refund claims of higher values are selected – on established risk-analysis systems - for audit verification at the stations by auditors. Of course, a modern ITMS is required and should be considered by the DTD as soon as possible.

Future consideration should be given to having the verification worksheet adopted as part of the refund file. This step will move the Refunds unit closer to being paperless for the future when all returns and claims are made electronically.

6.2.2.3 Taxpayer Education

Consideration should be given to increasing the distribution of information pamphlets to the public though public displays, such as in the customer service areas, where taxpayers can serve themselves, rather than having to wait for personal service one-on-one.

If e-mail is ready available to most stations and HQ staff, then regular mailings of new or updated brochures, along with newspaper and other media ads that are about to be published, should be distributed electronically. This will keep staff up to date with the latest information – which is one of the complaints reported.

6.2.2.4 Taxpayer Registration & Recruitment

A. Organizational Change

Taxpayer recruitment in many other tax administrations is handled very differently than the way it is currently handled in the DTD. Recruitment is considered a "compliance"

function—not a taxpayer service/registration function—and responsibility for it is assigned to two other functions—Returns Processing in the Head Office, and to Collections and Compliance Monitoring in field operations offices (stations). In Returns Processing, the modern ITMS produce monthly lists of non-filers from computerized leads and automatically issue notices to taxpayer require they comply with filing requirements. Those who do not do so are assigned in the form of individual non-filer cases to station officers. Station officers are also the ones who conduct "sweep" visits to taxpayers' premises to recruit taxpayers not in compliance.

Several processes described below are responsibilities of a "Compliance Unit" established in Returns Processing centers in tax administrations around the world. These Compliance Units accomplish a lot of work through economical, mass business processes – notices, telephone calls, etc. Only non-response and high-priority cases are referred to stations for action.

Of course, all Tax Administrations around the world also use a Taxpayer Identification Number to track Individual and Business taxpayers; to obtain single view of taxpayers' tax liabilities; and to simplify the process of completing tax filing obligations.

In the case of companies, often there is link between a corporation and subsidiary and the individuals related company ownership. In some countries, the individual PIN of each company director is also cross linked with the company PIN.

A decision must be made in the very near future by KRA on the structure of the PIN. This is required in order to allow the lead time to administratively put this new structure in place before the new integrated computerization is started, and also to make the PIN structure part of the procurement specifications.

⇒ Cross linking Directors' PINs would alert DTD to those clients who purposely create and collapse companies leaving large tax obligations to KRA. While this information may not lead to recovery of previous monies owed for collapsed companies, it would allow KRA to aggressively monitor payments of any new company. This would be like creating a credit rating.

B. Revised PIN Structure

⇒ Given this, KRA may wish to consider changing the PIN structure for companies and adding fields in the PIN database for Directors personal PIN. Consideration of issuing PIN's to each company location and subsidiary companies would provide KRA with a complete individual and corporate view an organization.

⇒ KRA should have online access to individuals National Security Number to confirm the identity of person applying for a PIN. In fact the Individual PIN in many countries is identical to the social security number.

⇒ VAT system should automatically produce monthly or weekly data to recruitment section in spreadsheet format. Training should be provided to staff for them to be able

to sort this information by name or address to identify multiple temporary PIN's for same company, and multiple companies at same address doing business to avoid VAT and Income Tax recruitment.

6.2.3 Quick Wins – Taxpayer Services

6.2.3.1 Returns Processing

⇒ UPS (Uninterrupted Power Supply) for application servers and those workstations used for data entry, adjustment, and confirmation should be provided quickly.

⇒ Consideration should be given to supplying a printer in the return processing area on the second floor to eliminate travel between floors. The maintenance of this printer should be high priority as it a significant part of the processing pipeline

⇒ Change the requirement for VAT return submission to reduce the number of suppliers required to be listed on the return. This will reduce the burden on data entry staff and Taxpayers.

⇒ Provide an increased verification of data entry, and correctness of returns, with experienced staff before finalizing the data record. This would eliminate the requirement of return verification for Income Tax refunds of under KSh30,000.

6.2.3.2 Refunds Processing

⇒ A procedure of verifying calculations on those returns that show a refund should be implemented in Returns Processing. This would eliminate the passing back and forth of files, and make a smoother pipeline of work.

⇒ Access to the CED Simba system should be provided for verification of exports for VAT refunds. This would provide improved service levels to Taxpayers.

6.2.3.3 Taxpayer Education

⇒ Consideration should be given to increasing the distribution of information pamphlets to public though public displays, such as in the customer service areas.

⇒ General information officers training in public relations should be placed in the customer service area of headquarters. These officers would be available to answer general questions regarding Income Tax, VAT, Excise, etc. Taxpayers requiring detailed information can then be directed to upstairs office. PIN and VAT registration should be completed at one stop. A reception to vet those entering the customer service area may need to be established.

⇒ If e-mail is ready available to most station and HQ staff, then regular mailings of new or updated brochures, along with newspaper and other media ads that are about to be

published, be distributed electronically. This will keep staff up to date with the latest information.

6.2.3.4 Taxpayer Registration & Recruitment

⇒ Consider having current member data available from Law and Manufactures Associations, if possible, in registration recruitment.

⇒ Investigate having access to an individual's Social Security number online to verify PIN applications.

6.3 Tax Programmes (Small & Medium Taxpayers) – Head Office

The Tax Programmes office oversees three functional area offices: Audit, Collections and Compliance, and Debt Management. Under the new integrated Domestic Tax Department, these offices cover both Income Tax and VAT.

6.3.1 Situational Assessments

The SDC – Tax Programmes and her staff are conducting some Tax Programme operations – as is being done at the stations also - and providing guidance, standards and program evaluation for field operations as well.

6.3.1.1 Audit

⇒ The SDC and her staff very recently developed an excellent Audit Handbook. Extensive in-depth training on the Handbook was very recently carried out (unfortunately, many of the auditors trained soon thereafter were promoted and/or reassigned to other functional components). The office also prepared the first annual audit work plan and has established and issued Audit benchmarks for the stations Audit staffs as part of the "Balanced Score Card". These are exactly the roles called for at the Head Office, under international best practices.

The Audit Handbook provides good definitions for the types of audits, i.e. "technical, computational, in-depth, desk, field, and comprehensive" audits. In the early stages of transition to an integrated Audit organization, however, there is still a lot of debate and confusion about the meaning of these definitions.

⇒ The SDC and her staff are also help the stations select returns for audit. VAT return processing has been up to date, but Income Tax returns have been backlogged and returns not available. Therefore audits are for older years, and may have be companies that have already had VAT audits from the old VAT Department.

⇒ Much of the case-selection is done with some risk analysis techniques but almost all processes are manual. This office is engaged in a series of sector audits which will be used to improve benchmarking and establish better goals.

6.3.1.2 Collections and Compliance Monitoring

This unit provides the daily monitoring of collection of DTD revenue, and compliance to DTD programs. This unit also provides direction and guidance to stations for medium and small tax payers. Annual work plans are currently being formulated.
There is an excellent mix of skills from all the DTD tax functions in this unit, albeit function cross training would be helpful. There are several observations:

⇒ Reports of revenue by section status (Income Tax, VAT, and other revenue by functions) are reported against targets daily. The reports are formulated from computer information, but mostly manual reports. The reporting of the PAYE is currently completed manually as it is not computerized. An integrated KRA one window Tax payer revenue accounting system would be extremely beneficial for this function.

⇒ Taxpayer compliance is completed for all DTD tax functions, except for LTO monitoring in the near future. This includes non-filers, return analysis, PAYE, VAT, domestic Excise, Agency Revenue, and withholding taxes. Leads are identified for audit to follow-up.

⇒ There is some cross over and grey areas regarding where debt management and Collections start and stop for non-fillers, and new taxpayer recruitments.

⇒ The biggest issue for this unit is not having all the DTD functions computerized. Revenue reports being prepared manually is also another issue that could be resolved by an appropriate revenue accounting module. The status of the PIN database is very problematic for this unit.

6.3.1.3 Debt Management

⇒ DTD debt is managed by two systems, Income Tax and VAT, and by manual records of other units. The VAT and Income Tax systems are not the same in the revenue ledger accounts section. VAT system applies interests and penalties automatically, and the Income Tax system does not. Multi-year audit amounts are applied to the year for which the money was owed, thus making it look like the amount is outstanding for many years, when in fact the audit was just completed recently, and the time period for collection action to start is still within the allowable period for paying audit demands.

While audits are being done in the system on the most part now, the old outstanding audits have not been recoding in the computer systems. Therefore the revenue accounting ledgers are incorrect. This creates a need for a comprehensive reconciliation process between computer and manual system before debt collection action can begin.

⇒ Due to human error in the manual systems, PAYE, withholding, and domestic excise debt is represented inaccurately. Again, reconciliation is needed before action can be implemented, and even then the accuracy of the taxpayer obligations is in doubt.

⇒ A quarterly list of outstanding debt from the computer system is received for Debt Management to work on and dispatch to the stations for collections action. These lists are not aged for time owing in the Income Tax system as mentioned above. Manual registers from station are sent to this HQ unit for action along with computerized listings.

⇒ KRA enforcement action can access movable assets, bank accounts and other assets to realize the debt. However, fixed assets cannot be realized, but can be held from any transactions until KRA debt is settled.

⇒ The PIN database is again mentioned as a problem for this unit in reconciliations and tracing of taxpayer records and assets.

⇒ Errors from return processing are sent to Debt Management for action. This is time consuming and unnecessary if computer generated notices where produced. Debt Management would only have to follow-up on unpaid notices.

⇒ A "Taxpayer One Window" view would greatly assist Debt Management in completing their function.

6.3.2 Recommendations for Tax Programmes

As fully discussed in sections 4 and 5, above, the SDC and staff of the Tax Programmes in the Head Office should be exercising the normative and functional support roles for Tax Programme operations at all the stations – and not performing Tax Programme activities with taxpayers. It is strongly recommended that this international best practice be implemented by the DTD as soon as possible for the Audit, Collections and Compliance Monitoring (except for revenue reconciliations, which should continue to be done at the Head Office); and Debt Management Tax Programmes.

Furthermore, as shown in the proposed organization charts in Annex 2 and discussed in Section 4, at the field stations Collections, Compliance Monitoring, Debt Management and Taxpayer Recruitment should be **combined and consolidated** as is the suggested by international best practices. The skills and qualifications required to perform all these business processes are the same or very similar and the consolidation would resolve all the "overlap" confusion about respective roles which exist now between the functional components.

The improvements suggested below, therefore, should "follow" the re-assignment to the stations of Tax Programme operations.

6.3.2.1 Audit

A. Staffing

The "staff specialization" practices discussed earlier in this report are strongly recommended for quick adoption by the DTD – particularly for auditors.

B. Assignments

In comprehensive audits, teams of experienced VAT, Income Tax, and Excise (if appropriate) sector audit staff should be dispatched to complete an importers total transactions (with the exception of Customs valuation audits.)

C. Access

In integrated tax systems there must be access to all KRA data for auditors to perform verifications and select taxpayers for audit (along with the computerized risk management selection.) Access could be given to auditors for the company/individual being audited and then removed when the audit is finished when verifying transactions.

6.3.2.2 Collections and Compliance Monitoring

The biggest issue in this functional component, as for all DTD components, is the lack of full computerization of all transactions, and the inaccuracy of the existing data in the various key databases.

A. Taxpayer One Window

A taxpayer one window revenue accounting system will eventually resolve a lot of issues, and greatly reduce manual work while improving accuracy of reporting for this unit. Taxpayer compliance will also be enhanced by this revenue accounting module. The revenue accounting module is outlined in more detail under the Finance section of these reports.

B. PIN database

PIN database accuracy and policy is a major problem for this functional component. PIN issues are discussed in the Tax Payer Services—PIN section of these reports.

6.3.2.3 Debt Management

MIS should determine if the Income Tax system can be brought into line with the VAT accounts ledger to improve operations now, and prepare for implementation of the new integrated DTD system.

MIS should also examine the possibility of adding PAYE to the current system to improve debt management, reporting, and for preparation of the new integrated DTD system. Monthly aged accounts receivable by station should prepared by MIS for debt management from computerized records.

6.3.3 Quick Wins – Tax Programmes

Here again, the primary focus is for suggested improvements to be made at the station or operations levels of all Tax Programmes. *At the very top priority of tools which need to be developed for all Tax Programmes and for the Refund Program are risk-analysis, systems, tools and techniques for priority-selection of high-risk cases to be worked and disregard of low-risk cases.*

6.3.3.1 Audit

⇒ As noted in the "Assessment" section, above, there is still a lot of on-going debate and confusion about the various audit definitions – particularly "comprehensive audits", which is being applied as "an in-depth audit for one type of tax means and in-depth audit will be performed in all types of taxes for which the taxpayer is liable" . This is **contrary** to international best practices. Risk-analysis systems should determine which type of tax will be the focus of the in-depth audit. For example, if the primary focus is an income tax audit, the taxpayer's compliance with other tax liabilities should be verified. Only if there is "suspicion" of discrepancies should in-depth audits be undertaken for other types of taxes. Otherwise, too much time of the auditors will be consumed in low-risk or no-risk audit activities.

⇒ A related suggestion is that auditors should have access to Road Transport Department and Customs & Excise databases for verification of records purposes. This access should be restricted to the company or persons being audited at the time, and access removed when the audit is complete.

6.3.3.2 Collections and Compliance Monitoring

Some tax function cross training should be considered for this unit to provide better compliance monitoring. MIS should consider what can be done in the short term to improving the revenue & reporting modules, which will work towards the new integrated DTD system.

6.3.3.3 Debt Management

⇒ DTD needs to embark immediately on a project to obtain the "true" picture of any taxpayer. This will need to be ready for the deployment of the new integrated tax computer system in approximately one-year time. This is a vital task that will show immediate benefits in revenue collection and taxpayer management.

⇒ Provision of monthly aged reports by station would be helpful in following up Taxpayers on a more timely basis. Generally, quarterly reports and contacts are not as effective as monthly interventions.

6.4 Tax Policy and Legislation

Tax Policy and Legislation (TPL) is mostly centered around objections and appeals, with support to stations on tax law interpretations. TPL administers the remissions outlined in

the VAT Act for diplomats, charitable organizations, donor agencies, NGOs, individuals, and other designations the Minister of Finance may make periodically.

6.4.1 Situational Assessments

6.4.1.1 Objections & Appeals

On the most part, Tax Policy & Legislation is integrated, but the DTD is waiting for the new Tax Procedures Code (TPC) before the final organization structure is designed. A procedures manual will then be drafted and TP&L will act in integrated fashion.

Assistance and advice is given to stations if required for objections & appeals from taxpayers on audit and other assessments. The levels are:

Level I--Objections & Appeals
Disputes follow a 3- or 4-step process – an objection is made within 30 days of assessment and DTD has 60 days to respond. The filing of objections stops collection of assessment tax owing. This applies only to valid objections – invalid objection does not necessitate tax being stood over. If DTD does not grant the objection, interest applies and collection action resumes. An Objection & Appeal module is being designed by MIS.

Level II-VAT—Local Committee
Local committee VAT tribunal is appointed by MOF. Members are from the legal professions that are known to be of good character. The committee consists of Chairman plus 4 members. DTD staff represents their case to the committee, and the committee ruling is final, unless taken to the High Court. Revenue collection is halted until the tribunal committee has ruled. Taxpayers wishing to take their case to high court must first pay all taxes owing.

Other
It is noted that Taxpayers are using a court judicial review instead of the high court to try and resolve their case. Tax collection stops if that process is taken.

Remissions
Remissions in DTD are mostly related to domestic VAT, and the process of verifying exemption claims is done manually. There are import remissions issued to KRA CED. Many of the remissions are specific and issued by MOF for individuals, projects, aid money, charitable organizations, NGO, etc. or by MOFA in the case of diplomats. The VAT act outlines the details of the various remission orders.

The control of remissions is problematic due to the lack of computerization. Diplomats who are supposed to seek prior approval before purchase, often purchase and then place refund claim, causing additional work for DTD.

6.4.2 Recommendations for Objections and Appeals

As part of the Tax Procedures Code (TPC) project, KRA is in the process of soon harmonizing the objection and appeal process to be identical across the Domestic Tax Department. Internal review by committee when objections are lodged should also be considered. An appeal tribunal committee should be created, made up of noted lawyers, accountants and perhaps chaired by a judge. The KRA should establish three local tribunals, Nairobi, South and West Regions. Appeals and decisions must be shared amongst local committees.

6.4.3 Quick Wins – Objections and Appeals

In previous years (1997-98) an Exemption program was written, tested and prepared for implementation in MOF, CED and VAT. The program was not implemented. This program transferred data along with hard copies of MOF issued exemptions, had security features to avoid misuse of exemptions, and reporting mechanisms for MOF to know the value of exemptions issued by MOF and KRA by exemption type. The programming was completed by current KRA MIS staff. DTD/KRA should examine implementing this program in conjunction with MOF.

6.5 Electronic Tax Registers (ETR)

The Electronic Tax Register (ETR) is a new program in which large taxpayers maintain a device in their place of business which records each transaction made. Periodically, KRA staff will visit the business to download the data from the ETR device on to a laptop or other portable device.

6.5.1 Situational Assessment

The ETR program is in the project stage of implementation. The ETR will be "rolled out" to become part of regular station operations in the near future. ETR provides tamper proof receipts of sales through KRA approved devices. There is approximately 30 staff in DTD HQ and stations project for Technical & Enforcement. Enforcement currently includes programs of recruitment, education, assistance to taxpayers, and enforcement for the issuing of ETR receipts.

The ETR project has met with a lot of resistance in Kenya, as it has in other countries. There are numerous court cases from different sectors of the country currently being heard. This has slowed the implementation of the ETR program, and many businesses still have not implemented ETR even though the deadline has passed for start-up. Positive court results for KRA should move the project into high gear. KRA has embarked on a high profile advertising program to support ETR. Many taxpayers have asked for amnesty for previous years as the implementation of ETR is likely to show much higher revenue than reported in previous years.

The taxpayer ETR consists of 1 of 3 devices that is supplied and maintained by a private company. The devices range from cash machine type, receipting from merchant sales computer system (one type of technology), and signature device (another type of technology) for business such as consulting firms. The ETR devices are licensed and

approved by KRA, and must include specific security features that eliminate the possibility of tampering with the device. The memory in the devices must hold up to 5 years of transactions, and have appropriate battery back-up. Each model of a device has unique serial number (printed on all receipts and reports.) The DTD also approves the supplier and ensures that their taxes are paid up to date. A provision is made to have data transmitted to KRA in the future, but visits to premises to download the information are the current method of data retrieval. A VAT credit is provided to the value of the ETR device to taxpayers who implement these devices.

KRA DTD Auditors will go to the premises of the taxpayer and connect to each installed device to download the transaction detail to a laptop to be used in verifying the VAT and Income Tax returns. A specific audit module that includes ETR data is being developed now. Each device has the capability to transmit data to KRA in the future if and when that service is created.

6.5.2 Recommendations for Electronic Tax Register (ETR)

It has been reported that the ETR programs have been successfully implemented in Italy, Greece, and other countries and other countries like the UK are in the process of staring implementation. We understand that some countries have failed in the implementation of an ETR program and that the EU is about to approve ETR in general for member countries. The full implementation of ETR must be provided for in the integrated tax systems outlined in this project. Connecting the ETR machines to KRA via communications to the medium and larger businesses will allow more effective audits to be planned and conducted.

6.5.3 Quick Wins – ETR

KRA DTD should make plans to quickly enforce the implementation of ETR as soon as the courts have given a positive decision on the legality of ETR. A decision on amnesty will need to be made at the tax-policy level and communicated quickly to taxpayers, as soon as KRA is ready to enforce the ETR requirement.

6.6 Large Taxpayers Office

The Large Taxpayers Office (LTO) is centralized in Nairobi. The organization replicates all the functions of DTD for medium and small companies. The revenue from LTO operations makes up the bulk of the DTD revenue collections. Therefore, the priority of support is given to LTO to maintain revenue collections.

6.6.1 Situational Assessment

The Large Taxpayers Office was established in 1996. Currently there are 243 large taxpayers, who qualify if their turnover is in excess of KSh1 billion. The large-taxpayer criteria have fluctuated during the last 10 years. There were 600 taxpayers in the LTO program in 2003. As per the IMF's recommendation, financial and government institutions are being re-instated, and it is expected that the number of taxpayers will increase to 548.

Under the DTD, the LTO now performs integrated audits on Income Tax, VAT & Excise. LTO is made up of 4 units: Audit, Technical, Debt, and Compliance. The LTO has a current staff of 67 revenue officers. Audit teams specialize in sectors, such as Insurance, Banking, Transfer Pricing, etc. The LTO audit plan provides for the audit of 50% of LT. All audits are comprehensive audits for Income Tax, VAT, Excise, etc. Audits are selected based on returns, comparison to other companies in same sector. There is a two-month target to complete an LTO audit. This time period appears to be unrealistic, especially in auditing a LT with multiple subsidiary companies. LTO is adding more staff with technology experience to assist with computerized records. Currently, there is only one auditor for computer-assisted audits. LTO auditors are also subject to re-assignment and of course, eligible for promotions to other functions; so there are complaints from LTO management of being continually short of auditors with sector experience.

The most difficult problem reported by LTO staff involves the fact that the LTO has no station number or designation. Consequently, tax returns of large taxpayers are processed together with returns of all taxpayers, as are tax payments, tax arrears, non-filer issues, etc. – without the ability, therefore, to place very special emphasis immediately to issues of the 243 taxpayer who contribute such a major part of the Kenya's tax revenue.

6.6.1.1 Technical & Audit

The timely processing of LT return's and the availability of all taxpayer transactions by computer is problematic because of the no-station-designation problem described above. Connectivity to Customs for verification of exports and to look at imports is an issue. Current requests to CED are long in being fulfilled.

In the long run, audit will have specialized group, but for the present a global auditor with knowledge of all taxes is being groomed as the first step. There is a current lack of sector experience, and this causes audits to be completed without the depth that would normally be completed with experienced auditors. The Audit managers are looking to build special skills in areas like Insurance that are problematic. Currently, KRA auditors, in general, are no real match for the auditors and attorneys who routinely represent large taxpayers.

The "Taxpayer One Window" was described as the working tool most needed by the auditors along with online access to CED and Excise.

6.6.2.2 LTO Debt Management

LTO Debt Management has a staff of 7 to oversee the DTD LTO. MIS gives LTO a quarterly list of Taxpayers to follow-up on. There is approximately KSh50 Billion in debt on the books. Approximately 39 Billion is tax debt of parastatals. A very large percentage of total debt has been on the books for a long period of time, even though KRA has recommended to MOF that numerous uncollectible accounts be written off.

Collection action includes letters (hand delivered in Nairobi), check collection, enforcement of levy, banks and agents for assets. Installment payments are accepted per the DTD policy.

6.6.2.3 LTO Compliance & Collection

Returns for VAT, Income Tax and other taxes are followed up after the 20th of the month if the return cannot be found. Staff is sent to Return Processing to look for LTO returns as no station code is available for LTO as of yet. Most compliance monitoring and follow-up collection is for VAT withholding, corporation tax, and PAYE. The difficulty in confirming within the DTD automated and manual systems that returns have in fact been filed, and verifying that deposits and payments have been made is very time consuming, and often require calls to the taxpayers to try to verify compliance – which is very "awkward" and elicits many taxpayer complaints.

Verifying VAT returns and payments is the easiest task as return processing is up to date, and the VAT computer system is very helpful, albeit some manual work is required for VAT withholding.

PAYE verification is very problematic as the payments are not in the Income Tax computer system. Only about 20% of PAYE Taxpayers are being monitored.

6.6.2 Recommendations for Large Taxpayers Office

⇒ The "staff specialization" discussed in Section 4 above is desperately needed in the LTO and should be started as soon as possible.

⇒ The ITMS will give a tremendous boost to LTO operations. Links to CED will be provided for in the design of the Integrated Tax Program under requirement development. Limited access to CED should be considered for the time period the auditor is assigned the audit in the system and restricted to that taxpayer.

⇒ It is our understanding that a station code will be ready in the near future allowing LTO transactions to be "extracted" from all DTD transactions for special handling of large taxpayers.

6.6.3 Quick Wins – LTO

The confirming of PAYE returns process should be re-considered. The searching for returns is highly unproductive; the calling to LTO to ask if they submitted and paid is not efficient. Consideration should be given to creating a database of LTO Taxpayers by PIN, and then having the EFT records received in Finance from CBK searched for payments and reported to LTO Compliance. LTO Compliance will only have to immediately follow-up those Taxpayers who have not made a payment. PAYE returns need to be verified and reconciled with the EFT deposit, but the urgency to find the return is diminished if it is known that there has been a deposit.

6.7 Station Operations

Station (and LTO) operations are where the core business processes of modern, functional Tax Administrations are performed day-to-day. Therefore, the forthcoming redesign of business processes needs to be focused at Station and LTO operations (and Returns Processing and Finance, which directly affect Station and LTO operations).

Because of their great importance, the Consultant Team visited two Stations for their assessment – a large and a medium station. There are 16 Stations in the DTD organization – 7 large, 7 medium, and 2 small – classifications determined by size of staff.

6.7.1 Situational Assessment

The consultant team visited a station classified by the DTD as "large" – the East Nairobi Station – and one classified by the DTD as "medium". However, as noted above, both stations have almost the exact number of staff. As noted earlier, the in-transition status to an integrated functional organization has barely just begun and is not well supported by the inadequacy of current systems. There is significant confusion about the chain-of-command and about respective responsibilities of the different functional components.

6.7.1.1 East Nairobi—Large Station

East Nairobi is a large station. Approximately 56 staff administers Audit & Refunds, Collection & Compliance, Technical Objections & Appeals, Debt Management, and Taxpayer Services.

The tax units are combined and operating as one. There is some resistance by staff to learn other tax work; in particular with audit training is required to familiarize employees with other tax work. Staff have a general problem accessing the VAT system due to lack of passwords.

Tax Payer Services: Registration

⇒ Due to the location of Nairobi East station being in the same building as HQ registration and recruitment, the registration function is carried out by the HQ unit. Recruitment is conducted by both HQ and Station staff causing some duplication of effort.

Tax Payer Recruitment

⇒ There is duplication in the recruitment process between HQ and stations. Both units are calling on taxpayers in the Nairobi area.

Compliance

⇒ Compliance includes VAT withholding, PAYE, Statistics, Installment tax, Nil and non-filers.

Debt Management & Compliance

⇒ There is some confusion between where compliance and debt management are cross over in collection and late payment. This needs to be clarified.

⇒ The current debt is approximately 3 billion outstanding (includes LTO.) Much of this is for taxpayers that cannot be located, and have not received write off permission from MOF. Much of the debt is accumulated interests and penalties.

⇒ Station SAC can write off up to KSh100,000, and the commissioner up to KSh500,000. Amounts above these limits must be written off by MOF.

Audit

⇒ VAT refund verifications audits are consuming the audit team's time, leaving little time for comprehensive audits. VAT refunds over 1 million require after the fact audit confirmation. Income Tax refunds over 30,000 require audit confirmation before payment.

⇒ Audits have a target completion of 10 business days. Small and medium companies can be audited within the time period if everything is perfect in having records available, good preparatory work is completed, and no anomalies are noted; meeting the target completion.

⇒ All returns are reviewed by Audit Manager, and taxpayers are selected for audit manually. Computerized risk management for audit selection is requested. Audit notices are hand delivered in the Nairobi area.

⇒ There is some cross-over between audit and debt management. The lines of where one unit starts and stops versus the other are unclear in this area.

Objections & Appeals

⇒ Objection for VAT and Income Tax audits are handled by the Technical Unit within East Nairobi station.

⇒ Objections and appeals to local committee's are represented by staff in this division. In VAT appeals, the audit officer must be present

6.7.1.2 Thika- Medium Station

Thika Station serves 4 districts comprising of 38,000 taxpayers. Annual revenue collected is approximately 2 billion shillings and represents 1% of KRA revenue collections.

There are approximately 55 employees at this station for DTD activities. The ratio of computers to staff is 1 to 4. Thika is considered a medium size station even though it has the same number of employees as the East Nairobi station, which is classified as a "large" station.

Computer system availability is reliable now since recent switch of communication provider. Power outages are a problem, and are expected to get worse with anticipated

power rationing. There are long delays in receiving MIS support for hardware and software problems.

Taxpayer Services:
Return Processing
This unit receives Income Tax returns and forwards them to HQ for processing, and subsequent return to the station for audit selection and follow-up. The long delay in HQ processing does not make the return available in the station for reference and continuance of DTD program activities. Records management is problematic as 35,000 returns are now stored versus 3,000 prior to 2002.

VAT (nil, credit, and payment,) and Excise returns are processed at the station and not dispatched to HQ, with the exception of VAT withholding, PAYE, and refund returns which are sent to HQ for manual and computer processing . All returns receive vetting at station.

Registration-PIN
Approximately 200 PIN registrations are processed daily at Thika Station, using online computer systems to register and print PIN certificate. Many PIN's are issued for non-taxpayers for administrative reasons of other organizations such as obtaining power services, land transfer, and motor vehicle registration.
VAT registration takes two days to complete and issue a VAT registration certificate and number.

Recruitment
Recruitment is conducted on a door to door basis for PIN and VAT registration. VAT recruitment is also conducted from PIN applications. Sectors are targeted for PIN and VAT registration. There is some organizational discussion in regards to recruitment perhaps being better placed in Collection & Compliance.

Tax Programs:
Collection & Compliance
This unit monitors returns for non-fillers and those who have files but have not paid. Attempts are made to collect from non-compliant Taxpayers, and to seek returns and payments from those Taxpayers who have been recruited. There is an issue where HQ audit sends invoices to C&C to verify. This may be more of an audit function than a C&C function.

Debt management
⇒ Debt Management monitors established debts not initially collected by Audit and Compliance & Collections. There are some "grey areas" of where these units stop and start from each other.

⇒ DM also receives quarterly arrears reports from HQ for follow-up and collection action. DM would like to see similar reports for VAT returns, and both reports on

monthly basis. Targets are made from the quarterly lists based on sector and budget collection goals.

⇒ There is one problem in that old VAT assessments are found in files that are 6-7 years old. Collection action has started on these old assessments, but these are not in the VAT system, and how the collection payment is applied could be problematic if now posted the Taxpayer account in the VAT system.

⇒ The Taxpayer "one window" would be of significant benefit to DM. Determining Taxpayer real debt is problematic as all transactions are not in the computer ledger.

Audit
Audit cases are manually selected by the audit manager from returns. There are some issues regarding the coordination of the audit timing for Income Tax and VAT given the long delay in receiving Income Tax returns from HQ, and the policy of auditing the same years for all tax programs during the comprehensive audit. Audits are expected to be completed within 10 working days, after giving Taxpayer a 14 calendar day advance notice, but the completion targets are seldom met for a variety of reasons.

The Audit results are explained to the Taxpayer at the end of the audit, and collection is attempted if arrears are owed.

Auditors receive 2 years of training before starting audit work, and have an audit handbook prepared by HQ. Auditors are requesting additional training in computers as many Taxpayers are now computerizing their records.

Legislation & Policy
L&P has mostly VAT objections and appeals. Both Income Tax and VAT objections and appeals follow the DTD policy and law. Due to the low number of Income Tax cases, the local committee who hears these appeals does not meet regularly, therefore there are long periods before disputes are resolved, and tax owing is collected. VAT objections and appeals are resolved fairly timely as the appeal tribunal is centralized in Nairobi.

6.7.2 Recommendations - Stations

As previously discussed, reducing the number of Nairobi stations from four (4) to two (2) – and eventually to one (1) – will facilitate the specialization and span-of-control practices recommended by international best practices.

Also, as shown in the proposed organization charts in Annex 2 and discussed in section 4, at the field stations Collections, Compliance Monitoring, Debt Management and Taxpayer Recruitment should be **combined and consolidated** as is the suggested by international best practices. The skills and qualifications required to perform all these business processes are the same or very similar and the consolidation would resolve all the "overlap" confusion about respective roles which exist now between the functional components.

These organization changes – and exclusive designation of stations to conduct operations with taxpayers - can provide very definite improvements, as demonstrated by numerous tax administrations with similar practices all around the world.

6.8 Finance – Support Services

6.8.1 Situational Assessment

The Finance unit is responsible for all revenue refunds and expenditure payment. The expenditure accounting system is used to assist this function. This unit supervises cash offices for DTD revenue collection for non-bank payers. Reconciliation of all revenue is collected at commercial and central bank, and at DTD cash offices. Payroll and other human resources issues are performed at KRA HQ with a HR system. There are several important observations:

⇒ PAYE collections are paid at commercial banks, and when Finance has confirmed the EFT correctness from the central bank, the transaction is posted to the taxpayer account. This process takes several days. There are many errors in detail being sent in the EFT data due to commercial bank keying errors. A more user friendly and timely computer interface is required for this function - perhaps connection with Commercial Banks directly to KRA, with immediate updating of accounts.

⇒ VAT returns are paid similar to PAYE returns, but the processing is restricted to three commercial banks, and the central bank. A VAT reconciliation module is almost complete for the EFT transfer data from CBK.

⇒ Agency fees are collected in a similar manner to Income Tax and VAT returns. Other taxes are paid at cash offices. Separate checks are needed to settle any obligation to the KRA.

⇒ Expenditure accounting is activity based by budget. Budget preparation and reporting are completed on spreadsheets as the computerized accounting system does not provide this function. Generally, the financial accounting system is considered very poor. Payments for DTD operating expenses are paid by manual check. Payroll is paid by EFT from KRA HQ.

⇒ Refund claims are under budget control from MOF. Currently, December refunds have been recently paid, with January and February awaiting payment due to budgetary restrictions. A diskette and printout is sent to CBK for verification and uploading to their system for EFT payment to taxpayers. There are sets offs for tax obligations owing to KRA. This is mostly a manual process and not always 100% accurate due to delays in taxpayer account posting and manual systems. A single taxpayer account window would be of great assistance to Finance, and many other KRA departments.

6.8.2 Recommendations for Finance

A. Bar codes: PAYE and VAT returns should have bar codes that identify all the taxpayer information. The requirement for CBK and commercial banks would then be to confirm that return period and enter the amount. This would significantly reduce errors on the part of the bank(s), and improve the timeliness of posting to DTD taxpayer accounts.

Issuing of return booklets with bar codes, or issuing sheets of bar codes for taxpayers for attachment to the bank copy could be implemented in the short term. The bar codes have to be related to the taxpayer in either contained information or have the barcode number assigned to the taxpayer. Bar code technology is affordable and fairly easy to implement quickly.

It may be possible to incorporate the bar code suggestion as much as possible to Agency fees collected, and to Domestic Excise returns. Accurate and quick input of data is the goal.

B. ***Taxpayer One Window:*** KRA should establish a "Taxpayer One Window" of all transactions within the KRA, which would include CED, RTD, etc. This would greatly enhance revenue collection, reporting, and service to the client by deducting revenue owing from refund claims. In addition taxpayer enforcement would be greatly enhanced. For example, traders who import or export can have their shipments held if their Income Tax and VAT claims have not been settled. The provision of a one window revenue accounting system has been discussed extensively across all units in Taxpayer Services and Tax Programs visited. The current computer and manual records across the DTD is cumbersome and considered by most to in-accurate in reports and true taxpayer records.

C. CBK Link: A user friendly computer program with direct connection from CBK and commercial banks to KRA could also be implemented quickly.

KRA may wish to give consideration to implementing a comprehensive accounting system for revenue and expenditures separately or as part of the DTD modernization.

The IMF has commented one this issue a number of times, so there is nothing for us to add to this. Just to re-iterate, most modern tax programs see refunds being made from the incoming revenue accounts rather than as restricted budgeted item.

D. Taxpayer Current Account: A mechanism should be considered for immediate implementation where imports, exports, refund claims, etc can be held if a taxpayer owes tax in another unit. Finding the true current status of a taxpayer across the various taxes is an important task.

6.8.3 Quick Wins – Finance

Central Bank of Kenya (CBK) gives a hard copy and a soft copy of all revenue collected by commercial banks on a daily basis. These records are supposed to be received in agreed to format from the commercial banks to CBK. While some banks are compliant a

number of them are not, and their data is impossible to use. Finance and MIS need to get CBK to enforce the standard format in order to use the CBK for a number of important purposes. One of them is the electronic reconciliation of returns processed to revenue collected, which is currently a very time consuming task, and is not particularly accurate.

7. Description of Computerized Links with Other KRA Departments Required for ITMS

7.1 Customs and Excise Department (CED) – Simba

This extended process (Simba) is included insofar as there is important data-crossing with the DTD's proposed ITMS.

7.1.1 Overview

⇒ Simba has all the basic Customs functions of entry processing and cargo control. Not all the modules have been fully implemented, and some need adjustment for unique Kenya requirements.

⇒ Customs entry lodgment and cargo reporting are completed by e-filling and electronic transfers. Currently two banks are connected to the Simba system, and post web-based payment details online.

⇒ The Transit module is not fully implemented. However, bond posting and cancellation is completed within the Simba system. Bonds are cancelled, or renewed, based on export documents received from the border stations.

⇒ Three add-on programs to Simba have not been implemented yet, Orbus to attach supporting documents to entry (such as hard copy invoices), Luk which is a simulation of lodging entries, etc, and PayBooks for recording and receiving EFT transfers from Taxpayers.

7.1.2 Business Process Improvements Recommended

A. One Window: The CED Simba system should be linked to the KRA/DTD "One Window" taxpayer accounts in the future integrated system. This is required for a number of reasons, collection action, refund verification, audit, and other reasons. The transaction in the taxpayer account should allow "drill down" to examine the detail transaction.

B. CED: There are some immediate and future requirements for access to the CED information by DTD and RTD. There is also some need for CED to have access to DTD databases. Interconnectivity between DTD, RTD, and CED should be provided for in the future, and immediate access options are outlined in Quick wins below.

C. Audit: Consideration should be given for DTD auditors to confirm trader's declarations with company and bank records when completing comprehensive audits. RTD requires access to CED import records for vehicles and engines to confirm duty & tax payments during the MVR process.

D. Access: Having direct access to the DTD PIN database would have some advantages in the Simba system.

7.1.3 Quick Wins

The Customs and Excise Department (CED) should either create a profile and access for viewing bond records, or transfer those records to DTD VAT refund processing unit. This would immediately resolve the complaint that CED takes a long time in responding to enquiries from DTD refund unit.

Similarly, like access to CED bond information online or by data transfer, DTD Compliance staff should have 'view only' access to customs entries with a view to recruiting taxpayers that are not in the VAT and Income Tax net

Either online 'view only' web access, or data transfer, should be provided immediately to DTD and RTD staff for their requirements.

7.2 Domestic Excise Taxes

7.2.1 Situational Assessment

⇒ Domestic Excise is administered with a total staff of 13 persons. This HQ unit provides direction to all stations. Stations process returns that are due on the 20th of each month, except for Nairobi Stations which are processed by the HQ unit.

⇒ Some businesses selling products are subject to applying for a license, and if approved, an annual license fee is paid. Those Taxpayers involved in the jewelry business are not generally licensed. A bond is posted to ensure collection of Excise Duty for licensed Excise payers. The HQ unit issue licenses on a national basis.

⇒ Excise duty is collected on items such as beer, cigarettes, jewelry, cosmetics, spirit beverages, mineral water, juices, etc. Excise duty collection from casinos has not been implemented at this time.

⇒ The process of Excise returns is completely manual. The Taxpayer prepares a return that includes a detailed listing of transactions called a stock book, which can be completed on the DTD forms, or as a computer printout listing from those Taxpayers whose records are computerized.

⇒ There are 2 return types that summarize the stock book, one for beer and another for everything else. The return declares what the total sales where in month by HS and Statistical code (summary of stock book) and also shows exports as a credit, then showing the balance owing. The export documents are attached to support the claim for export credits.

7.2.2 Recommendations for Excise Taxes

The Domestic Excise program is reasonably simple in nature. It would be an easy tax unit to computerize for e-filing. Taxpayers could simply log into a Domestic Excise system,

fill out or upload the stock book records. The system would then automatically calculate the Excise duty from the stock book. The taxpayer would then enter the export credit information, and the system would automatically calculate the new balance owing. As the calculations will be correct from the computer system, the taxpayer can proceed to the bank with payment, using the printed return from the system. This would be similar to the processing of customs transactions.

⇒ A copy of Excise Duty payments received by the CBK is given to Finance regularly. This record should be given to the Excise unit who would run a database of Excise Taxpayers against the CBK records a few days after the return due date or the 20th. Those Taxpayers, who did not submit a payment, should be immediately followed up for compliance (probably Compliance sections of Station.)

⇒ Those taxpayers who continue to submit hard copy returns should have them entered into the system by DTD staff at HQ or at the Stations (centralized processing could be considered in the future). Bank payment form will be produced by the computer.

⇒ One final balancing check should be completed by computer when it is thought all returns are in and CBK records are available. That is the comparison to the return amount to the amount paid. Discrepancies should be highlighted and any penalties or interest automatically calculated. The computer system should generate an automatic notice of additional monies due. This feature does not have to be made available from day one, and can be added to the system down the road.

⇒ In the beginning until the proper links with customs are made, it will not be possible to verify the exports. Taxpayers will have to submit hard copy of their return, printed from the computer; attach the appropriate supporting information for validation by DTD staff.

7.2.3 Quick Wins – Excise Taxes

Access to Customs Exports should be made available in read only profile to those verifying the Excise return. This would provide a level of independent checking and speed the return processing verification.

MIS should consider programming and implementing the basic system as quickly as possible. The immediate advantages of having a system such as this make the effort worthwhile as a business case.

7.3. Road and Transport Department (RTD)

7.3.1 Overview

This department has three main services, drivers licenses (DL), motor vehicle registration (MVR), and Public Service Vehicle driver license (PSV.)

⇒ RTD is well computerized, including scanned images of records to eliminate file retrieval. The processing of MVR work is very efficient. Currently Mombasa is connected to RTD Nairobi, and other stations are serviced by RTD Nairobi. The roll out of the RTD systems to stations will be completed in the near future.

⇒ The DTD PIN database is downloaded into the RTD system. It would be helpful to have live connectivity to the PIN database. PIN certificates are used to issue MVR and PSV when PIN recently issued and not in the downloaded database.

⇒ The retrieval of scanned images is a bit slow due to the server being on another floor.

⇒ The biggest problem for RTD is the knowledge of staff to offer service to the public, and the public's knowledge of rules, regulations and rights. Access to CED records to verify duty payment would be helpful.

⇒ Drivers License
The DL database of information is very complete going back many years. DL is issued based on identification, testing, or reference from another country DL. There is no link to the PIN.

⇒ Motor Vehicle Registration
There is a very efficient computerization process is in place for MVR. Computerized records including scanned images of files and log books, computerized envelope addressing, and other efficiencies are online. MVR are linked to the PIN database available in RTD. Some PIN's are inactive and MVR cannot proceed until the PIN is updated in MIS and the database downloaded.
Changes in MV ownership and engine replacement are recorded and checked for correctness.

⇒ Public Service Vehicle
Drivers and conductors on PSV must be licensed for each employer. Drivers and Conductor are linked to a specific employer. PIN numbers of Company, Driver and Conductor are in the database. Drivers and Conductors are required to display this license badge with their picture while operating the vehicle. Police are responsible for checking the displayed license badge when stopping a vehicle.

7.3.2 Recommendations for Road and Transport

A. Linkages: In the future, RTD transactions should be linked and posted in KRA/DTD "one window" accounts. This will open the door to many Compliance & Collection, Debt Management, and other opportunities. Money owing to KRA could stop the issuing of DL and MVR until payment made. This is an excellent way of collection, especially for small amounts.

B. PIN: Ideally a connection to DTD PIN online database would be made available in the future so that updates would be seen online immediately. Online access to CED records with a search engine would allow RTD staff to verify duty and tax payments for cars and engines.

DL should have PIN link to them in the RTD system. This could be achieved over a few years by requiring PIN on new DL and renewal DL. There will be many uses of this information.

C. Compliance: MVR records should be available to DTD compliance for checking for Income Tax returns. Owners of vehicles that are not in the Income Tax system should be investigated at to see where revenue came from to purchase vehicle. Similarly, dormant PIN's that require activation for MVR reasons should be investigated by DTD Compliance.

PSV licenses records should be made available to DTD Compliance to look for non-filers for PAYE compliance, Income Tax recruitment of individuals, and Income Tax and VAT recruitment of driver's employers.

7.3.3 Quick Wins – RTD

⇒ RTD should be given access to the CED Simba to verify car and engine serial numbers, and the duty & Taxes have been paid. This would speed the processing of MVR transactions. A profile of read only (and perhaps print) could easily be made within the Simba system.

⇒ The problem of slow scanned image retrieval could be assisted with the implementation of fiber optic wiring between floors.

7.4 Agency Revenue

7.4.1 Overview

The Agency Revenue Unit has recently been located in DTD Collection and Compliance. This HQ unit has a total staff of 2 persons. This unit is responsible for the monitoring, advising, and coordinating 3 Agency Revenue collections, which include Stamp Duty (SD), Standard Levy (SL), and Sugar Development levy (SDL). YTD collections for stamp duty are 1.4 billion, Standard Levy 212 million, and Sugar Development Levy 800 million. SD is significantly ahead of YTD targets, while SL and SDL are below YTD targets.

The biggest problem for this unit is related to computerization. Some Agency revenue processes are not computerized, and some of the data is of poor quality.
Returns are processed in the Stations. Compliance and recruitment are also handled by the Stations, sometimes with HQ unit assistance. The recruitment function in Agency

Revenue is divided between DTD and Government Departments. There is good casual cooperation in information exchange.

7.4.1.1 Stamp Duty

Taxpayers who are selling or registering land are required to pay stamp duty. The Land Registry office is responsible receiving the vetting of the 600 to 1,000 SD1 forms and calculating the stamp duty. The completed forms are then taken to one of two banks for payment. One copy of the form with bank payment records are given to KRA. KRA reconciles the bank deposits and notifies the land registry office. The land registry office then makes the information available to other users such as high court registry and company registry. Payment made at 1 of 3 banks.

There are many complaints about the length of the process for SD. It takes approximately 4 days before records are updated and transactions can be completed.

7.4.1.2 Standard Levy

Kenya Bureau of Standards (KBS) local manufacturing levy of 0.2% of ex-factory sales is paid into KRA accounts with form SL2. Manufactures with sales of 100,000 KES and above must file monthly returns due on the 20th at one of 2 banks. Returns are in books similar to VAT returns. The maximum payable in one year is 400,000, which causes some large manufactures to make one payment each year.

SL returns are processed using a module in the VAT system. KRA charges the Bureau of Standards a fee of 1.5% of collections. The remainder of the collections is turned over the KBS in a check format. SL returns are subject to audit and are to be included in comprehensive audits with other taxes.

KBS has the responsibility to recruit manufacturers who should be filing returns.

7.4.1.3 Sugar Development Levy

Sugar development levy was placed under VAT administration in 2003. Local sugar manufacturers pay a fee of 7% on sales at one of 2 banks. Returns are due on the 20th. There is no computerization of the SDL returns. Returns are processed at stations like VAT and SL returns.

7.4.2 Business Process Improvements Recommended

The Agency Revenue processes should be prime targets for e-filling of returns and completion of forms.

The recruitment of Taxpayers, who should be subject to monthly returns, should fall under KRA. The recruitment of Taxpayers for Income Tax, VAT and Excise, should also

be recruited in the same process for SL if appropriate. KBS should continue to give KRA intelligence information.

The SD process should be computerized and all interested parties connected to view online instant updates. Land registry should be the owner of the program where the SD1 form should be created electronically and printed for bank reference. Ideally, the bank would be connected to enter the payment information (similar to the CED Simba system) onto the SD1 record for the landowner. Information is then available to all interested parties immediately. DTD should reconcile the payments posted by the bank for the SD1 with the electronic statements received from the CBK.

The e-filling of SL returns would be extremely helpful to reduce the time delays in return processing. The accuracy of data would improve greatly as would the timeliness of reconciliation CBK reconciliation. Collections and Compliance would have more timely information which would allow for quick follow-up of non-fillers.

SDL returns should also be considered for e-filing to KRA. Once again the reconciliation of SDL revenue with CBK accounts would be improved as would the timely monitoring by C&C.

7.4.3 Quick Wins – Agency Revenue

Negotiations should be completed between KRA and KBS transferring the responsibility or recruitment to KRA compliance unit. This would provide a smoother and complete service to manufacturing Taxpayers who are being recruited.

Negotiations should be started with Land Registry officials to have an e-file computerization program initiated by their staff on the basis of service to the public.

As the SDL process is not likely to be found in a off the self DTD computer system, the process of completing an e-file system should be undertaken by KRA in the immediate future.

8. ITMS Features and Components Required by the DTD's Main Users

From our review of the DTD's current functions, business processes, activities, technology infrastructure and overall operations the foundation components and features of an Integrated Tax Management Systems as described below are required by the DTD's main users. As this is to be considered a foundation, this section should not be considered exhaustive, but rather a preliminary discussed based on this Situational Assessment.

Based on the information provided in this report, the feasibility study's Task 2 will focus on development of detailed features required in the new ITMS software to help identify products which may be available in the international markets to meet these requirements.

8.1 Components

User Interface

The user interface determines how the system "looks and feels" to the user. All screens should have the same look and feel and should be easy to use and understand. While a graphic user interface (GUI) has become the accepted standard for computer users, a simple, menu-driven approach is often acceptable if it is consistent in its presentation. Professional data entry staff do not really like or use screen displays except on error conditions and often prefer these simple displays.

Data Entry

User functionality and ease of use are closely related; flexibility in the data entry component enables the user to have a high level of functionality and efficiency combined with ease of use. Descriptions and rules of documents to be entered should be table-driven. Data entry can be facilitated by a form/line number approach that many countries use to make the constant change of forms easier to support.

Taxpayer Registration and PIN Support

A well-designed taxpayer registration number (PIN) and registration system is a mandatory component of every computerized tax administration system. Centralized control of the PIN is required if it is to be reliable. Furthermore, the registration and the resulting "masterfile" should provide for a means of checking a new applicant against existing taxpayer to be certain the new applicant is not already registered.

Accounting

A tax administration system is really an accounts receivable system that tracks liabilities owed and payments made by a taxpayer (the "customer"). It cannot be implemented by just storing in the database "transactions" of activity that may or may not have correct accounting data. There must be audit trails with debit and credit transactions to track all financial activity (liabilities and payments, respectively) on a taxpayer account. When designers lose sight of the fact that the system is an accounting system, the resulting tax

administration application essentially becomes a database of stored transactions that, over time, often do not make sense. Balances are computed using these uncontrolled transactions, and the results of computing these balances are quite often wrong. Ultimately, there is no way to certify that the system itself is in balance.

Taxpayer Current Account

The taxpayer *current account* refers to a "picture" of a taxpayer's liability for all taxes processed. In the broadest sense, the current account is represented by an internal balance (or balances) along with the accompanying transactions that created the current balance(s).

Taxpayer Ledger Accounts

The term *ledger account* is a carry-over from manual ledger cards on which tax liabilities and payments were recorded for specific taxes and specific periods. In most cases, manual cards do not have "bottom line" liabilities of all periods and all taxes unless they were supported by some type of automated posting machine. The reason for the lack of a total balance due is that it is extremely difficult to maintain manually.

In a computer system, a taxpayer ledger account is an accounting of a taxpayer's liability owed for a particular tax and period. It can be maintained with internal control totals and accompanying transactions or by detailed transactions that can be used to calculate the ledger account. The former has the advantages of providing both a quick way to query tax balances for specific taxes and periods and a means of checking system balances at the taxpayer, tax, and tax period level.

Suspense Account

The *suspense account* is a term given to a special account (often the "999999999" account) that is kept to record unidentified payments, i.e., payments for which the taxpayer identification number cannot be determined. It is important that the system provide a means of reporting on payments in the suspense account and of transferring the payments to the correct taxpayer account with accompanying audit transaction trails.

External Controls

External controls are required for security and accounting reasons. If data entered into the system and system balances are not checked with outside calculations, the probability of errors, either accidental or intentional, increases greatly. The external controls include document group control totals such as total documents, total debits, and total credits for each group of documents entered and "contra" or external ledger calculations (e.g., amounts received by region, tax, etc.) that can be used to reconcile data in the computer. One example of a common external ledger would be a cashier's daily cash receipts journal. In this case, receipts must be balanced exactly with the receipts on hand at the end of a day.

Internal Controls and System Validation

An accounting system is only as good as its *internal controls*. A well-designed tax system will provide all of these controls which in turn will provide a powerful means of maintaining the integrity of the data stored in the system.

Audit Trails

Audit trails provide a means of tracking debits and credits applied to all accounts. Erroneous postings must be corrected by "backing out" the error transactions with a reversal transaction (a debit for a credit and a credit for a debit). The transactions must be tracked in the audit trails and must include identification of critical audit trail information including document group number and/or document locator number (DLN, which may include a document group number), transaction date, operator ID, and DLN of a related transaction (e.g., of the reversed transaction). A note or memo field in a transaction can also help to identify circumstances under which transactions were created. Such fields are very important in adjustment transactions.

Security

Security is an important consideration in systems design, particularly where the information is critical or sensitive. A modern database system can be designed to have a very high degree of security using techniques to protect against unauthorized use of the system and to foil indirect access to the underlying data. In some ways, internal controls in the accounting system assist in providing security because they make it very difficult to tamper with data (balances or transactions) without creating an out-of-balance condition which will be detected by the validation component of the system.

Transactions

Financial transactions are the heart of the accounting system. They provide the detail that is used to keep the system in balance and to provide the required audit trails. Financial transactions can be created as a result of the processing of returns, assessments, and payments. They can also be created as a result of adjustments to accounts through the entry of miscellaneous financial (adjustment) transactions.

Document (Group) Control

For accounting purposes, all transactions belong to a particular document group, which is identified by a document group number. Each document group has a document group control "record" that includes the following control totals: number of documents, total of credits in or created by the group, and total of debits in or created by the group.

Case Tracking

The case tracking component of a tax system provides a means of tracking taxpayer cases relating to delinquency, collection, assessment, audit, objections, appeals, litigation or some other area that the tax department decides to track. Case tracking provides detailed information that 1) identifies the case, 2) gives the status (state) of the case; and 3) provides details on the progress of the case. The system must track several types of cases:

⇒ *Delinquency cases* are those relating to non-compliance, usually for not filing a tax return by the due date. Delinquency cases can be the first phase of collection or assessment cases.

⇒ *Collection cases* represent activity to collect liabilities owed for one or more taxes for one or more periods. Collection cases typically must go through specific steps that are easily defined within the context of a computerized case tracking system. Case tracking should be included so that progress in collection can be tracked with accurate reporting of the events related to each case.

⇒ *Audit cases* are opened as a result of an audit selection process that typically includes generating computer reports of potential audit cases. Once opened, audit cases must follow the steps for processing audits. Case tracking provides the "rules" and events that must be recorded for audit cases.

⇒ *Adjustment, Objection and Refund Cases* are important because of the great number of these cases. Case tracking can greatly assist tax officials in cleaning up these cases and removing the backlog.

⇒ *Appeals and Litigation Cases* often extend over years; detailed case tracking information is very important to management of these cases. Much of the activity is determined by the court system and is reported to the tax department so that they can record the decisions in the system.

Taxpayer Notification

There are many requirements for generating of notices to taxpayers, including those for delinquencies and assessments. An automated tax system should provide notice generation that facilitates the tailoring and addition of notices as required by the tax department. The ability to use a standard word processor to design notices and merge PIN, name, address, amounts, and other information generated by the tax administration software into the word processing document is a desirable feature.

Report Writing

Another feature of user functionality is the report writing capability of the system. A range of standard reports can be designed into the system, but it is also a great advantage to the user to be able to create a range of additional specific reports. Report writer include capability without the need to know complex programming language.

Remote Site Support

Remote site support includes setup capability to define a site as head office, regional, or station or district and satellite office. It also provides for export and import of data electronically (magnetic media or data communications links). Systems providing on-line query access to other sites (typically a central site) are very powerful, provided that the communication links are efficient and reliable.

8.2 Tax Type Support

Functional View

The most effective way of achieving success in tax administration is by on the taxpayer, and the aggregate of the taxpayer's obligations for *all taxes*. This implies that the system should be able to aggregate the obligations from different tax regimes into a comprehensive presentation for any single taxpayer.

This approach is far more powerful targeting a single tax, and the taxpayers associated with this single tax. The ability of a taxpayer to "slip through the net" is many times greater with a single tax focus than it is when all tax obligations are viewed together. In most situations, a tax filing under one tax regime should be consistent with the tax filing under another tax regime. Inconsistencies become visible, and should trigger some form of administrative action or more.

A system that provides an aggregate view of taxpayer obligations generally provides support for a department organized by function, e.g., collections, audit and assessment, and appeals. Data for each function is available for a specific tax or all taxes by period or periods.

Specific Tax Support

A computerized tax administration system must provide the capability to process specific taxes, e.g., Value Added Tax (VAT), individual income tax, company income tax, payroll (P.A.Y.E.), stamp duty and transfer tax, land tax, etc. The verification and validation rules for each tax type must be easily defined. Filing requirements must also be parameterized so that the tax periods and filing dates for each tax are defined.

8.3 Tax Administration Functional Operations

Returns Processing

Returns processing involves the grouping of tax return documents and the determination of group control totals prior to data entry. Document groups would typically be by tax type, with different verification and validation rules applied to each type of return.

Payments Processing

Payment processing for the KRA should include a cash receipts "front end" module. Data from the cash receipts system should be automatically posted to taxpayer accounts, once validated.

Compliance/Delinquency Control

The compliance and delinquency control component requires that the filing requirements of each taxpayer are known. Typically, this component relies on status transactions and/or case tracking to keep details about late filing, non-filer notices sent, etc. This detailed information is extremely important in analyzing "taxpayer behavior" as a part of audit selection.

Collections

A tax administration system should have all the essential functionality to help the tax administration staff meet the objectives of the service. Collection functionality and case tracking capabilities are essential to the effective functioning of a tax administration system. The heart of the collections system is taxpayer accounting. An automated collections system provides an immediate display of any ledger account (tax/tax period liabilities and credits) for a taxpayer.

The collections component must calculate penalties and interest. The system can post such debit transactions with or without intervention from collection officials, depending on the mode of operation selected by the collection department.

Assessments

Assessments are made when a return is not filed, to override a filed return, or as a result of an audit. Minimally, assessment transactions (liabilities and credits) must be entered into the system. The computer system should provide a means of entering assessment information so that the computer can assist in the calculation of the assessment being prepared.

Audits

The full functionality of a tax administration system will include ways to identify keys areas for audit attention. The data in the tax transaction database should be accessible so that key issues can be identified and made the subject of audit prioritization.

This functionality should be flexible so that new criteria useful to the audit specialists can be integrated into the system when needed. The system functionality and its ability to make better audit selections should be capable of being strengthened as a result of the experience of the auditors and trends being identified.

Objections and Appeals

The primary support for objections and appeals is provided by the case tracking component of a computerized tax system. Defining the rules of objections and appeals for the case tracking component is the critical step in effective tracking of appeals cases.

Tax Information System (TIS)

The system design architecture of the Integrated Tax Management System (ITMS) for the KRA should include all aspects of the tax administration process. The Tax Information System (TIS) provides the ability to report and query on stored data. If the computerized tax system is built in a relational database environment, many of the requirements for the TIS component are provided by the features of the RDBMS itself, with routine reports and queries being available as menu selection items.

If all data stored by the computerized tax system are accurate and complete at each step in processing, the TIS component becomes extremely important and valuable for both tax administration and tax policy functions. Audit selection can check data for one tax type against that of another. Data required for policy analysis can be readily available and even be sent directly into the tax policy analysis applications.

The value of the TIS component can only be realized after the system has been in operation for a while, because to be effective, it must have complete and accurate current and historical data.

9. Preliminary Legal Analysis of Procurement Regulations

The purpose of this section is to review the current and pending law on public procurement in Kenya with the objective of highlighting potential areas of concern that need to be considered in the development and implementation plan of the integrated tax management system.

The following laws were reviewed:

- The Public Procurement and Disposals Act (hereinafter referred to as PPDA)[4]
- The Exchequer and Audit (Public Procurement), Regulations, 2001 (hereinafter referred to as the EAPPR)[5]

In addition the following were review in so far as they inform and supplement the Public Procurement laws in Kenya.

- The Public Officer's Ethics Bill
- The Anti – Corruption and Economic Crimes Bill
- The Kenya revenue Authority Act

9.1. Background

Public procurement in Kenya has had a chequered history that has resulted in massive siphoning of public funds through corrupt and shady deals. This fact lead the donor agencies to peg future disbursements of loans and grants on the implementation of a comprehensive public procurement laws and caused the publication of Public Procurement and Disposals Bill in 2001. This bill was assented into law in November 2005, four years after its initial publication. However the commencement date of the law is yet to be published. As the Bill underwent the long process into becoming law and noting the donor disquiet on the issue of public procurement the minister of finance exercised his powers under Sec 5 of the Exchequer and Audit Act to Publish Regulations (EAPPR). This regulations form the current law on public procurement in Kenya as the commencement date of PPDA is awaited.

International Competition. The WTO agreement on government procurement is The Government Procurement Agreement under WTO (hereinafter GPA). This agreement establishes an agreed framework of rights and obligations among its signatories with respect to their national laws, regulations, procedures and practices in the area of government procurement. Even though Kenya is not a party to the same, this agreement, together with The United Nations commission on International trade law model law on procurement of goods, construction and services (hereinafter UNICTRAL) provides direction as to what constitutes of best practice in public procurement.

According to the above laws the main ideal in International trade is for public procurement to be conducted non-discriminatory manner. To achieve this, the Public

[4] Act No. 3 0f 2005 of the Laws of Kenya
[5] Act No. 3 0f 2005 of the Laws of Kenya

Procurement entity are required to give the all international products, services and suppliers treatment that is "no less favorable" than that they give to their domestic products, services and suppliers and not to discriminate among goods, services and suppliers of other Parties [6] Furthermore, each Party is required to ensure that its entities do not treat a locally established supplier less favorably than another locally established supplier on the basis of degree of foreign affiliation or ownership and do not discriminate against a locally established supplier on the basis of country of production of the goods or services being supplied).[7]

The Kenyan law explicitly provides for non-discrimination on the basis of nationality race or other criterion not having to do with qualifications.[8]

These provisions are however watered down drastically through the following provisions.

1. International tendering to be conducted only when effective competition will not achieved unless foreign persons participate. The effect for designating a tender to be national or international is with regard to notification and advertisement; while national tender would be advertised in papers of national circulation, those of an international tender are to include at least one other English language newspapers that has sufficient circulation outside Kenya[9]. This means, that unless the tender has been confirmed to be an international tender, the advertisements and notification of the tenders are only going to be done in papers of national circulation. This effectively shuts off foreign suppliers who will not be privy to the public announcement of procurement opportunities. To address this issue, the decision on whether or not to use international tendering should be based on a more objective test such as procurement threshold.
2. One of the objectives of the PPDA as a matter of law is the facilitation the promotion of local industry and economic development. Further Sec 39(2 of the PPDA allows the minister to prescribe references and or reservations in public procurement that shall apply to inter alia identified regions. This could be achieved through the pre qualification specifications. These provisions can be used together to effectively shut out any foreign competition and could be achieved through the use of pre qualification procedures. Indeed the non-discrimination clause itself subjects the policy to qualification procedures.
3. The procurement entity is obliged under law to use provisions favorable to local entities to its full advantage thereby favor local suppliers.

Transparency relates primarily to the obligation to provide information relating to procurement opportunities and practices and the right to have access to that information, so that potential suppliers and purchasing entities know in advance what their rights and obligations are. This is ensured through a number of different elements as enumerated in below which are principally linked to the procurement process.

1. Notification and advertisement (allow sufficient time for participation)

[6] (Article III:1). Of GPA
[7] (Article III:2) of GPA
[8] reg 11 of EAPPR
[9] sec 7 of the PPDA and Reg 38(b) of EAPPR

2. Pre disclosure of relevant information (including bid evaluation method)
3. Public Bid opening (and opening immediately following bid submission)
4. Accessibility of applicable laws and regulations
5. Use of standard bidding and contract documents
6. Appeal mechanisms
7. Publication of awards

Both the current and pending laws include provisions relating to the above and are thus transparent within international standards. The specific provisions are summarised below.

1.	Element Of Transparency In Procurement	Exchequer And Audit (Public Procurement) Regulations 2001	The Public Procurement and Disposal Act
2.	Notification and advertisement	Reg 22,34, 36	Sec 54 78
3.	Pre disclosure of relevant information	Reg 23, 24	52:;34:81
4.	Accessibility of applicable laws and regulations	Reg 9 25	none
5.	Use of standard bidding and contract documents	Reg24(1 Reg 25	52
6.	Appeal mechanisms	PART VIII	PART VII
7.	Publication of awards	Reg 10 (3	46
8.	Public Bid opening		60

As can be seen from the above discussion the relevant laws are transparent within the scope of international standards. However the PPDA does not categorically state that all procurement records are public yet the entities are public entities in violation of the 4th element of public procurement.

In addition to the international standards on transparency, Kenyan domestic policy on the same is being encouraged as a deterrent to corruption and corrupt practices. An assessment on whether procurement laws would help to curb corruption reveals the following

1. Lack of an effective law that would bar civil servants from bidding in public procurement either in their own right or through their wives children and business entities in which they have an interest. This being the case increases instances of collusion in the tendering process.

2. Disclosure is permissible only to an employee of the procurement entity only for the purposes of law enforcement and review. Yet transparency, fairness and impartiality of the process will depend a great deal on public exposure of situations in which a

public entity or its officials in breach of the procurement laws breach. The section on disclosure, coupled with the fact that procurement records have not been prescribed as public records, criminalizes whistle blowing. The procuring entity is, therefore not obliged to provide KRA with Information with regard to Procurement Procedures. There is need for the allowance of information exchange between the procuring entities and other public entities not only for procurement purposes only but also in the furtherance of the objectives of the recipient public entity. Using KRA as an example, the entity could use this information for the purposes of improving its revenue collection services.

3. However with regard to revenue collection, Public procuring entity is obliged to remit directly to KRA all VAT charged by the supplier. In addition in circumstances of procurement of services and constructions works also requires the procuring entity whether Public or private to remit directly to KRA a percentage ranging from 3 to 5% of the proceeds paid for the procurement for a local supplier and up to 20% for a foreign one

9.2 Procurement Process (Methods specified in the EAPPR and PPDA)

9.2.1. Open Tendering (national and international)

Open tendering is the most widely used and preferred tendering system. These laws clearly state that other methods of procurement will be used only in exceptional circumstances. In such cases, the procuring entities will have to give and record reasons for the choice of other procedures. Open tendering can be at two levels: national and international. Open national procurement is a method of procuring goods, works and services that is open to participation on equal terms by all providers through advertisement of the procurement. This tendering process specifically seeks to attract domestic firms although foreign firms are allowed to participate. Open international tendering, on the other hand, is open to participation on equal terms by all providers although it specifically seeks to attract foreign providers. This type of tendering is used where national providers may not provide competitive bids and ensure value for money. The procurement laws and regulations s provide guidelines of the procedure of open tendering including the enforcement mechanisms.

9.2.2 Restricted Tendering (national and international)

Restricted tendering is a procurement procedure where bids are obtained by direct invitation without open advertisement. This procedure can be used it is believed that the value or circumstances do not justify or permit the open bidding process. Procurement entities in this case maintain a list of "pre-qualified providers" who are then directly invited to participate in the tendering. Restricted Tendering is also possible at two levels: national and international. Restricted national bidding is the procurement where bids are obtained nationally by directly inviting pre-qualified providers. In case of a restricted international bid, only pre-qualified international firms are invited. In both cases, the procuring entity must demonstrate that open tendering is not viable or prudent. It needs to

be noted here that the process of pre-qualification is often abused and is an important source for corruption in public procurement.

9.2.3 Quotations and Proposals

Procurement entities are also allowed in exceptional circumstances to call for Quotations and proposals. Quotations and proposals are simplified procurement procedures, which compare price quotations obtained from a number of providers. Quotations are used mainly in works, while proposals are used for services. There are specific restrictions on proposals and quotations in the three countries. In Kenya for example, requests for proposals must be addressed to no less than three and no more than seven candidates selected by the procurement entity. Similarly for works, the procuring entity must obtain quotations from as many candidates as practicable, but from at least three candidates.

9.2.4 Direct Procurement / Single Source Procurement

Direct procurement is a sole source procurement method used when exceptional Circumstances prevent competitive bidding. This method is used mainly for low value procurements involving no contracts. In Kenya, where this method of procurement is used, procuring entities must prepare a description of all its needs and specify requirements of quality, quantity, terms and times of delivery. The procurement entities are free to negotiate terms with the sole candidate for the best deal.

In the process of public procurement, the interest of three groups — the tender Issuers, the bidders and the public procurement system itself — determine the types of procedures. The primary rule is that the prospective buyer must proceed in accordance with the rules of open tendering procedures; the other two procedure types inviting limited bidders or negotiation may be used in exceptional cases. To ensure compliance with the fundamental principles of publicity and transparency, notices in local dailies must announce major events of the process.

9.3 Institutional Framework

This section examines the institutional and legislative Framework of the procurement process in KRA.

The Commissioner General is the accounting officer of the Kenya Revenue Authority's procurement process and is charged with the responsibility of ensuring compliance with the procurement laws and regulations. For each public entity, there is a tendering unit/organ otherwise known as the Ministerial or self-accounting unit Tender Committees in which the chief accounting officer is the chairperson. The public entity is also required to have a procurement unit. The procurement units of the entity prepare and submit proposals for procurement in which qualities, quantities and prices are spelt out to the central tendering committee. The committee would then evaluate the proposals and make recommendations. If the proposal is approved by the regulating body, the procuring entities are given the go ahead to proceed with the procurement process. In the case of open tenders, an advertisement is placed in daily newspapers to reach prospective bidders

nationally. In Kenya, it is a requirement that such an advertisement be placed in at least three daily newspapers that have wide circulation. The procuring entities are then supposed to release the tender documents. Such documents should contain sufficient information to enable competition among the bidders to take place. Both EAPPR and PPDA define that the tender invitation should be such to enable bidders to submit their proposals, each enjoying equal opportunities. The buyer obviously expects answers to be offered in the bid as to what will satisfy its requirements and expectations primarily in terms of quality and capacity/performance indicators. It is, however, important to note here that, more often than not, this assumption is never met. Procurement entities seldom provide the necessary data and information or provide deficient or semi-finished documentation, which prevents bidders from preparing proper bids. The next step in the tendering process is the opening of the tenders. The laws and regulations stipulate that this must be done as soon as possible. Bidders and their representatives are allowed to attend the opening of tenders. After tenders have been opened, the procuring entity examines and evaluates each of the tender documents. Successful bidders are then notified and a formal contract is issued.

Thereafter all bidders to the tender are notified on their success or otherwise of their bid.

In conclusion the procurement process is in line with internationally accepted standards. Major areas of concern however include the bias towards national suppliers and the need to reinforce anti-corruption measures.

Annex 1: Situational Assessment

1A: Current Organizational Charts
1B: KRA Officials Contacted during Assessment

Annex 1A Current Organizational Charts

CHART A/1

DOMESTIC TAXES DEPARTMENT – *ORGANISATION STRUCTURE*

Last Update: 9/2/05

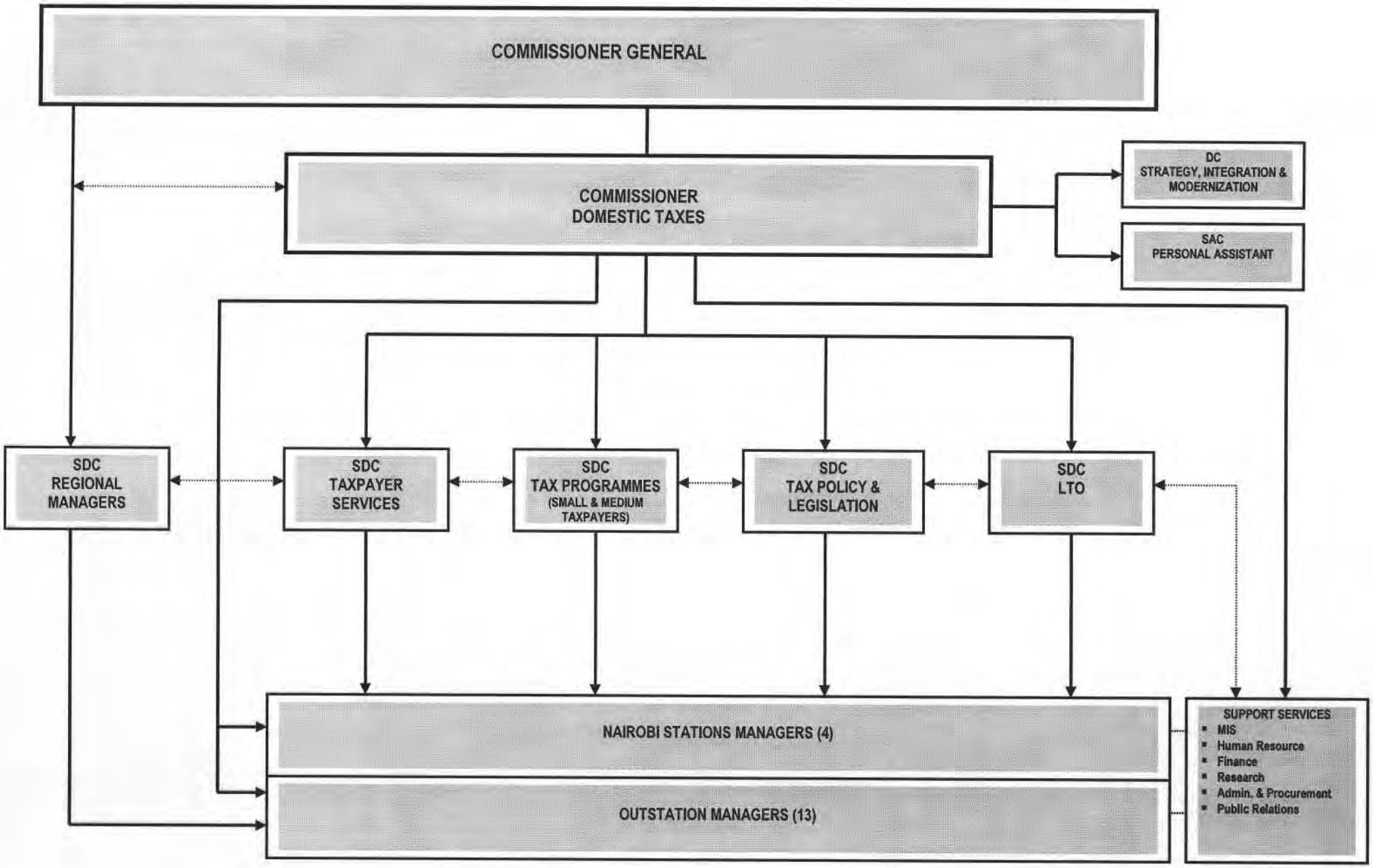
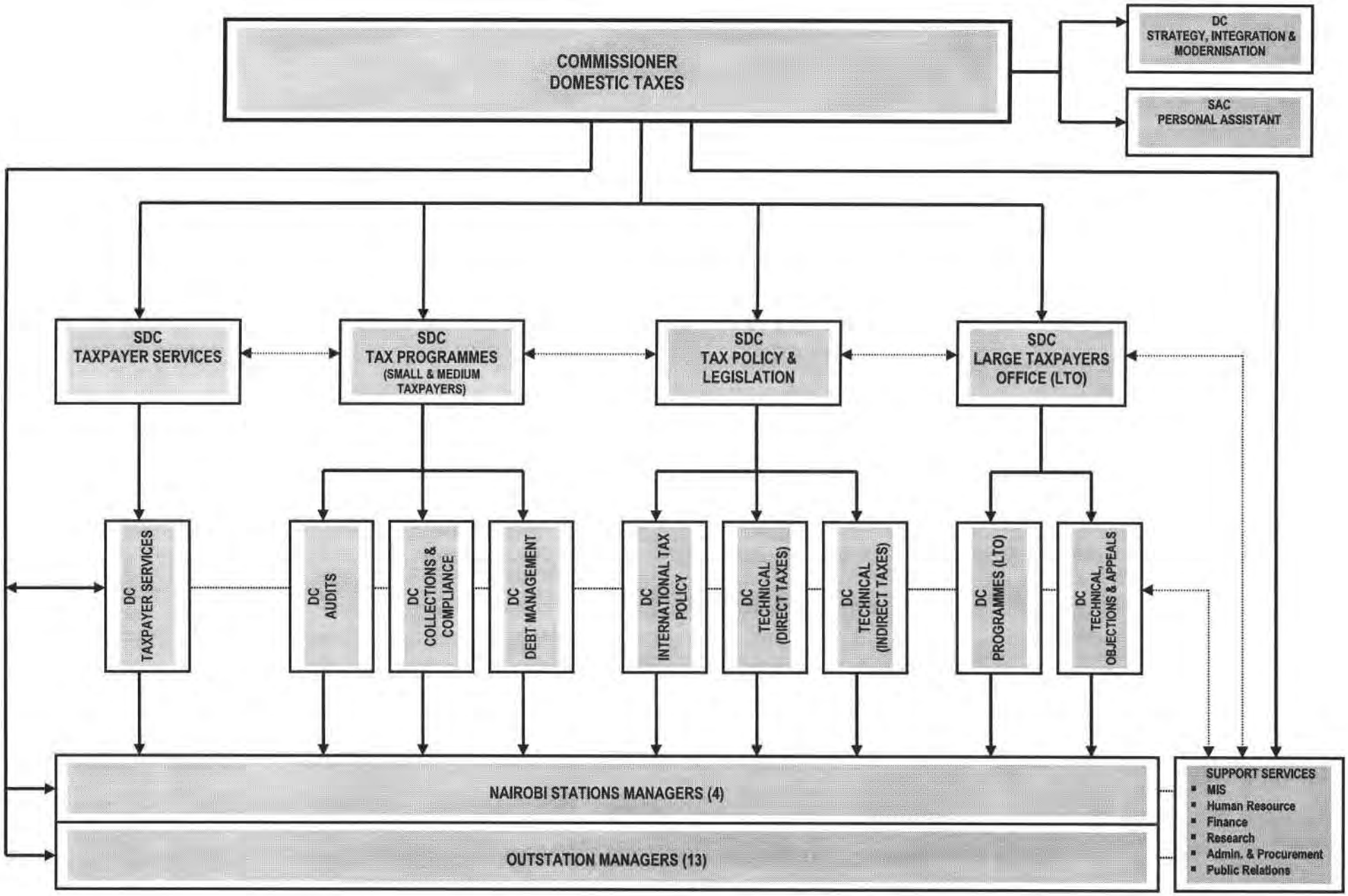


CHART A/2

DOMESTIC TAXES DEPARTMENT – *ORGANISATION STRUCTURE*

Last Update: 9/2/05



CHA[illegible]T B/1

DOMESTIC TAXES DEPARTMEN[illegible] *FUNCTIONAL STRUCTURE*

Last Update: [illegible]

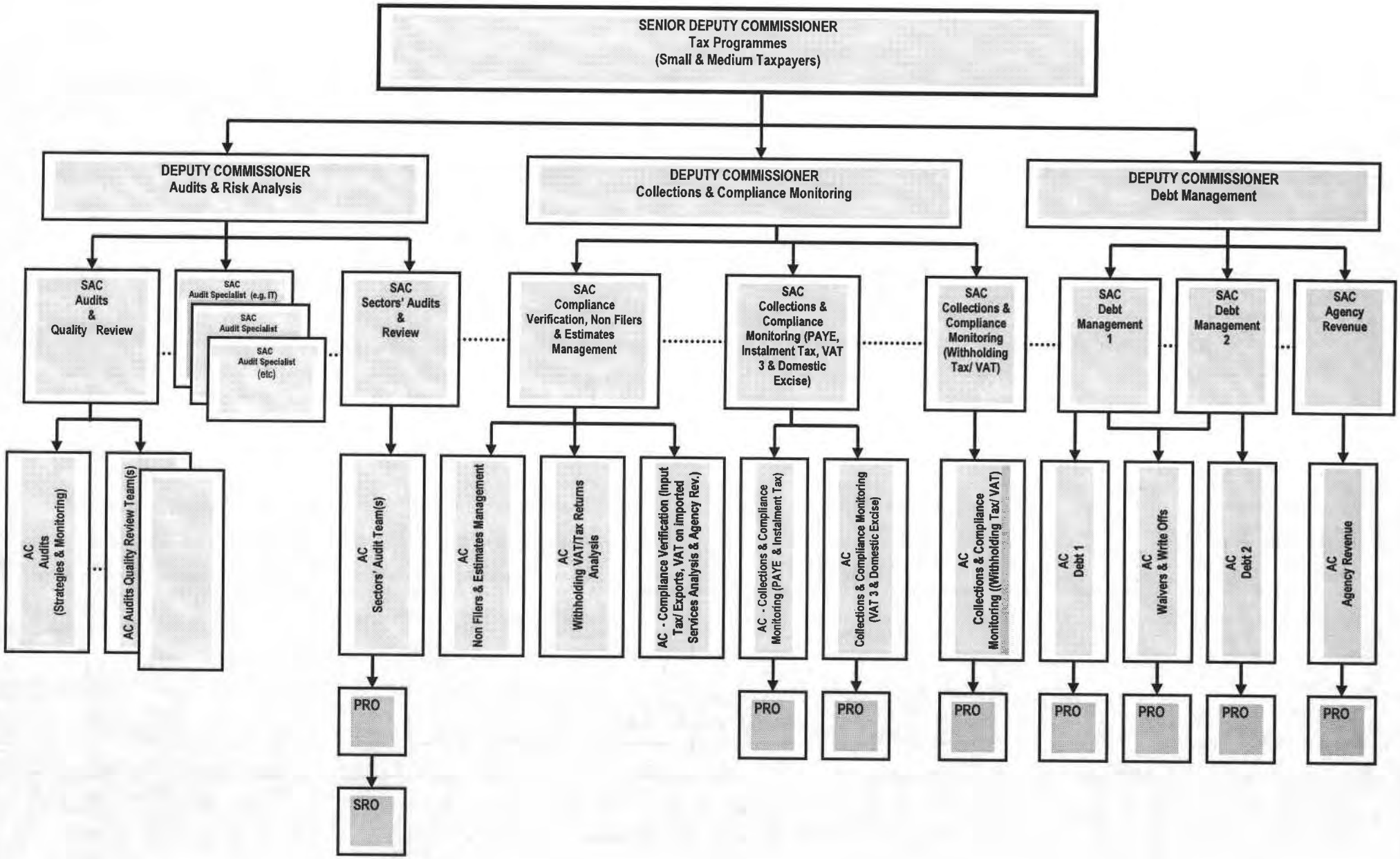


CHART C/1

DOMESTIC TAXES DEPARTMENT – *FUNCTIONAL STRUCTURE*

Last Update: 9/2/05

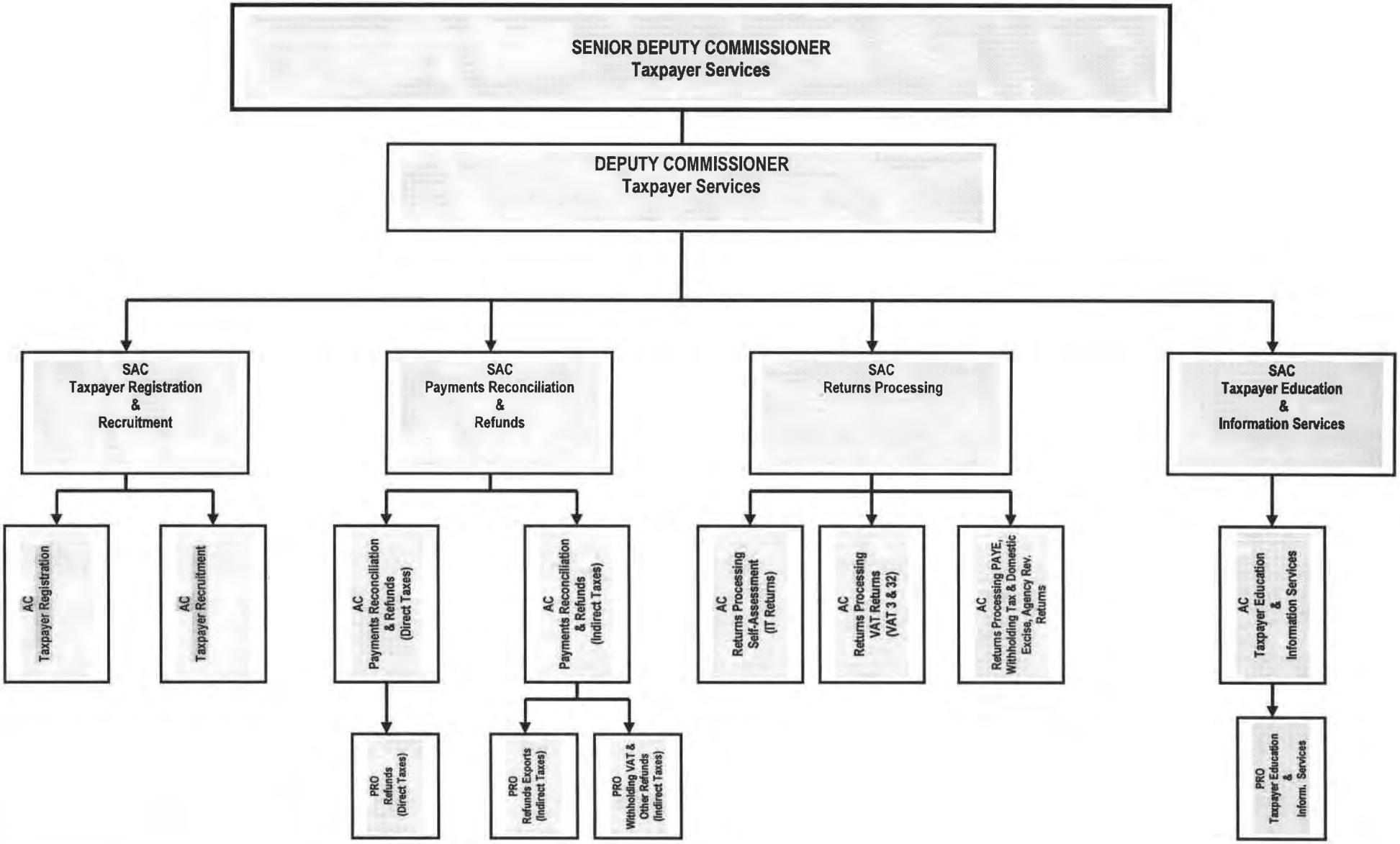


CHART D/1

DOMESTIC TAXES DEPARTMENT – *FUNCTIONAL STRUCTURE*

Last Update: 9/1/05

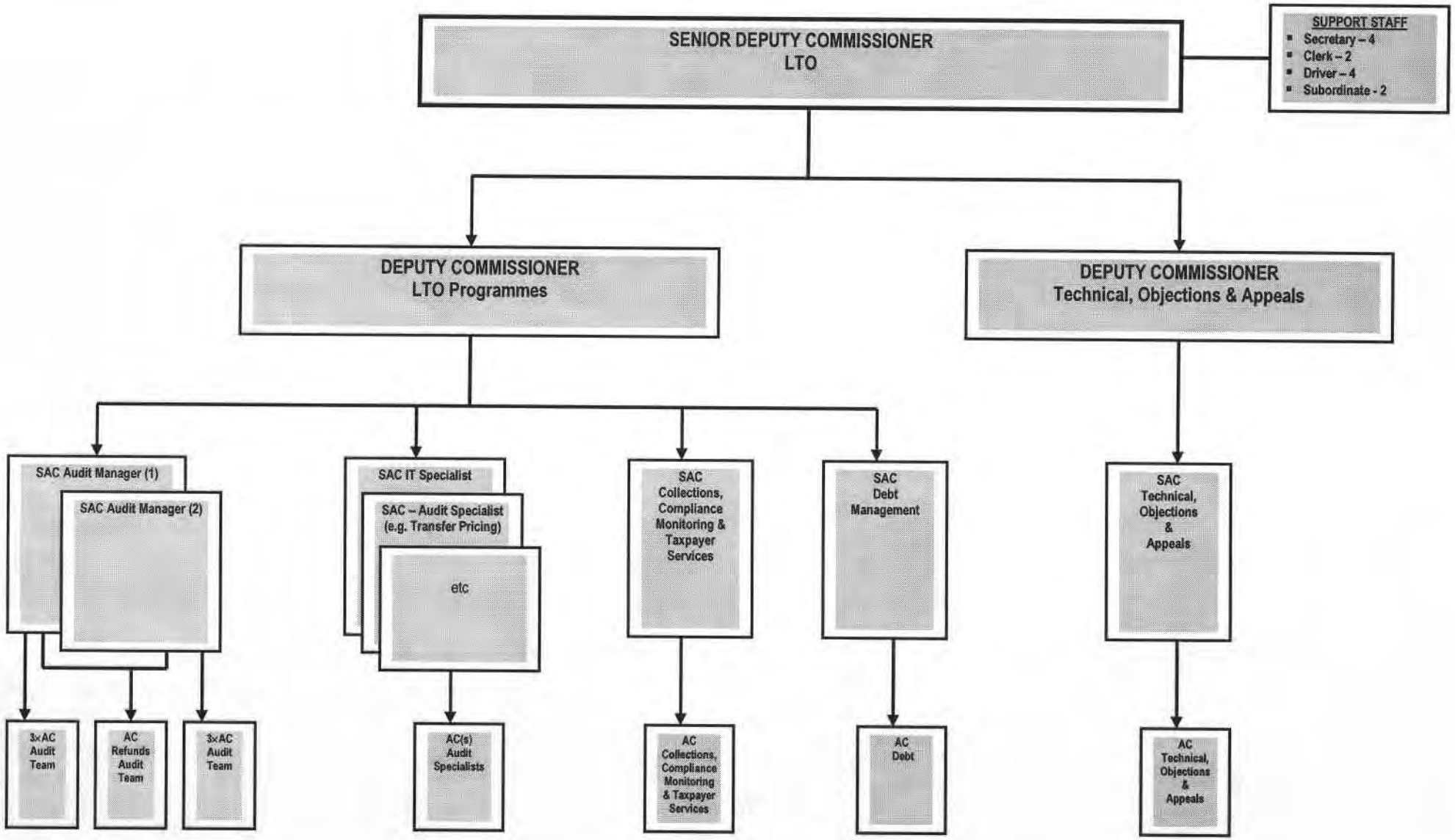
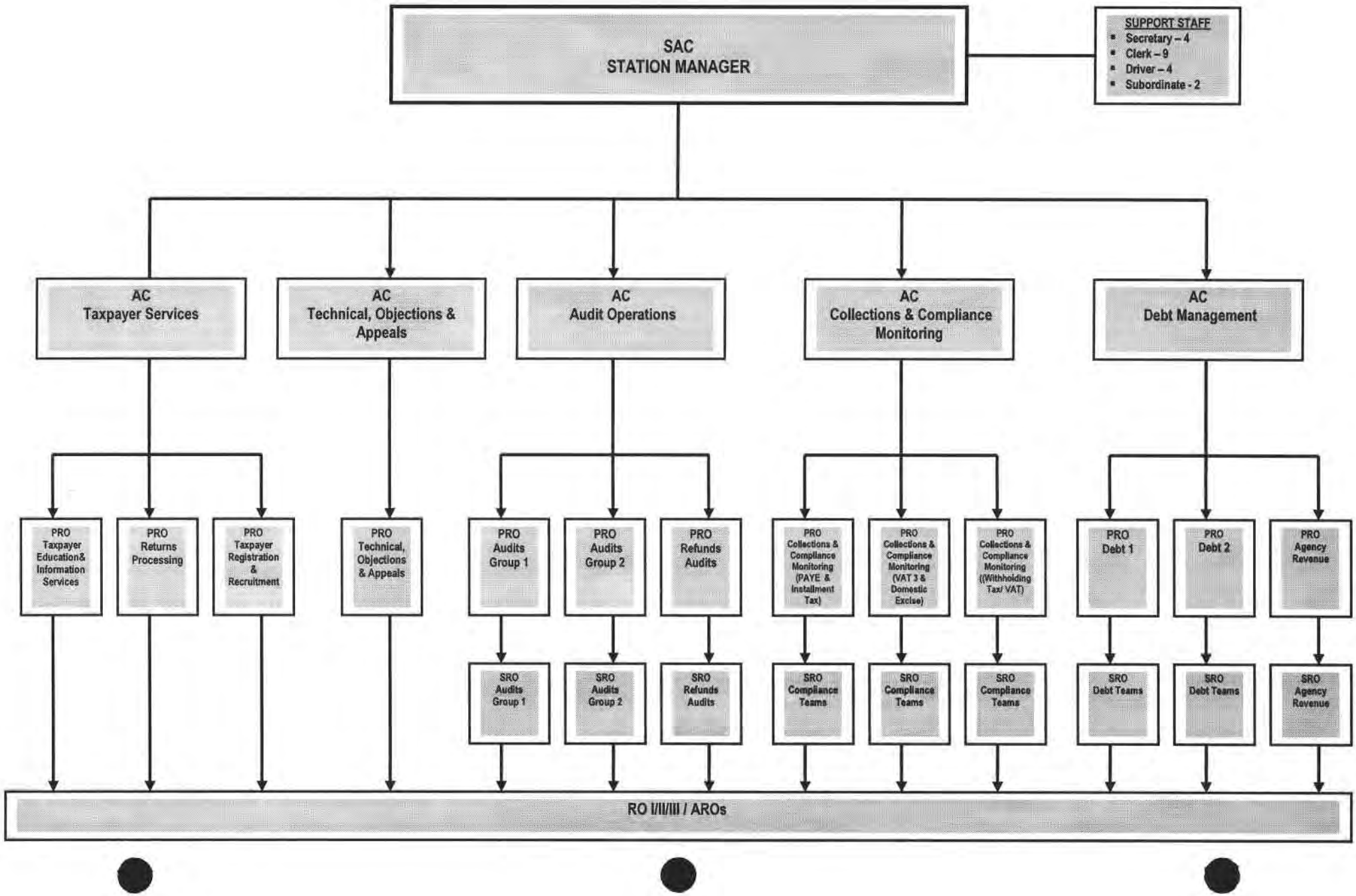


CHART F/1

DOMESTIC TAXES REVENUE DEPARTMENT – *STATIONS ORGANIZATION STRUCTURE*

Last Update: 9/2/05



Annex 1B KRA Officials Contacted during Assessment

DOMESTIC TAX DEPARTMENT
FEASIBILITY STUDY FOR INTEGRATED TAX SYSTEM

Function	KRA staff in charge
Taxpayer Services – SDC and DC – Headquarters – 26th floor	Mr. Ncebere
Returns Processing – SAC Head Office and Nairobi Operations – 2nd Floor	Mrs. Betty Wachira
Refunds Processing – SAC Head Office – 22nd floor	Mr. Obure Mrs. Margaret Karanja Mrs. Wambugu Mr. Wamae
Taxpayer Education - SAC Head Office	Mr. Wachira
Taxpayer Registration (PIN) and Recruitment, 22nd and 20th floor	Mr. Musyimi Mrs. Kimuyu
Tax Programmes – 24th Floor	Mr. Odeny, SDC
Audits – 23rd floor • Audits & quality review • Sectors audits & review	Alice Awuor, DC & Section Heads
Collections & Compliance - 23rd floor • Compliance verification • Non files programme • Withholding Tax & VAT Programme • Collections & compliance monitoring (VAT, income tax, Domestic excise, PAYE, installment	Mrs. Jane Ndegwa, DC & Section Heads

Function	**KRA staff in charge**
tax etc) • Agency taxes **Finance** – 21st floor • Accounting for revenue • Revenue reconciliations • Revenue reports	Mr. Kaloki, SAC
Debt – 23rd floor	Mrs. Mary Mwangi, DC & Section Heads
Tax Policy & Legislation – 19th floor **Introduction of Electronic Tax Register System** – 26th floor	• Mrs Bwire, SDC • Mr. Gakobo, DC, Direct taxes • Mr. Ochieng, DC International Tax Policy & Direct Taxes • Mr M.M. Maina, SAC – Direct Taxes • Mrs Margaret Maina, SAC • Mr Maingi, AC Pensions • Mr. Nyasinga, SAC, Objections and Appeals 1. Mr Chogo, Ag. DC 2. Mr. Ndubai, Ag. SAC, Enforcement 3. Mr Chege, SAC, Technical
Large Taxpayers Office	Mr. Wagachira – SDC

Function	**KRA staff in charge**
23rd floor (Except Debt management; Collection and Compliance) **Briefing**	Commissioner General
Nairobi Station – East Nairobi **LTO**	Mrs Githuku – SAC SAC, Debt management SAC, Collections and Compliance
Thika Station	Mr. Ndombi – SAC
Domestic Excise **Human Resources** **Walk through of MIS operations** **IMF**	Mrs. Natuku - SAC Winnie Kwamanga Mrs Meyo Mr. E. Biber
Customs (SIMBA only) **Other revenue collections** **Tax Procedures code project** – 19th & 21st floor **Refunds**	 Mr. Masila - SAC Mr. Obbayi, SDC Mr. Wamae
Road Transport Dept.	SAC & Staff

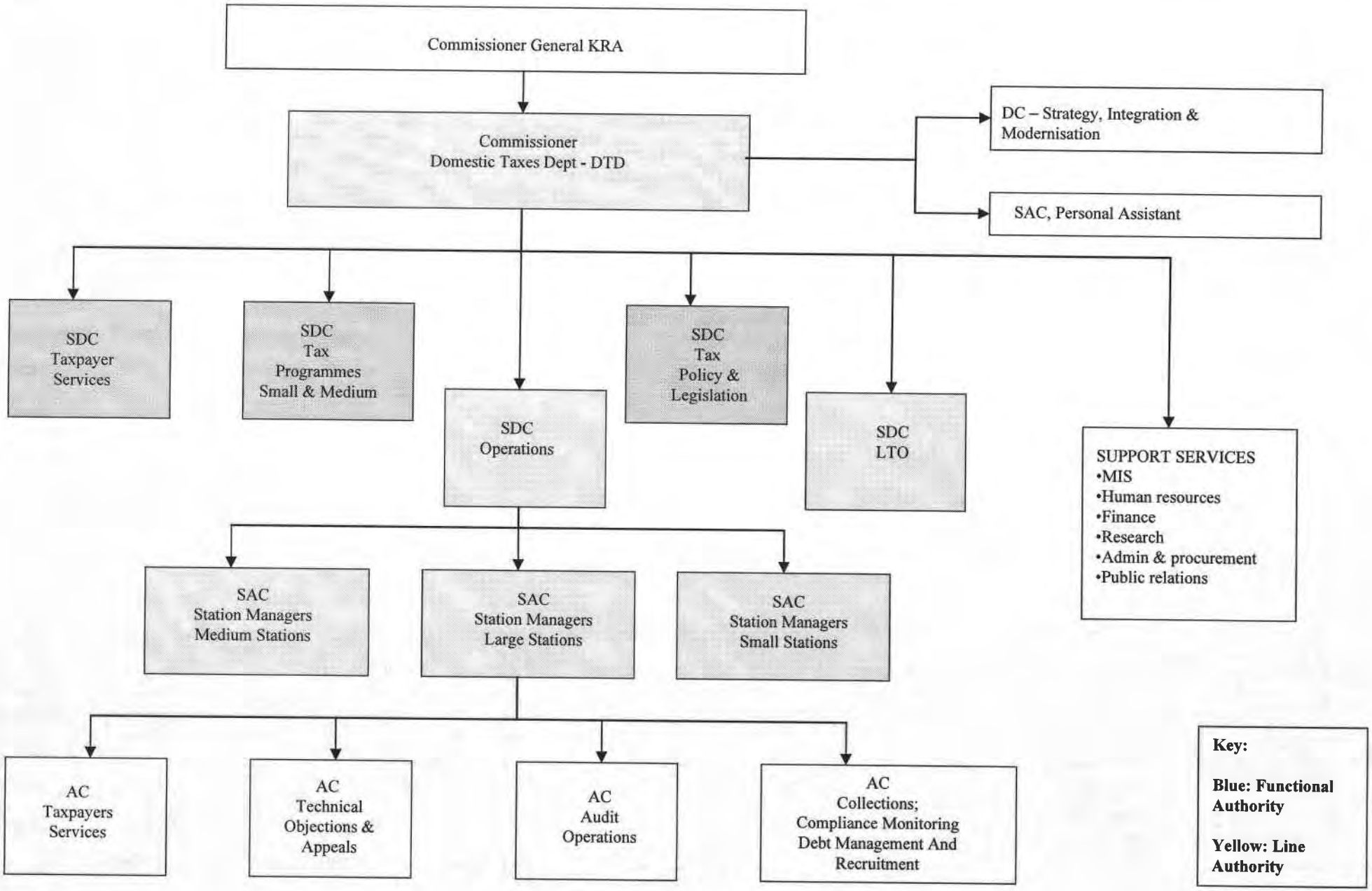
Annex 2: Recommendations

2A: Recommended Organizational Structure
2B: Proposed Centralised Tax Declaration and Document Processing Work Flow Diagram

Annex 2A Proposed Organizational Structure

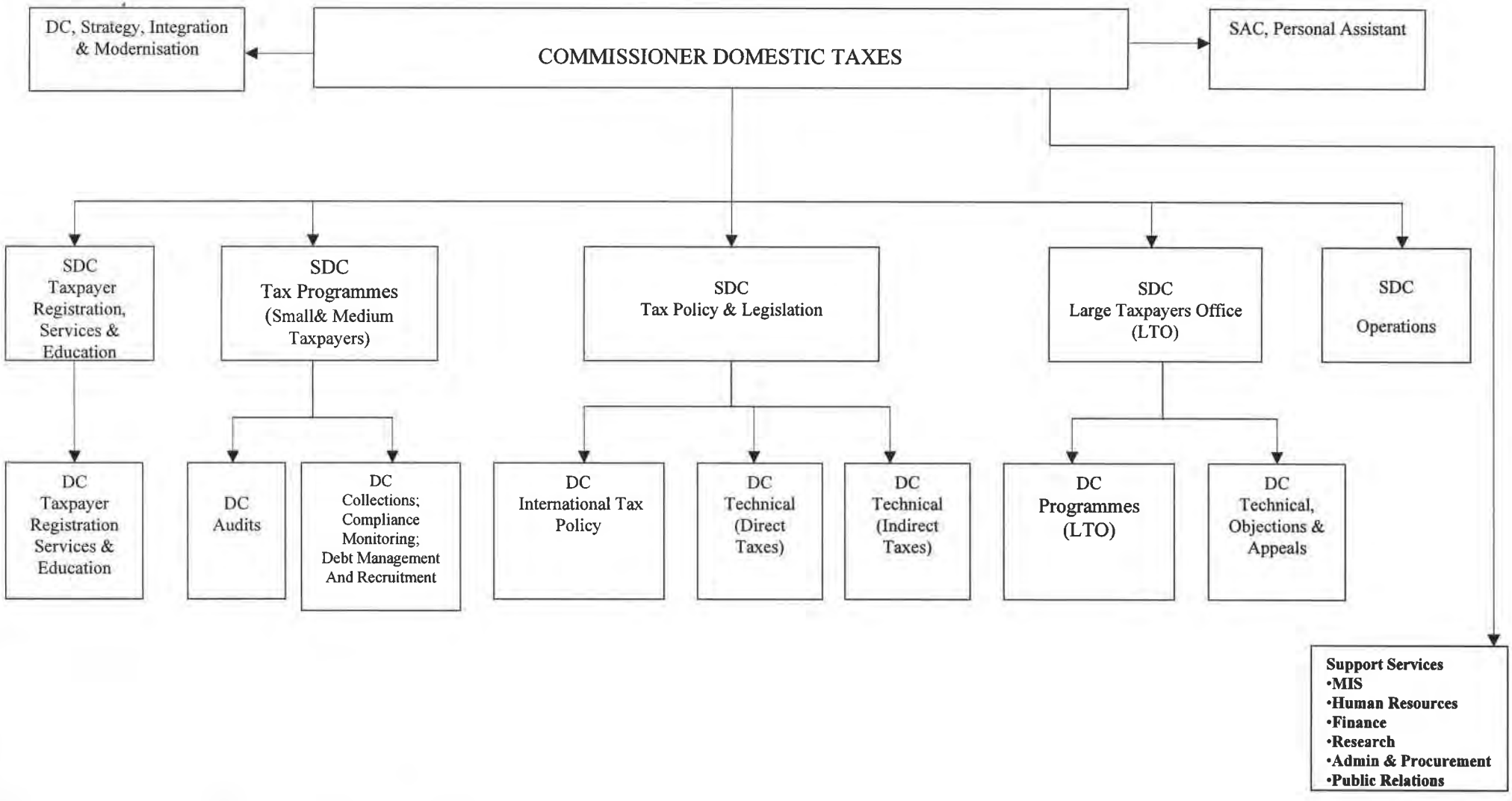
DOMESTIC TAXES DEPARTMENT – PROPOSED ORGANISATION STRUCTURE (HEAD OFFICE 1)

Proposed A 1



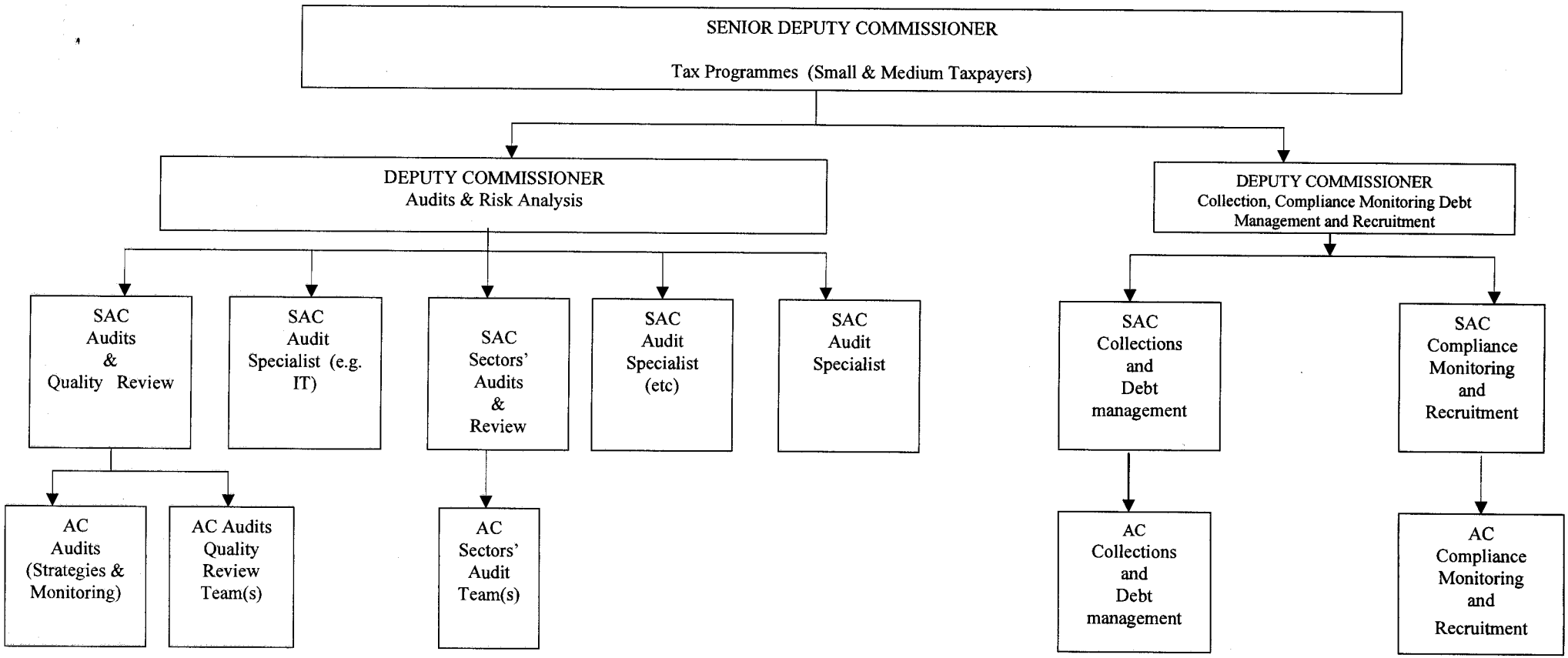
DOMESTIC TAXES DEPARTMENT – PROPOSED ORGANISATION STRUCTURE (HEADOFFICE 2)

Proposed A 2



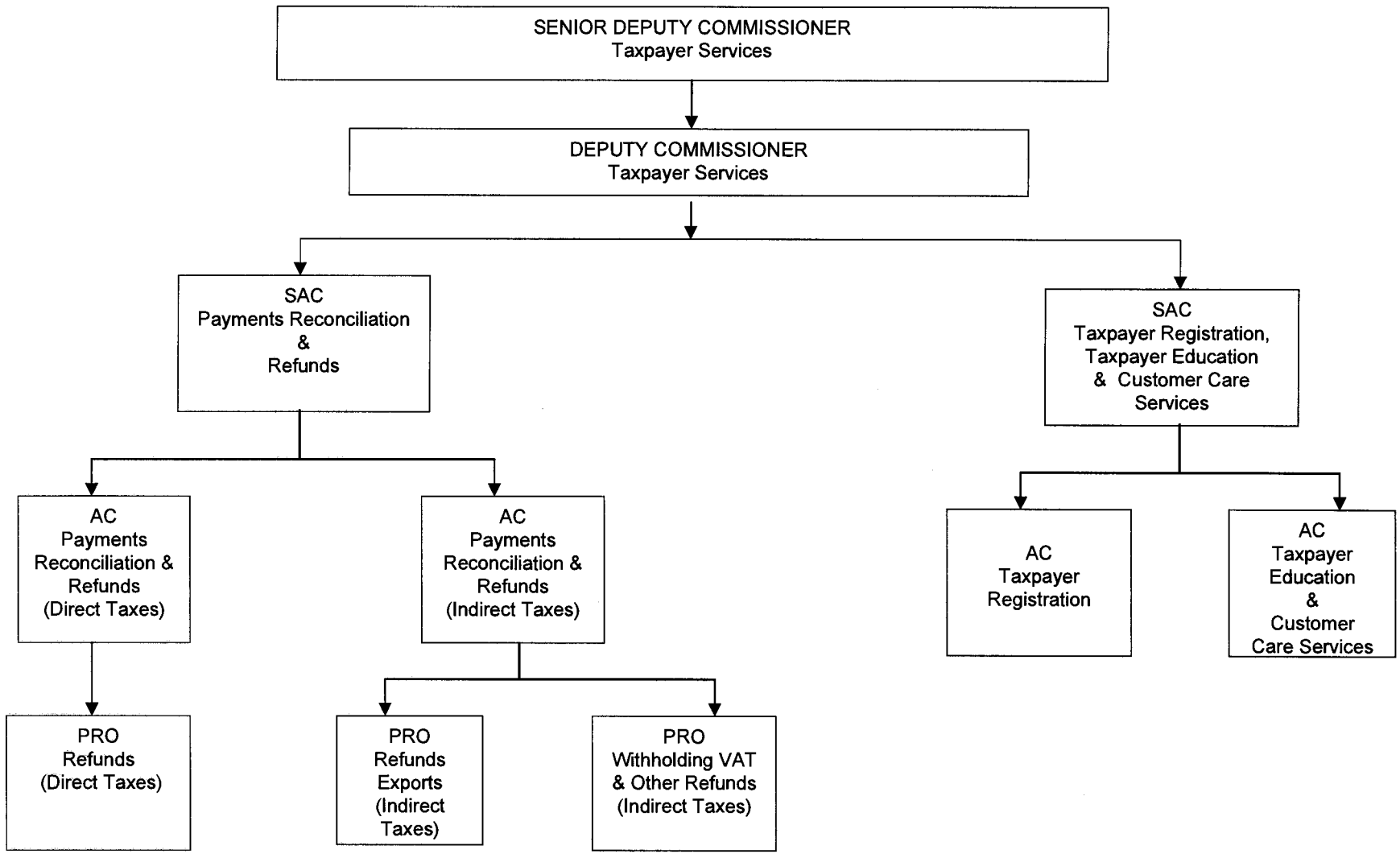
DOMESTIC TAXES DEPARTMENT – PROPOSED FUNCTIONAL STRUCTURE, TAX PROGRAMMES

Proposed B 1



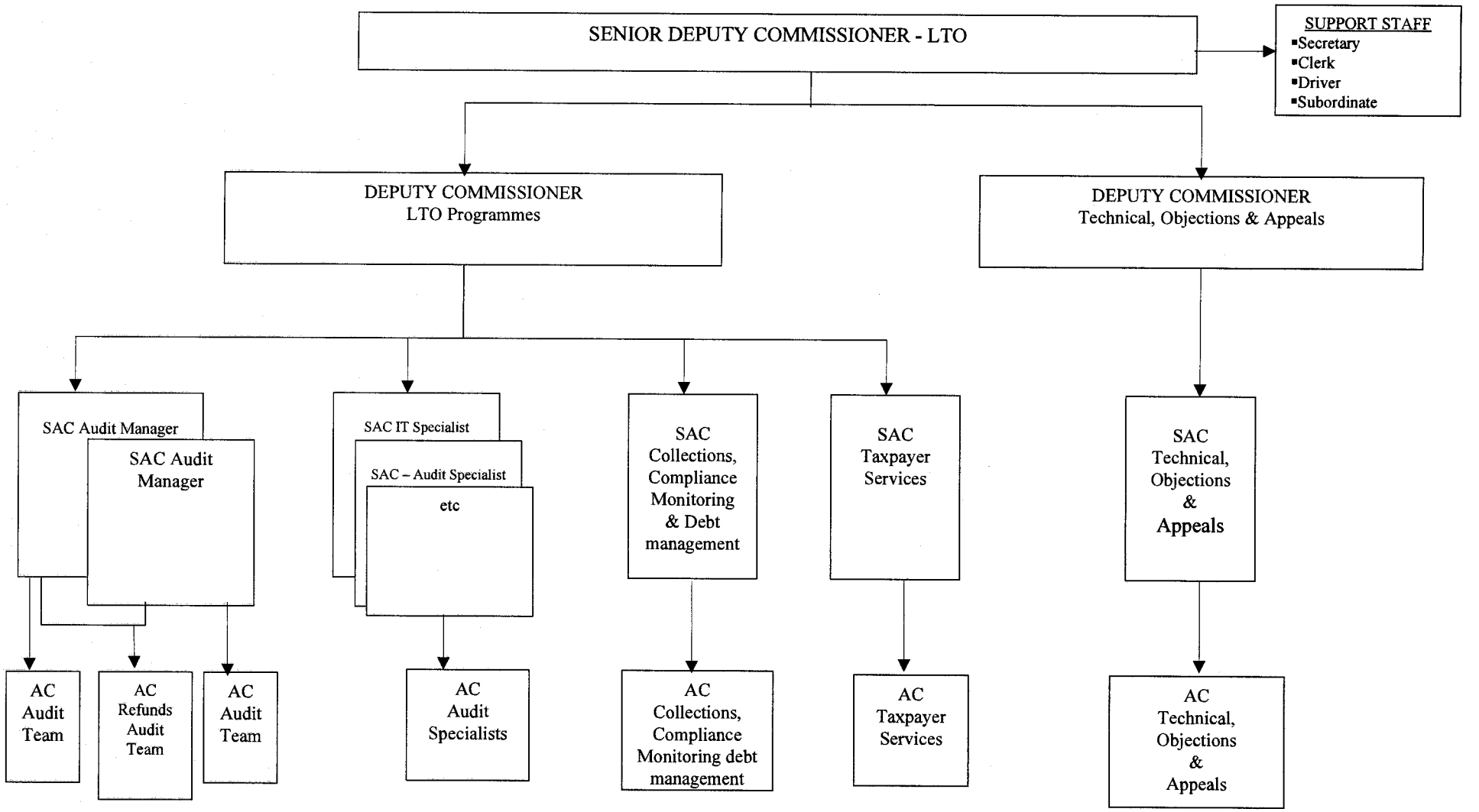
DOMESTIC TAXES DEPARTMENT – PROPOSED FUNCTIONAL STRUCTURE, TAXPAYER SERVICES

Proposed C1



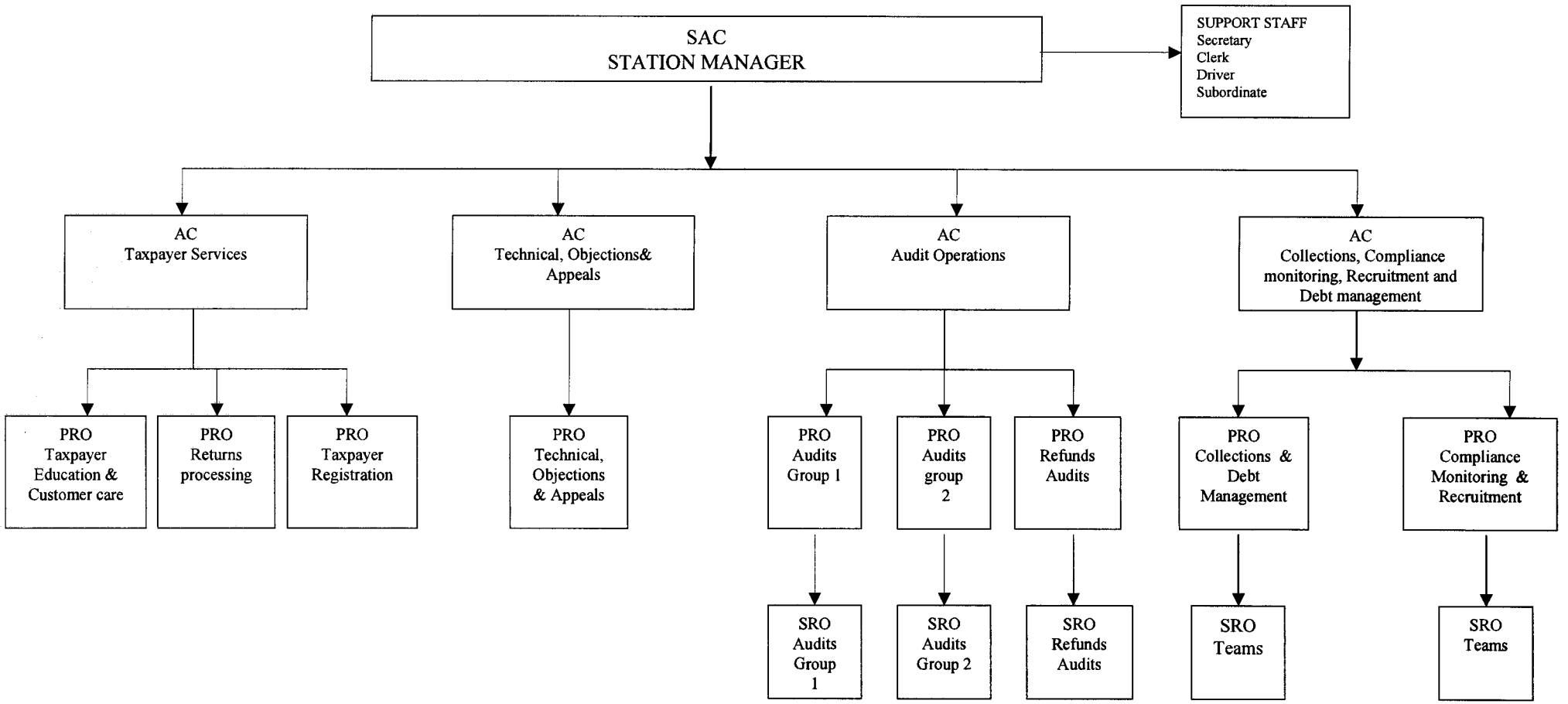
DOMESTIC TAXES DEPARTMENT – PROPOSED FUNCTIONAL STRUCTURE, LTO

Proposed D1



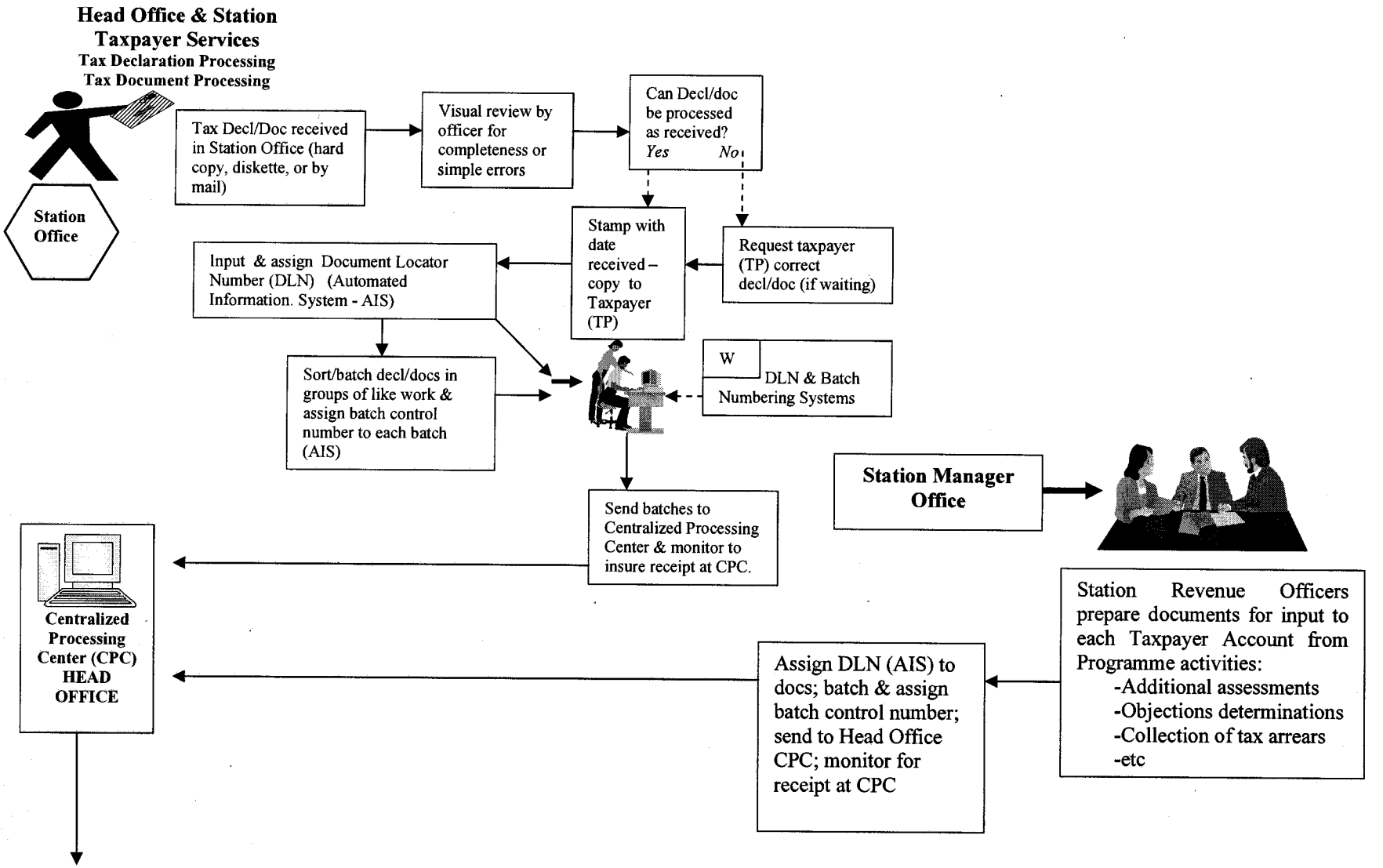
DOMESTIC TAXES REVENUE DEPARTMENT – PROPOSED STATIONS ORGANIZATION STRUCTURE

Proposed F1



Annex 2B Proposed Centralised Tax Declaration and Document Processing Work Flow Diagram

Proposed Centralised Tax Declaration and Document Processing



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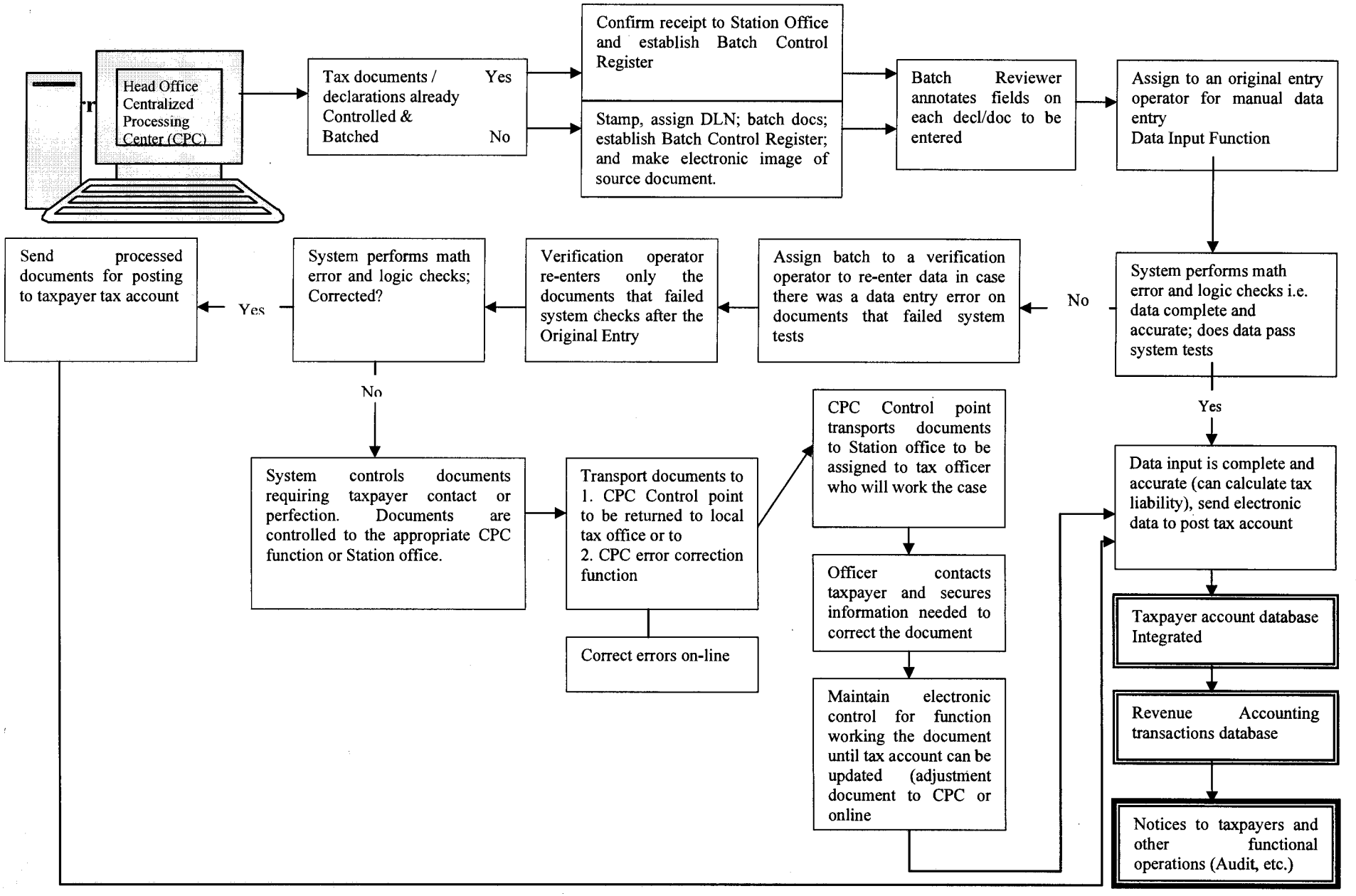
Proposed Centralised Tax Declaration and Document Processing



Annex 3: Quick Wins for KRA Offices

ORGANIZED BY FUNCTIONAL OFFICE

Functional Office	Quick Wins
KRA Organizational Structure and Staffing Practices	⇒ We understand that the DTD's Commissioner has already acted to establish a *Senior Deputy Commissioner for Operations* based on our verbal recommendation to that effect made early during our visit. This is outstanding! More quick wins can be realized with immediate consideration and implementation of as many organizational changes recommended above as possible.
MIS Department	***Remote Access module of Track_It!:*** ⇒ The remote access module of Track_It! Help desk product should be implemented. Currently, help desk is configured to provide local help desk services at the sites, instead problems have to be logged with either Nairobi or Mombasa. With remote access module, help desk staff would be able to log on to the users' workstations remotely to diagnose the problems. This would reduce unnecessary travel from regional help desk offices to stations. It would also improve the response time to field staff on help desk issues reducing the down-time experienced by the field staff. Eventual direction which KRA needs to move toward is to provide first-level help desk support at the field offices. Second level and escalated issues could still be handled from the regional offices.
	Availability of VAT system passwords to sites: ⇒ Unavailability of VAT system passwords has been underscored as an impediment to the use of VAT system by the stations. Both the East Nairobi staff and the Thika office staff mentioned this problem in their use of the VAT systems. The non-filers list generated centrally by headquarters is not accessible to field offices because of password issues. This is a quick fix which could be addressed. Furthermore, VAT system password policies need to be synchronized with the ITD system password policies to be in line with the international best practices.
	Auto Reconciliation of Payment VAT returns: ⇒ Currently, the VAT-3 returns are deposited with one of three approved commercial banks which a payment when the taxpayer wants to make a payment. The commercial banks provide a copy of the VAT-3 returns together with a spreadsheet showing EFT deposits to KRA's account. Station staff manually reconciles the payment returns with the amount actually deposited. A simple program could be written to get the VAT-3 returns inputted to the VAT system and cross-check it with an EFT deposit information on a diskette from the banks to highlight any discrepancies. It would be a quick hit as minimal resources would be required to implement it and the precious field office staff time being wasted on manual reconciliation could be saved for other productive uses.

Functional Office	Quick Wins
	Availability of UPS at Returns Processing ⇒ KRA is trying to clear the ITD return backlog for years 2002-2004 by hiring casual staff at a fast clip. However, the data entry stations they work on are not equipped with UPS causing re-entry when power interruptions occur. Having a UPS would be a simple quick fix to alleviate this problem and would help KRA clear the backlog quicker.
Taxpayer Services	***Returns Processing*** ⇒ UPS (Uninterrupted Power Supply) for application servers and those workstations used for data entry, adjustment, and confirmation should be provided quickly. ⇒ Consideration should be given to supplying a printer in the return processing area on the second floor to eliminate travel between floors. The maintenance of this printer should be high priority as it a significant part of the processing pipeline ⇒ Change the requirement for VAT return submission to reduce the number of suppliers required to be listed on the return. This will reduce the burden on data entry staff and Taxpayers. ⇒ Provide an increased verification of data entry, and correctness of returns, with experienced staff before finalizing the data record. This would eliminate the requirement of return verification for Income Tax refunds of under KSh30,000.
	Refunds Processing ⇒ A procedure of verifying calculations on those returns that show a refund should be implemented in Returns Processing. This would eliminate the passing back and forth of files, and make a smoother pipeline of work. ⇒ Access to the CED Simba system should be provided for verification of exports for VAT refunds. This would provide improved service levels to Taxpayers.

Functional Office	Quick Wins
	Taxpayer Education ⇒ Consideration should be given to increasing the distribution of information pamphlets to public though public displays, such as in the customer service areas. ⇒ General information officers should be places in the customer service area of headquarters. These officers would be available to answer general questions regarding Income Tax, VAT, Excise, etc. Taxpayers requiring detailed information can then be directed to upstairs office. PIN and VAT registration should be completed at one stop. A reception to vet those entering the customer service area may need to be established. ⇒ If e-mail is ready available to most station and HQ staff, then regular mailings of new or updated brochures be distributed electronically, along with newspaper and other media ads that are about to be published. This will keep staff up to date with the latest information.
	Taxpayer Registration & Recruitment ⇒ Consider having current member data available from Law and Manufactures Associations, if possible, in registration recruitment. ⇒ Investigate having access to an individual's Social Security number online to verify PIN applications.
Tax Programmes	***Audit*** ⇒ As previously noted, there is still a lot of on-going debate and confusion about the various audit definitions – particularly "comprehensive audits", which is being applied as "an in-depth audit for one type of tax means and in-depth audit will be performed in <u>all types of taxes for which the taxpayer is liable</u>" . This is **contrary** to international best practices. Risk-analysis systems should determine which type of tax will be the focus of the in-depth audit. For example, if the primary focus is an income tax audit, the taxpayer's compliance with other tax liabilities should be verified. Only if there is "suspicion" of discrepancies should in-depth audits be undertaken for other types of taxes. Otherwise, too much time of the auditors will be consumed in low-risk or no-risk audit activities. ⇒ A related suggestion is that auditors should have access to Road Transport Department and Customs & Excise databases for verification of records purposes. This access should be restricted to the company or persons being audited at the time, and access removed when the audit is complete.
	Collections and Compliance Monitoring ⇒ Some tax function cross training should be considered for this unit to provide better compliance monitoring. MIS should consider what can be done in the short term to improving the revenue & reporting modules, which will work towards the new integrated DTD system.

Functional Office	Quick Wins
	Debt Management ⇒ DTD needs to embark immediately on a project to obtain the "true" picture of any taxpayer. This will need to be ready for the deployment of the new integrated tax computer system in approximately one-year time. This is a vital task that will show immediate benefits in revenue collection and taxpayer management. ⇒ Provision of monthly aged reports by station would be helpful in following up Taxpayers on a more timely basis. Generally, quarterly reports and contacts are not as effective as monthly interventions.
Objections and Appeals	⇒ In previous years (1997-98) an Exemption program was written, tested and prepared for implementation in MOF, CED and VAT. The program was not implemented. This program transferred data along with hard copies of MOF issued exemptions, had security features to avoid misuse of exemptions, and reporting mechanisms for MOF to know the value of exemptions issued by MOF and KRA by exemption type. The programming was completed by current KRA MIS staff. DTD/KRA should examine implementing this program in conjunction with MOF.
Electronic Tax Register (ETR)	⇒ KRA DTD should make plans to quickly enforce the implementation of ETR as soon as the courts have given a positive decision on the legality of ETR. A decision on amnesty will need to be made at the tax-policy level and communicated quickly to taxpayers, as soon as KRA is ready to enforce the ETR requirement.
Large Taxpayers Office	⇒ The confirming of PAYE returns process should be re-considered. The searching for returns is highly unproductive; the calling to LTO to ask if they submitted and paid is not efficient. Consideration should be given to creating a database of LTO Taxpayers by PIN, and then having the EFT records received in Finance from CBK searched for payments and reported to LTO Compliance. LTO Compliance will only have to immediately follow-up those Taxpayers who have not made a payment. PAYE returns need to be verified and reconciled with the EFT deposit, but the urgency to find the return is diminished if it is known that there has been a deposit.
Support Services - Finance	⇒ Finance and MIS need to get the CBK to enforce the standard format of all records collected in order to use the CBK for a number of important purposes. One of them is the electronic reconciliation of returns processed to revenue collected, which is currently a very time consuming task, and is not accurate for the most part.

- END -

Feasibility Study for Integrated Tax Management System

Final Report

Chapter 3

Deliverable from Task 2a: Preliminary Product Requirements Report

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Feasibility Study for Integrated Tax Management System

Deliverable 2: Requirements Definition Report

Submitted to:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted by:
DevTech Systems, Inc.

March, 2006

This report was funded by the U.S. Trade and Development Agency (USTDA), an agency of the U.S. Government. The opinions, findings, conclusions, or recommendations expressed in this document are those of the author(s) and do not necessarily represent the official position or policies of USTDA. USTDA makes no representation about, nor does it accept responsibility for, the accuracy or completeness of the information contained in this report.

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Feasibility Study for Integrated Tax Management System

(USTDA Grant GH04142396)

Deliverable 2: Requirements Definition Report

Submitted To:

Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted By:

DevTech Systems, Inc.

Primary Authors:

Sampat Saraf, Kevin Kyriss and Geoffrey Okado

March 2006

DEVTECH

the group inc.

Table of Contents

Abbreviations and Acronyms iv

Executive Summary 1

Introduction 3

1. Information Communication Technology Situation Assessment 3

1.1. KRA ICT Background 3

1.2. Information Technology Infrastructure and Challenges 6

2. E-filing Implementation Scenarios 11

3. Features Required in ITMS 17

3.1 General Requirements 17

3.2 Taxpayer Registration System 20

3.3 Taxpayer Recruitment 22

3.5 Returns Receipt/Processing 26

3.6 Payments Processing 28

3.7 Refunds 30

3.8 Taxpayer Current Account (Single Account View) 32

3.9 Taxpayer Notification 34

3.10 Case Selection/Tracking 36

3.11 Compliance/Collections/Assessments 38

3.12 Debt Management 40

3.13 Report Writing/Executive Information System 42

3.14 Interface Requirements 44

3.15 Other Miscellaneous Requirements 46

4. Integrated Off-the-Shelf Solutions for KRA's Consideration 49

4.1 Custom Tax Software potential and Sensitivities 49

4.2 COTS Tax Software – Advantages and Sensitivities 50

4.3 Required and Desirable Features in COTS Tax Software 51

4.4 Brief Overview of Selected COTS Tax Software 52

4.5 Brief Overview of USAID Bosnia Tax Software 53

5. Non-Integrated Products for KRA's Consideration 55

5.1 Web Portals 55

5.2 Electronic Forms 56

5.3 Joined-Up Government 57

5.4 Mobile Government Solutions 57

5.5 Information Collaboration Tools *58*
5.6 Document and Records Management *58*
5.7 Case Management and Workflow *59*
5.8 Citizen Relationship Management *59*
5.9 Enterprise Resource Planning *60*
5.10 ICT Infrastructure Solutions *61*

List of Tables & Charts

Table 1.1: Volume of Tax Returns at KRA 5
Table 1.2: Required Processing Throughput Rates of Tax Returns at KRA 6
Figure 1.1: Do you Know what a computer is? (%) 7
Figure 1.2: Access to a Computer by main occupation (%) 8
Figure 1.3: Access to Internet by income levels (%) 9
Figure 2.1: Example of a '2-D barcoded pdf' Form 12
Figure 2.2: Manual Hand-written Return Filing (Current Method) 13
Figure 2.3: 2-D Barcoded Tax Return Filing 14
Figure 2.4: Fully Electronic Tax Return Filing 15
Figure 2.5: Phased Implementation strategy from Paper to Electronic Filing 16
Figure 3.1: ITMS System Overview 19
Figure 3.2 Taxpayer Registration 21
Figure 3.3 Taxpayer Recruitment 23
Figure 3.4 Taxpayer Servicing 25
Figure 3.5 Return Receipt/Processing 27
Figure 3.6 Payments Processing 29
Figure 3.7 Refunds Processing 31
Figure 3.8 Taxpayer Current Account View 33
Figure 3.9 Taxpayer Notification 35
Figure 3.10 Case Selection/Case Tracking 37
Figure 3.11 Collections/Compliance/Assessments 39
Figure 3.12 Debt Management 41
Figure 3.13 Report Writing/Executive Info. System 43
Figure 3.14 Interface Requirements 45
Figure 3.15 Other Misc. Requirements 47
Table 5.1: Summary of Software Products by Category 62

Abbreviations and Acronyms

C&C	Collections and Compliance
CBK	Central Bank of Kenya
CED	Customs and Excise Department
CRM	Citizen relationship management
DFID	Department for International Development
DL	Driver's License
DLN	Document Locator Number
DM	Debt Management
DTD	Domestic Tax Department
ETR	Electronic Tax Register
GUI	Graphic User Interface
HQ	Headquarters
HR	Human Resources
ICT	Information and Communications Technology
IMF	International Monetary Fund
IT	Information Technology
ITMS	Integrated Tax Management System
KEBS	Kenya Bureau of Standards
KRA	Kenya Revenue Authority
KREISA	KRA Enterprise Information System Architecture
KSh	Kenya Shillings
LTO	Large Taxpayer Office
MIS	Management Information Systems
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MVR	Motor Vehicle Registration
NRB	National Registration Bureau
PAYE	Pay As You Earn
PIN	Personal Identification Number
PIT	Personal Income Tax
PRO	Principal Revenue Officer
PSV	Public Service Vehicle
RARMP	Revenue Administration Reform and Modernization Program
RTD	Road Transport Department
SAC	Senior Assistant Commissioner
SD	Stamp Duty
SDC	Senior Deputy Commissioner
SDL	Sugar Development Levy
SL	Standard Levy
SOW	Scope of Work
TIS	Tax Information System
TOR	Terms of Reference
TPC	Tax Procedures Code
UPS	Uninterrupted Power Supply
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
VAT	Value Added Tax
WAN	Wide Area Network
WLAN	Wireless Local Area Network

Executive Summary

The Kenya Revenue Authority (KRA) is embarking on an aggressive program to modernize and automate revenue administration. Among the KRA's impressive, recent accomplishments is the integration of formerly separate departments for income taxes and value added taxes under a new Domestic Tax Department (DTD); acquisition and implementation of a modernized customs system (SIMBA); and development of a KRA-wide Information and Communications Technology (ICT) strategy. To support this effort, DevTech Systems, Inc. (DevTech) was awarded a Contract for a United States Trade and Development Agency (USTDA)-funded feasibility study designed to help facilitate the KRA's acquisition and implementation of a modern computerized integrated tax management system (ITMS).[1]

As part of the feasibility study the "Contractor Team" will be undertaking six inter-related tasks and providing several iterative deliverables to the KRA. The first deliverable presented a situational analysis and identified several enhancements to current processes to increase efficiency and enhance compliance organization changes. Furthermore, this assessment highlighted several features of an Integrated Tax Management System (ITMS) based on international best practices.

The results of the situational assessment were utilized to prepare this report (Deliverable 2), which presents the preliminary requirements definitions for a modernized and automated ITMS. The purpose of this report is to review the current state of information systems at the DTD, identify feasible solutions that will serve to guide the automation program, and list the preliminary product requirements. In addition, this report highlights immediate decisions required that will affect the final requirements definition. These decisions and recommendations of the BPR task, which is currently ongoing may add/delete or change the requirements specified in this document. Therefore, the Contractor will update the requirement specifications (Task 2b) and formalize the requirements utilizing a modeling tool at a later date.

Taking into account the general ICT situation in Kenya, availability of telecommunication network access points, and the KRA's systems, this report presents implementation scenarios for KRA's consideration and briefly discusses implementation strategies. In particular, the report reviews various e-filing scenarios implemented by tax administrations around the world and examines their merits/demerits in KRA context. Based on the analysis conducted during a four-week on-site technical assistance assignment, this report makes the following observations and recommendations:

- Due to the twin challenges of inadequate telecom infrastructure and unavailability of ICT resources throughout the taxpayer base, the Contractor Team recommends a phased implementation strategy for e-filing and e-servicing. A recently introduced technology, 2D barcoded forms, can help bridge the gap between current paper-based return filing and complete e-filing is recommended. With 2D barcoded forms, the forms have a barcode that is updated as it is completed by the taxpayer on his/her machine. The "updated" barcode has the

[1] The M Group, also a firm based in the United States, is a major subcontractor for this contract.

same information as the form and can be scanned by a reader to directly capture the information from the form. In effect, this technology would require tax forms to be re-designed with the barcode and may address some of the issues which KRA is currently facing with return backlogs.

- Furthermore, we recommend that the KRA segment its taxpayer base in three segments: i) highly IT mature taxpayers such as LTO taxpayers, ii) taxpayers with some access to Information Technology, and iii) taxpayers with no access to information technology. Different filing methods (current manual filing, bar-coded forms filing or electronic filing) would be appropriate for these different segments. As acceptance rates for electronic filing increase, some of the current hand-written filing options could be eliminated in future.

- A taxpayer PIN registration/de-registration methodology needs to be decided and formalized. This decision would entail determining the make-up of individual and corporate PINs, whether to use NRB personal IDs as PINs for individuals or not. Furthermore, a decision on whether or not to use corporate registrar's office to register corporate taxpayers needs to be made. As these decisions are so central to an integrated system design, they should be made now before the requirements are formalized.[2]

- To adequately specify the system, another important decision to be made is the degree of e-filing to be pursued at the outset and how to segment taxpayers to design different filing modes for them. The network bandwidth and processing capacities available at KRA as well as in the taxpayer base may affect the degree of e-filing to be pursued.

- KRA also needs to decide what payment options it wants to avail to taxpayers (for example, cash, check, wire transfer, debit card or credit cards, etc.). Different payment options would result in different requirements for the final system. Some of the payment options may be limited by the Kenyan law.

- Self-imposed requirements for tax return processing timelines need to be established. It would entail how soon the monthly VAT returns should be processed and how soon income tax returns should be processed and refunded. The processing window for various tax returns would dictate the throughput requirements for the ITMS. These decisions together with the detailed BPR would help formalize requirements in Task 2B.

This report identifies 101 functional and technical requirements that are necessary for the ITMS based on the current organization and business processes, as well as international best practices. The BPR will sharpen and redefine some of these requirements. The above decisions are highlighted at this stage of the modernization process due to their overall significance and impact on the requirements definition and ITMS-installation.

[2] A business process redesign for this area is scheduled to begin mid-April.

Introduction

The Domestic Tax Department (DTD) accounts for approximately 60% of the revenue collection of the Kenya Revenue Authority (KRA), thereby representing a critical function. However, an assessment of application systems done by Mr. Gerhard Olivier in his KRA ICT Strategy document[3] found that the current applications supporting DTD (Income Tax and VAT systems) are based on older technology and are not adequate to support DTD's current needs. Data were found to be of questionable quality, and the system has limited quality control features. The ICT Strategy identifies replacement of outdated applications in DTD as the number one priority project for KRA.

This report builds on the *Task 1a Situational Assessment*, and the general system features that were outlined in that document. This report expands on the situational assessment for information technology contained in deliverable 1, outlines preliminary requirements, and identifies potential solutions.

The detailed business process redesign, which is currently beginning, will re-define some requirements, and add new ones. In addition, through this process, the contractor will work with the KRA to rank requirements (together with any revisions from the BPI exercise) as "must have", "nice-to-have", or "not needed". This report will serve as the basis for the final requirements definitions at the conclusion of the feasibility study.

1. Information Communication Technology Situation Assessment

The Contractor conducted a situational assessment in February 2006, and included as part of that report (Deliverable 1) a summary of the current status of the KRA's ICT support its core mission. This section of the report provides additional details of the technology currently in use, as well as the challenges the KRA face in meeting its overall objective of modernizing revenue administration.

1.1. KRA ICT Background

The DTD systems (both income tax and VAT) currently run on an Oracle 9i (Version 9.2.0.1) database management system on Compaq Alpha servers ES40. The systems are running on TRU64 Unix (version 5.1b). Even though these systems are running on a Unix platform, KRA's preference is towards a Linux based system as the newly acquired Customs Simba system is Linux based and having only one operating system would obviously lead to efficiency in providing support and would reduce future compatibility issues.

The Alpha servers have two processors each running at 500 MHz and having a RAM of 4 gigabytes (GB). The servers are on a cluster configuration with two nodes and a storage area. The storage area has a storage capacity of 212 GB. In addition, the servers have local disk capacities of 54 GB and 72 GB, respectively.

[3] Olivier, Gerhard, "Kenya Revenue Authority ICT Strategy", November 2005

The applications supporting VAT and Income Tax, though housed in the same database are not integrated and are essentially independent. Inconsistent data and data anomalies could reside in the databases supporting the two systems. The Income Tax system does not offer GUI based user interface and only provides a character-based interface, the VAT system has a GUI interface, however. Furthermore, the data in the databases is not clean as duplicate and invalid Taxpayer PINs exist. Further complicating factor is that a clean linkage between the Income Tax application and VAT application cannot be established until a clean mapping from Income Tax PIN to VAT PIN or vice versa exists. A process to purge the Taxpayer PIN database has been underway at KRA, however, it appears to be in the planning stages currently. Currently, the information related to PAYE (filing received from the authorized banks) provides total amount withheld by an employer. The amount of taxes withheld for each individual employee is not captured. Any integrated tax solution would require individual accounts for which income tax was withheld and the respective amounts be established. The current interface with the National Bank is not fully automated and there are several areas points of human interaction (and risk). The interface from the bank to DTD should be seamless. From the Central Bank of Kenya (CBK), the interface is via EFT after a diskette has been forwarded to the bank.

Taxpayers are supported by the head office (at Nairobi) and four local Nairobi stations (located in times tower), and fifteen remote sites located around the country. Most remote DTD sites are connected to the Times Tower by a combination of *Kenstream* and *Kenpac* connections[4]. Garissa and Bugoma stations, however, are only connected by a Kenpac connection, which is a much lower bandwidth connection. The final report for Task 1a described the current situation, business improvements identified and quick wins in more detail.[5]

The current volumes of tax returns received by KRA are shown the Table 1.1 below. The return volume is expected to increase as KRA gets more individuals/entities in the tax net through increased taxpayer education and recruitment activities. Furthermore, as the Kenyan economy expands the taxpayer volume is expected to increase. The ITMS system to be acquired, for necessity, needs to be able to handle current volume as well as growth for several years in future. Most monthly returns are due on 20th of the month and the monthly returns should be processed in 4-5 days from the receipt.

The volume of income tax returns has escalated (during 2002-2004) due to the requirement of mandatory return filing for employees. This has resulted in excessive backlog of returns to be captured in the Income Tax System. KRA has hired casual workers to reduce this backlog and has made significant progress towards eliminating this backlog. It is estimated that volume could go as high as 3 million returns per year if compliance increases. Any system designed for KRA's use need to address expected volume of returns so as not to cause backlogs of returns to be processed. Reasonable time to process and send refunds to taxpayers on an income tax return is about a month.

---

[4] VSAT (point-point 128Kbps shared between 8 stations).
Ken stream (Digital point-point terrestrial link, 128Kbps dedicated)
Ken Pac (Analogue 9.6Kbps shared)

[5] Arturo Jacobs, et. al., "Feasibility Study for Integrated Tax Administration System, Task 1 Final Report", March 2006.

Table 1.1: Volume of Tax Returns at KRA

Type of Returns	Volume (2005)
Yearly Returns:	
Income Tax returns	830,000/yr
PAYE Returns	18,000/yr
Monthly Returns:	
VAT returns Processed	32,000/month
KEBS	3,600/month (avg.) (Higher in January)
SDL	20-25/month
Miscellaneous Freq.:	
Withholding VAT	45,000/yr
Withholding Tax	59,000/yr
VAT refund claims	4,800/yr
Stamp Duty	200/day
Other IT Taxes	
Domestic Excise	

KRA's future IT vision as visualized in the ICT Strategy document relies heavily on e-filing and e-services. To quote KRA's ICT Strategy:

> "In the future, anyone who wishes to transact with the Revenue Authority electronically will be able to do so. Emerging forms of technology – particularly web-based resources-- will become vital tools, allowing customers to work with the Revenue Authority to access information and solve problems. Taxpayers will file taxes, receive refunds, make payments, and lodge queries without making an appointment, waiting in line, or driving across town. The customer, not the Revenue Authority, will define the timing, nature and extent of access to services and information."

The above vision implies that KRA is looking to be more and more electronic in its transactions with taxpayers and other stakeholders. In this vision of the future, KRA taxpayers would file tax returns electronically to KRA servers as well as request registration and other services from KRA electronically. The volumes in Table 1.1 (with an allowance for economic and compliance growth) would set the metric for performance for KRA's integrated tax system, its web portal and the network infrastructure. For example, a return volume of 1.5 million income tax returns would imply that the system needs to be sized to receive that much network traffic in a few days as, absent any incentives to the contrary, most taxpayers would file returns in a day or two of the return deadline. Furthermore, if KRA wants to target a return processing window of one month from filing, the system should be able to process and post those many returns in a month. Table 1.2 provides requirements for processing throughput rate based on current volumes. The estimates of required processing throughput rate if the return volumes double are also provided.

Table 1.2: Required Processing Throughput Rates of Tax Returns at KRA

Type of Returns	Volume (2005)	Processing Rate @ Current Volume	Processing Rate @ twice Current Volume[6]
Yearly Returns:			
Income Tax returns[7]	830,000/yr	27,667/day	55,333/day
PAYE Returns[8]	18,000/yr	2,571/day	5,143/day
Monthly Returns:			
VAT returns Processed[9]	32,000/month	8,000/day	16,000/day
KEBS	3,600/month (avg.) (Higher in January)	900/day	1,800/day
SDL	20-25/month		
Miscellaneous Freq.:			
Withholding VAT	45,000/yr		
Withholding Tax	59,000/yr		
VAT refund claims	4,800/yr		
Stamp Duty	200/day		
Other IT Taxes			
Domestic Excise			

1.2. Information Technology Infrastructure and Challenges

The Integrated Tax Management System and attendant strategy that KRA will implement is constrained by the local network and information technology infrastructure available or likely to be available in near future. This section examines availability of ICT infrastructure and highlights some challenges which might be encountered while implementing electronic filing and e-servicing in Kenyan context. The availability or unavailability of these external resources is tightly interwoven with business delivery model appropriate for KRA.

As expected, the access to ICT infrastructure and computer literacy is much higher in urban centers than in the rural Kenya. The electronic revenue collection and service delivery would be most challenging in the rural Kenya. The Central Bureau of Statistics (CBS) conducted a Baseline survey of ICT penetration in rural Kenya as part of the Universal Access Strategic Plan

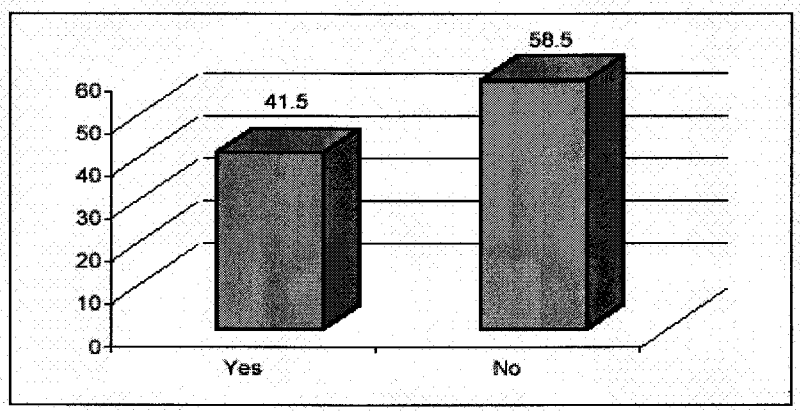
[6] Doubling of volume scenario provided as a point of reference allowing for future economic and compliance growth
[7] Estimated assuming one month processing window for Income Tax Returns
[8] Used a seven day processing window for PAYE Annual returns
[9] Used 4 day processing window for VAT and KEBS returns

in 2004.[10] The following section presents some excerpts from this survey to highlight types and magnitudes of challenges likely to be faced by a speedier electronic delivery and servicing.

1.2.1 Computer and ICT Literacy levels of the Taxpayer Base:

The survey of a stratified sample under Universal Access to Communications Services revealed that 42% of the rural population has knowledge of a computer (see Figure 1.1).[11] Close to two thirds of these people first saw a computer at their shopping centre, the bank or work place. The rest named diverse places including public institutions such as schools, hospitals, and business premises. Only about one percent of the population reported owning a computer at home. However, only one in every ten of the persons with knowledge of a computer reported having used one. The CBS survey further revealed that reasons for never using a computer were varied. Close to 42% stated that this was because they are illiterate. Similarly, 25% of the respondents had not used a computer because they lack the basic skills, mainly how to operate one. A further 25% of the rural population has never used a computer because the facility is not available to them and it is not readily affordable. Interestingly, one in every ten people had never used a computer because they have not found need for it.

Figure 1.1: Do you Know what a computer is? (%)

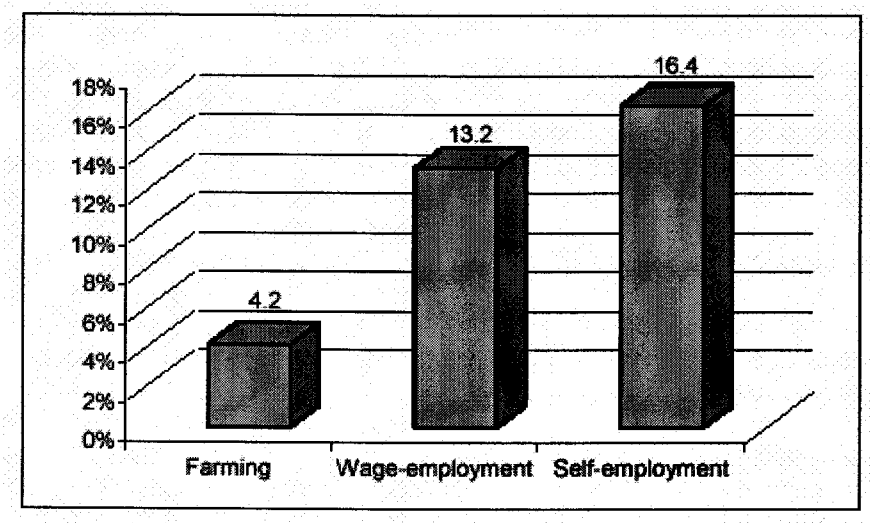


It was further observed that access to computers varies with level of education and respondents with university level education reported the highest access. Persons who had only adult or primary school education had no access to a computer. Although some of the people who reported having no formal education indicated that they have access to computers, the general trend suggests that access to computers is a function of some desire for them and this is dependent on having a level of basic education and skills. Access to a computer is also a function of perceived need for it. Findings show that most of the persons that were engaged in self-employment, including petty trade, had accessed a computer compared to those in wage employment or in farming.

[10] Universal Access to Communication Services in Rural Kenya – A Baseline Survey, Communications Commission of Kenya and International Development Research Centre, October 2004

[11] The baseline survey does not correlate responses to this question with income or another discriminating factor that would permit these data to be attributed directly to individuals who are currently registered or should be registered taxpayers. Consequently, the responses to these questions are illustrative only.

Figure 1.2: Access to a Computer by main occupation (%)



The ratio of Internet users in Kenya falls behind that of Zimbabwe, Botswana, Egypt, and Algeria. However, in the East African region, Kenya is ahead of both Uganda and Tanzania in terms of actual count and ratios. There were about 400,000 internet users in the country, estimated at 1.27 users for every 100 inhabitants. The majority of the people that reported having access to the Internet are from Nyanza, Rift Valley and Coast provinces. Both Eastern and Western provinces registered the lowest levels of access while North Eastern and Central reported no access.

1.2.2 Access to ICT Infrastructure in Rural Kenya

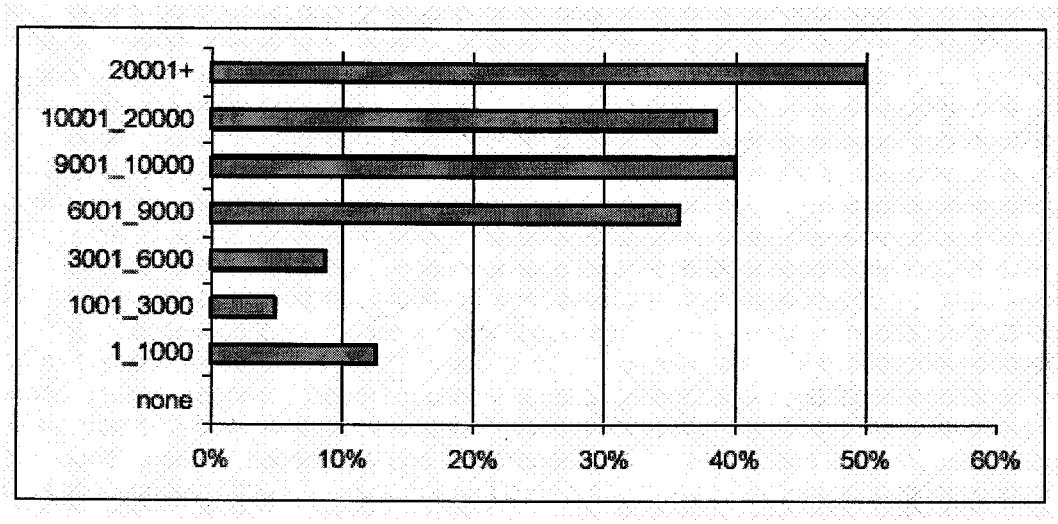
From the survey, it was apparent that potential availability of information technology is generally limited in rural Kenya with some areas worse off than others. Only one in every ten people among rural dwellers has knowledge of the Internet (9%). A huge number of people (91%) did not know what the Internet is. This limited access to Internet facilities shows that most rural dwellers are locked out of this and anything else that is linked to the Internet. Moreover, only 21 percent of the population with some knowledge of the Internet has ever accessed it. This may be due to cost of internet access. Internet users spend an average of Kshs. 360 per month on Internet access with majority spend Kshs. 200 per month.

Internet services are generally not within walking distance. On average, people travel more than 22 kilometres to reach the nearest provider and this was found to go as high as 141 kilometres. The service is accessed through cyber cafes (65%), friends (16%), and work place (14%). Six percent of the population accesses Internet through the post office.

However, the Internet seemed most accessible to persons engaged in wage employment as compared to those in self-employment or in farming. This could be attributed to the fact that wage employment might also avail such facilities as the Internet, especially in rural setting.

Findings also show that accessing the Internet is a function of income levels. Most people that reported having access to the Internet had some of the highest incomes within their settings.

Figure 1.3: Access to Internet by income levels (%)



1.2.3. Status of Telecommunication Infrastructure in Kenya

Kenya's telecommunication infrastructure may also present a further challenge to the ICT vision of KRA. The current status and planned targets for telecommunications policy are provided in recently released National Information and Communications Technology Policy by the Ministry of Information and Communications.[12] The metric of telecom infrastructure provided in the National ICT policy are as follows:

"....

260,000 fixed telephone line subscribers and 3.0 million cellular mobile subscribers by June 2004, translating into fixed teledensity of 0.75 per hundred inhabitants for fixed and 9.75 per hundred inhabitants for mobile against the world average of 19 and 21 respectively.

73 registered ISPs, 16 of which are active, approximately 1,030,000 users and over 1000 cyber cafes and telephone bureaus by June 2005. ....."

However, Kenya, like most developing countries is beginning to find their true footing as it discovers the useful relationship between ICT and economic growth. The development of National ICT Policy is a step in that direction. The ICT policy specifies following targets for improving telecommunications infrastructure in Kenya.

"....

Improve the fixed-line teledensity in rural areas from the current 0.33 lines to 5 lines per 100 inhabitants by the year 2015;

[12] National Information and Communications Technology (ICT) Policy, Ministry of Information and Communications, January 2006.

Improve the fixed-line teledensity in urban areas from the current 1.97 lines to 20 lines per 100 inhabitants by the year 2015;

Increase the number of mobile subscribers from the current 4 million to 10 million by the year 2015;

Expand the current international internet bandwidth from the current 69 Mbps to 1 Gbps by the year 2015;

Provide all primary schools with affordable internet access by the year 2015; and all secondary schools and tertiary institutions to have affordable internet access by the year 2010;~~-and~~

Establish internet access nodes at all district headquarters by 2010.

....."

The ICT infrastructure and literacy challenges presented by KRA's taxpayer base would indicate that a phased transition strategy from paper-based to electronic filing may be necessary. Some of these options are explored in more detail in the next section.

2. E-filing Implementation Scenarios

Electronic filing of tax returns is increasingly used by tax administrators around the world to reduce the data capture overhead during returns processing and to increase security and confidentiality of taxpayer data. Other advantages of e-filing are reduced paper storage for taxpayers and the tax authority, faster and more accurate return filing process. Given KRA's vision of increased electronic filing of returns as described in the ICT Strategy, it is helpful to examine various e-filing scenarios implemented by the tax administrations around the world. The following three approaches and their variations represent the majority of e-filing implementations in use around the world:

- ***Taxpayer fills tax forms interactively at the agency's website:*** In this scenario, the taxpayer connects to revenue agency's web portal and fills the form at the web-site directly. Some routine validations are performed while the taxpayer is entering the information on the web-based tax form. The disadvantage of this approach is that taxpayer needs to remain connected with the web-site all throughout the return filing process. It is not possible for the taxpayer to stop in between and restart from where he left off. Furthermore, the agency servers need to offer much higher bandwidth connections as several users are expected to be accessing the website simultaneously for an extended period of time. The advantages of this approach are ability to perform more validations on-line (such as verifying validity of PINs and other identifying information), ability to support variety of taxpayer hardware/software platforms by the same host application and ability to change host application without concern of versions of software on taxpayers' machines.

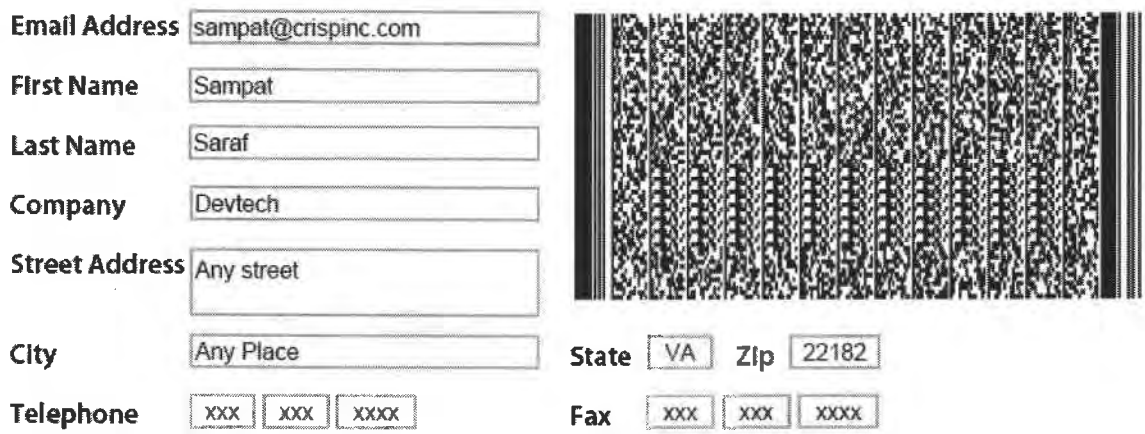
- ***Taxpayer downloads tax preparation software:*** In this approach, taxpayer downloads the software/tax form and completes the form off-line and then reconnects to the revenue portal and files the completed form with the tax authority. This method permits the taxpayer to keep a completed copy of the tax form on his machine as well as he has flexibility to complete the form at will without having to be connected to the website for the whole filing session. From tax authority's point of view, it would not require as high a bandwidth as the scenario above because interactions with individual taxpayers are of limited duration. This approach, however, has the disadvantage of having to provide several versions of tax software/form depending on the taxpayers' hardware and software platforms. Also, the tax authority may need to provide more assistance staff for downloading and configuring tax software. In this approach, the edit and validation checks of input data would be limited in scope.

- ***Taxpayer uses third-party software for tax preparation:*** In this approach, the tax authority certifies software offered by several third party software vendors. The taxpayer uses third-party software to complete his return. The third-party batches the returns for transmitting to the revenue authority and may use secure transmission to transmit the batches of returns. The advantage is less bandwidth required for tax agency portal. The disadvantage is that the third-party vendors would most likely charge the taxpayer fees for their services.

As discussed earlier, the full-blown implementation of e-filing at KRA is challenged by inadequate telecom infrastructure, inadequate availability of IT hardware/software around the

country and limited IT literacy of the taxpayer base. *Due to these challenges and to mitigate any risks associated with moving to an immediate universal e-file implementation, the summary conclusion of outlined in this report is that the KRA should consider and explore a phased-implementation strategy*. One technology which may help KRA bridge the gap between current manual filing process and a fully electronic filing is the 2-D barcoded forms technology (*see Figure 2.1 and discussion*).

Figure 2.1: Example of a '2-D barcoded pdf' Form [13]



2-D Barcoded Forms Technology: Adobe has recently introduced a 2-D barcode technology to bridge the gap between paper-based processing and fully electronic filing. Using Adobe proprietary software a fill-able portable document format (pdf) file (including a 2-D barcode) is created for each tax form by the revenue authority. User downloads the form on his PC from the revenue authority portal and fills the form using freely available *Adobe Acrobat Reader*. During the process of completing the form, the 2-D barcode on the form is updated and stores the data entered. The form (including the bar-code) is printed and can be mailed, faxed, or delivered to the revenue authority. The barcode is scannable by a decoder/scanning hardware at the revenue authority in order to populate the tax database with the information on the form.

The advantages of the use of this technology are that it offers more accuracy than OCR and acts as a bridge between fully paper-based and fully-electronic filing method. Furthermore, the tax forms filed can be signed and as such could be admitted in the court of law with existing legal system. The taxpayers used to paper-based filing can still keep the paper records of their tax returns as they are currently used to. The disadvantages of this technology are that the forms need to re-designed using the barcode (one 2-D barcode can store information close to 1.2K to 2.0K depending on type of data). Also, the security and confidentiality of taxpayer data is not as high as with the electronic filing. For more discussion about the 2-D barcode technology, please refer to Adobe's website14.

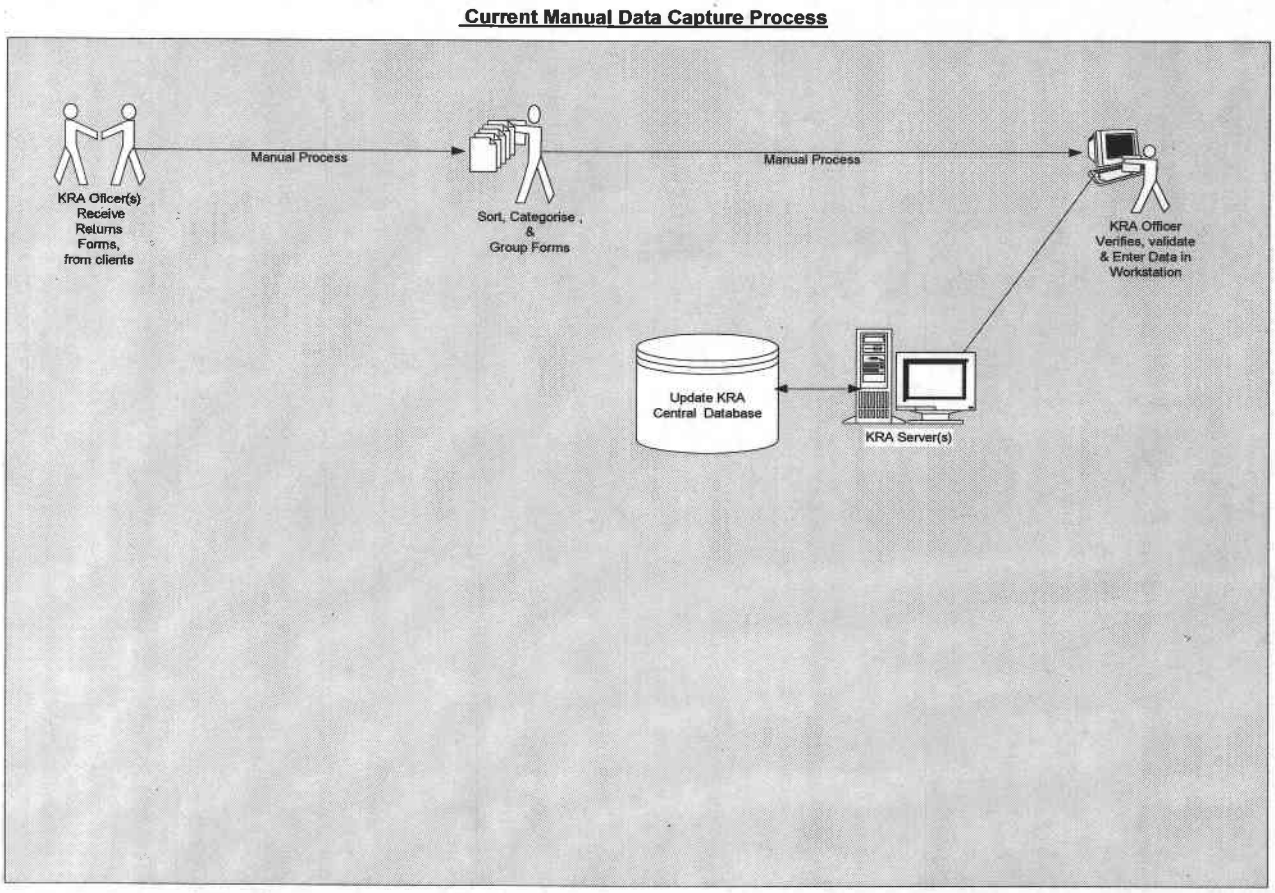
A Phased Implementation Approach: Even though full electronic filing is KRA's final goal, it may be desirable to allow multiple ways of filing tax returns in early years of Integrated Tax

[13] From Adobe Website – http://www.adobe.com
[14] http://www.adobe.com/barcodedforms

System deployment. These options of filing could include the current manual filing method, 2-D barcoded form filing and fully electronic filing. These three options of filing are detailed below:

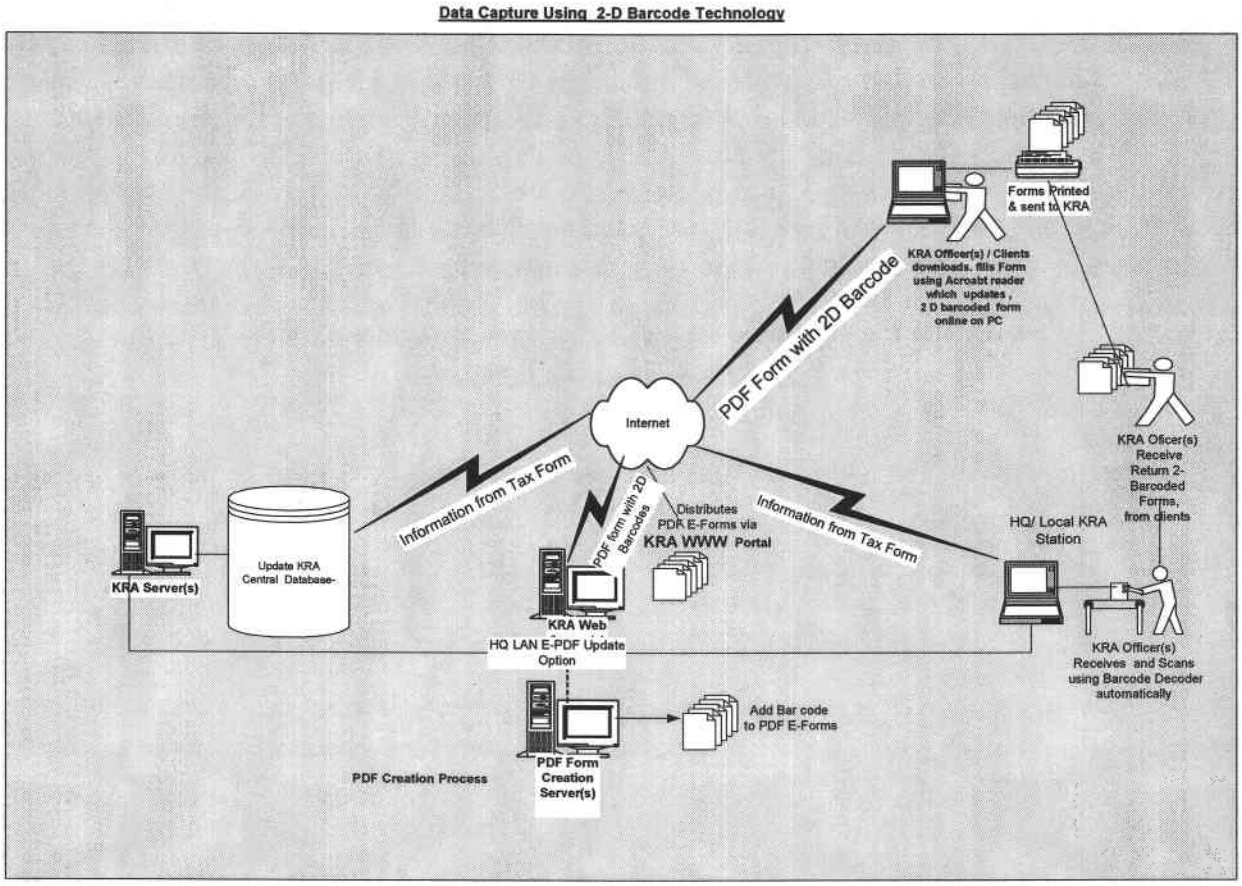
- **Manual hand-written form filing:** The current way of filing tax returns at KRA, this would likely remain the option for filing tax return for small taxpayers who do not have access to IT infrastructure and who may for a variety of reasons reject using information technology to file. Figure 2.2 diagrams the current manual tax return filing workflow. In this filing method, the taxpayer obtains the tax forms either by mail or downloads the forms from KRA's website. The taxpayer completes the form with hand and then mails the form to the revenue authority station office assigned to the taxpayer based on his geographical location. The stations then sort and group the forms and mail it to headquarters for data capture. Once the data are captured, the forms are mailed to the stations for storage. The current process has resulted in extensive backlogs of forms to be data captured at KRA headquarters. To avoid the accumulation of backlogged tax forms and improve tax return processing throughput rate, this filing method could be supplemented with electronic and barcoded form filing options. In addition to supplementing filing by electronic methods, the Task 1a report recommends separating the data capture function and personnel away from times tower to a central processing center. This would improve confidentiality of taxpayer data.

Figure 2.2: Manual Hand-written Return Filing (Current Method)



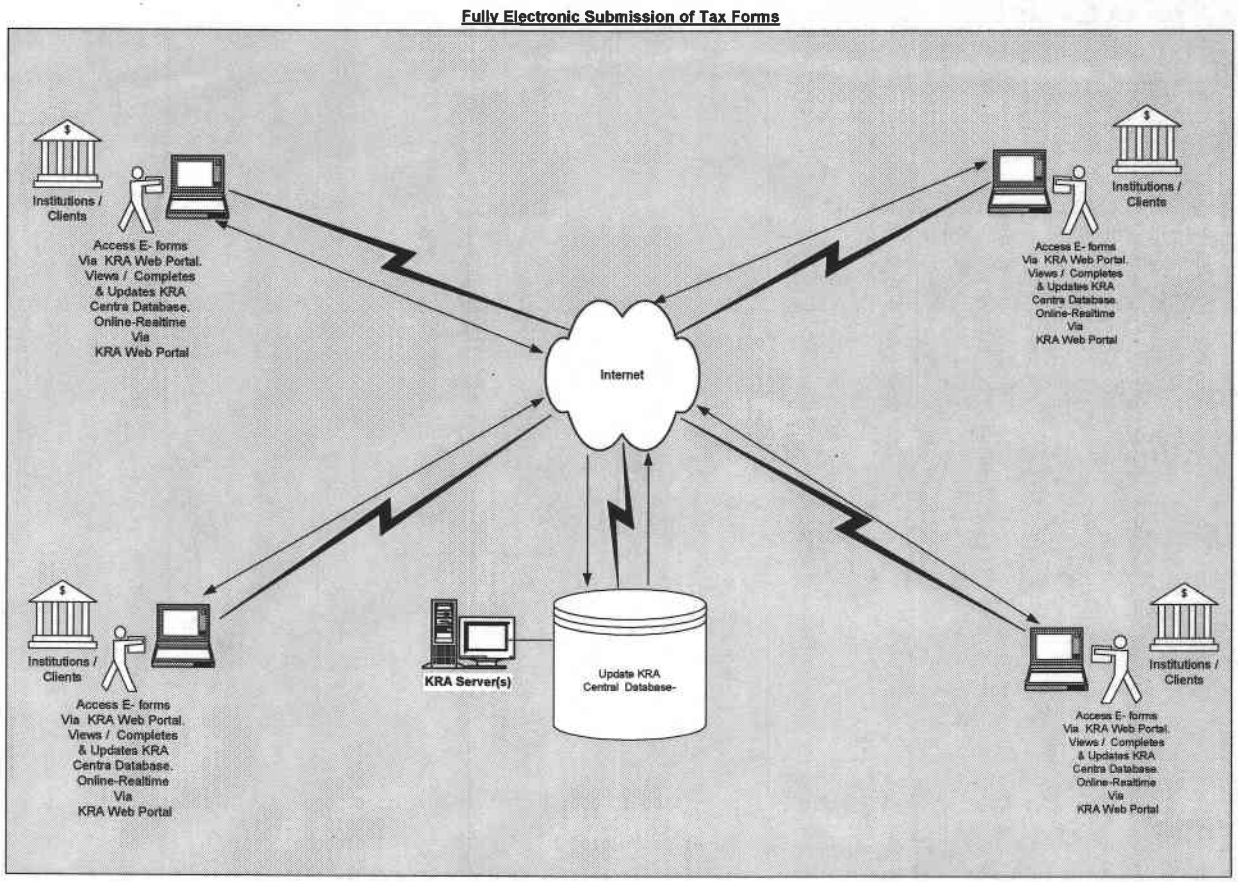
- **<u>2-D barcoded return filing:</u>** As described above this is a semi-automatic way of filing tax returns. This filing option could be used by a majority of taxpayers who have some access to IT infrastructure but would still like to retain their tax records in a paper-based format which is legally enforceable. KRA's network capacity constraints might make full electronic filing infeasible at the outset. The graphic in *Figure 2.3* shows the workflow for 2-D barcoded form filing. With this return filing the manual process of sorting/grouping and data capturing by data entry would be reduced as the bar-code would be scanned by the barcode decoder and the information would be captured in the database automatically.

Figure 2.3: 2-D Barcoded Tax Return Filing



- **Fully electronic filing:** This is the fully automated way of filing tax returns and a long-term goal. Figure 2.4 diagrams the workflow for electronic filing option. Even though this is the preferred tax filing method in the long-run, the constraints imposed by KRA's network may dictate restricting the full roll-out of this filing method initially.

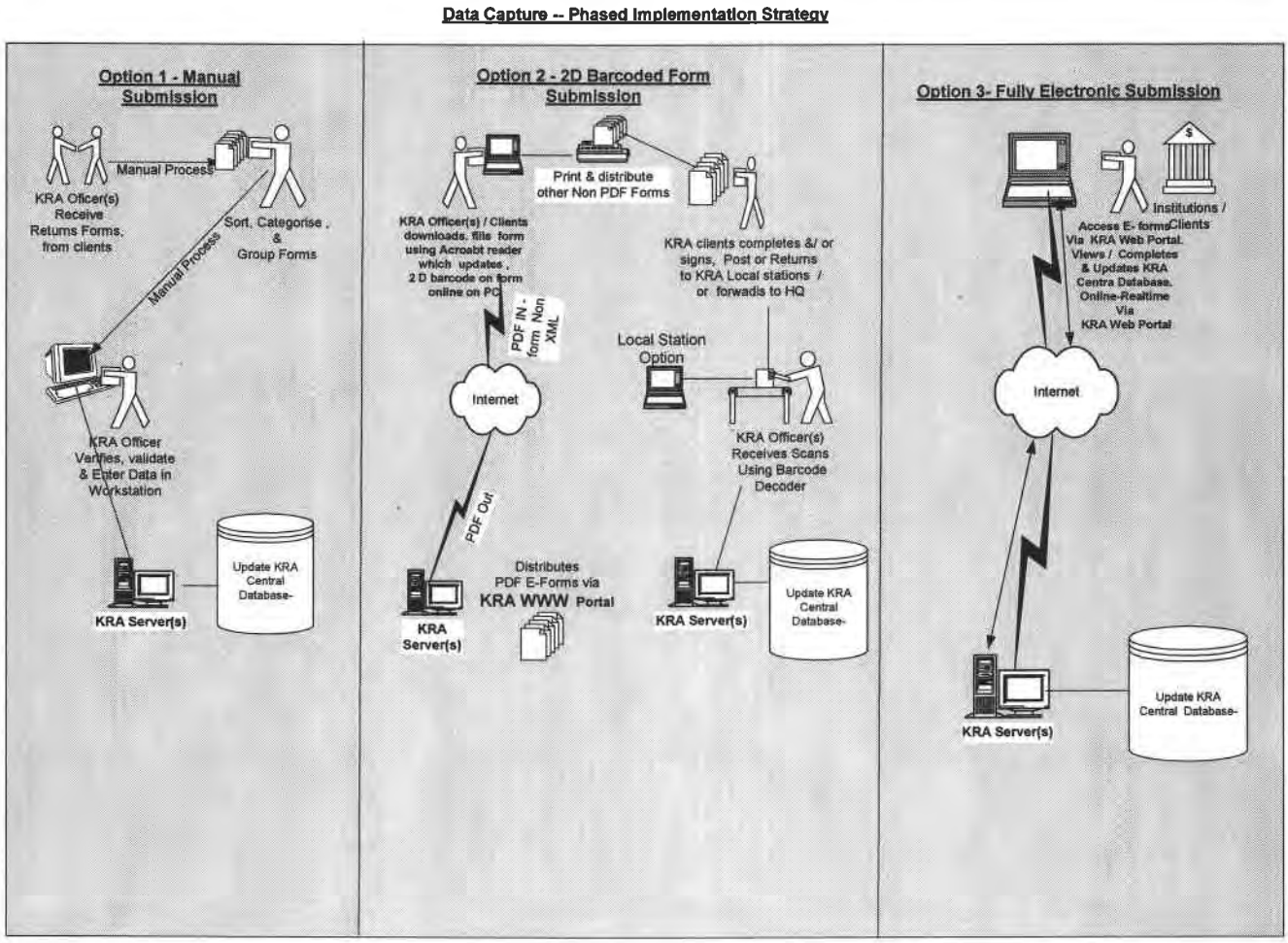
Figure 2.4: Fully Electronic Tax Return Filing



Based on the bandwidth availability and technological maturity of the taxpayer base, KRA may initially need to provide for all three filing methods. KRA could manage the proportion of taxpayer base utilizing the manual, 2-D bar-coded and fully electronic filing means by changing the policy mandates for filing (based on size and type of taxpayers) in the early years of ITMS deployment. For example, it may initially specify that all LTO taxpayers must file electronically (LTO taxpayers represent about 50% of the revenue but would add minimal network traffic) and other taxpayers should either use bar-coded or hand-written way of tax filing depending on their size. As the network infrastructure and IT capabilities of the taxpayers mature, policy mandates may eliminate the less desirable filing options (such as hand-written forms) entirely.

Besides allowing for phased transition to electronic filing, an additional advantage of phased implementation strategy is having in-built redundancy in the filing process. If new electronic filing option encounters some technical hiccups, KRA has the option of switching to the other two options for all taxpayers. Figure 2.5 shows an implementation strategy employing all three filing methods at the same time.

Figure 2.5: Phased Implementation strategy from Paper to Electronic Filing



3. Features Required in ITMS

This section presents the general requirements and specific requirements by business process.[15] Figure 3.1 diagrams general features of the future ITMS. More details of individual components are provided by process later in this section.

There are several general requirements. First, the ITMS should provide for manual, bar-coded as well as electronic filing methods. Second, the system should accept data feeds from the personal ID database of the National Registration Bureau (NRB). Third, it should also provide for a linkage and feed from central bank of Kenya (or all authorized banks for receiving tax payments and issuing refunds). Fourth, the central database where the taxpayers' tax information is stored should be able to be viewed as a single view or by tax types and should allow for generating views/reports for management and statistical purposes. Fifth, the central database information should be mirrored to a disaster recovery server.

3.1 General Requirements

User Interface Requirements:

1. System should provide GUI based interface for all users.
2. System should provide simple Data Entry forms for Data Entry Operators.
3. The user interface provided should be consistent in presentation.
4. Data Entry could be facilitated by Form No. Line Number design to allow for easy change to forms in future as the tax laws change.
5. System should be modular and parameterized with respect to interest rates, terms of payment, tax-types supported, so that future adjustments to the system to reflect new tax laws could be made easily.
6. The system should provide help function in system's interface. Help system would preferably be customizable to link documents on Kenyan tax system.

Security Requirements

7. Security is an important consideration in a tax administration system because the information is very critical and sensitive. The system should provide for a very high degree of security using various encryption techniques to protect against unauthorized use of the system and to foil indirect access to the underlying data.
8. The system should support provision of different roles and jobs to the users of the system which will determine their level of authentication.
9. The security of data would be by authentication levels defined and system should have password security.
10. System should restrict ability of users to update their own personal tax information without approval from higher level user.
11. The system should record audit trails, such as the identification of users that modified or retrieved the information with date/time stamp and workstation id for subsequent control of the operation and security of the system.

[15] This report does not contain all processes as outlined by the KRA in Annex 1 to the modified TOR. These processes will be expressly included in the Task 2b report.

Document Management/Retention Requirements

12. The system should track all incoming and outgoing documents by a Document Locator Number (DLN), which may include a document group number), transaction date, operator ID, and DLN of a related transaction (e.g., of the reversed transaction). The format used in the United States for DLN for reference is:
    a. Digits 1 and 2 = Filing location code (the processing center or local tax office)
    b. Digits 3 = Tax Class (type or category of tax)
    c. Digits 4 and 5 = Document code (tax form or transaction form)
    d. Digits 6, 7 and 8 = Julian received date (or effective transaction date) can be post office date stamp, Data Processing Center date stamp, local office date stamp, etc.
    e. Digits 9, 10 and 11 = Block series
    f. Digits 12 and 13 = Serial number (document with the block, 00 to 99)
    g. Digit 14 = List year (processing year, generated by the computer).
13. The system should allow for electronic storage of copies of all documents (registration forms, returns received, payment vouchers, taxpayer notices sent) for at least seven years to support the statute of limitation requirements as per Kenyan Tax laws.
14. The system should be able to scan the bar-coded forms to populate the basic information for data entry. The system should allow for 2D bar-coded pdf forms to auto capture the data on the forms.

Backup and Disaster Recovery Requirements

15. The system should make daily/weekly and monthly backups of the database to allow for recovery.
16. For disaster recovery, the system should allow for a mirror site where data could be mirrored.

Performance/Throughput Requirements

17. The system should be able to process and post 55,000 income tax returns a day.
18. The system should be able to process and post 5,000 PAYE returns a day.
19. The system should be able to process and post 16,000 VAT and 2,000 KEBS returns a day.

Internal Control Requirements

20. The tax system should provide all of the necessary internal controls needed in an accounting system for maintaining the integrity of the data stored in the system. As the system becomes more defined, it will become possible to specify what these controls will need to be.
21. The system must be able to do an accounting period-end processing in order to be certain that all accounts are in balance before allowing the closure of the accounting period.

External Control Requirements

22. The system should provide for reconciliation and control using information outside the system. The external controls could include document group control totals such as total documents, total debits, and total credits for each group of documents entered and "contra" or external ledger calculations (e.g., amounts received by region, tax, etc.) that

can be used to reconcile data in the computer. For example for Cashier's Daily Receipts journal, receipts must be balanced exactly with the receipts on hand at the end of a day.

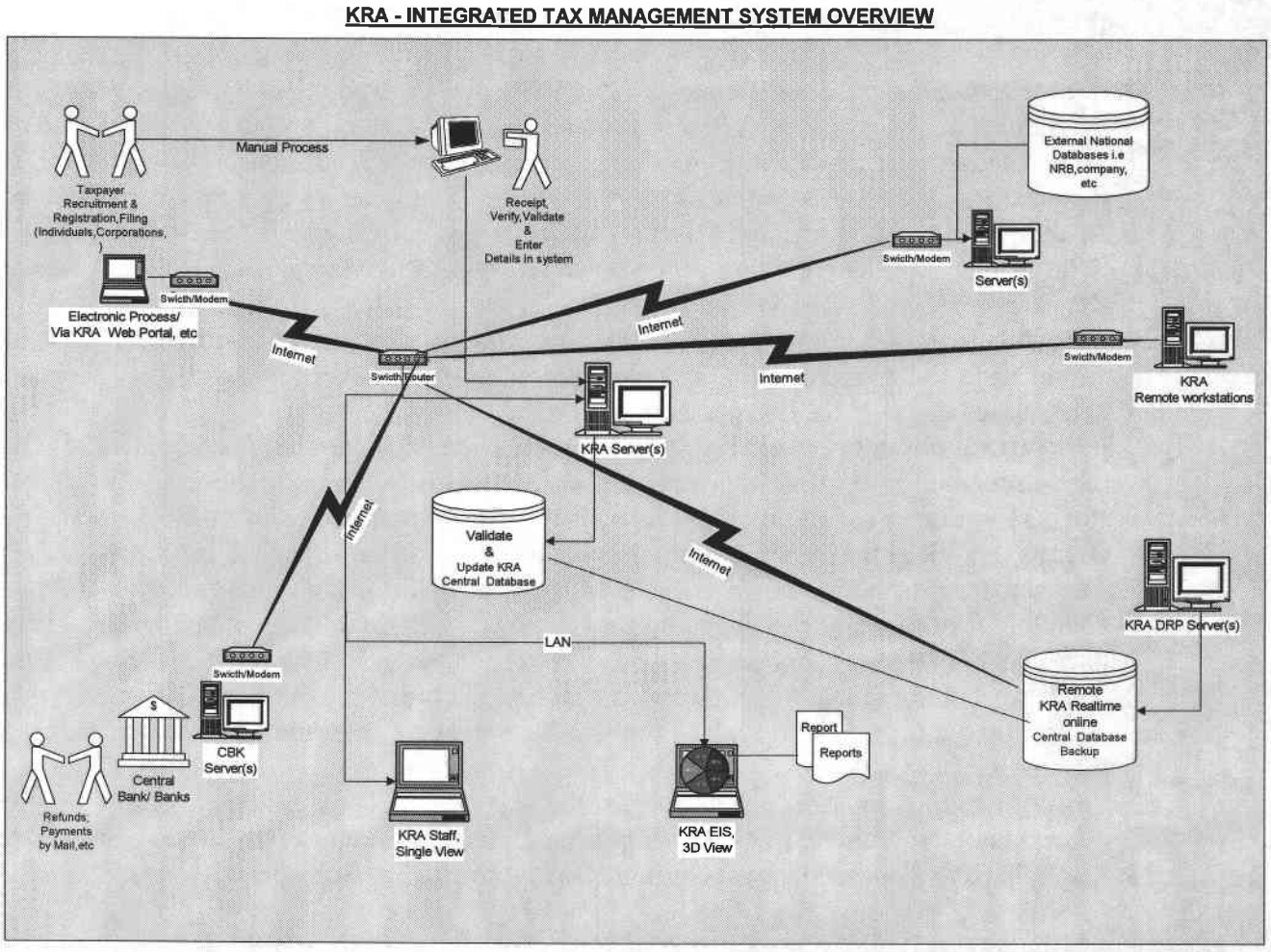
Remote Site Support

23. System should have ability to define a site as head office, regional, or station or district and satellite office.
24. It should also provide for export and import of data electronically (magnetic media or data communications links) between sites and Headquarters.

Workflow Management

25. The system should provide workflow management capabilities. For example, when the audit department generates a list of taxpayers to be audited, the email notification to appropriate field audit staff with relevant subset of audit cases should be made by the system.

Figure 3.1: ITMS System Overview



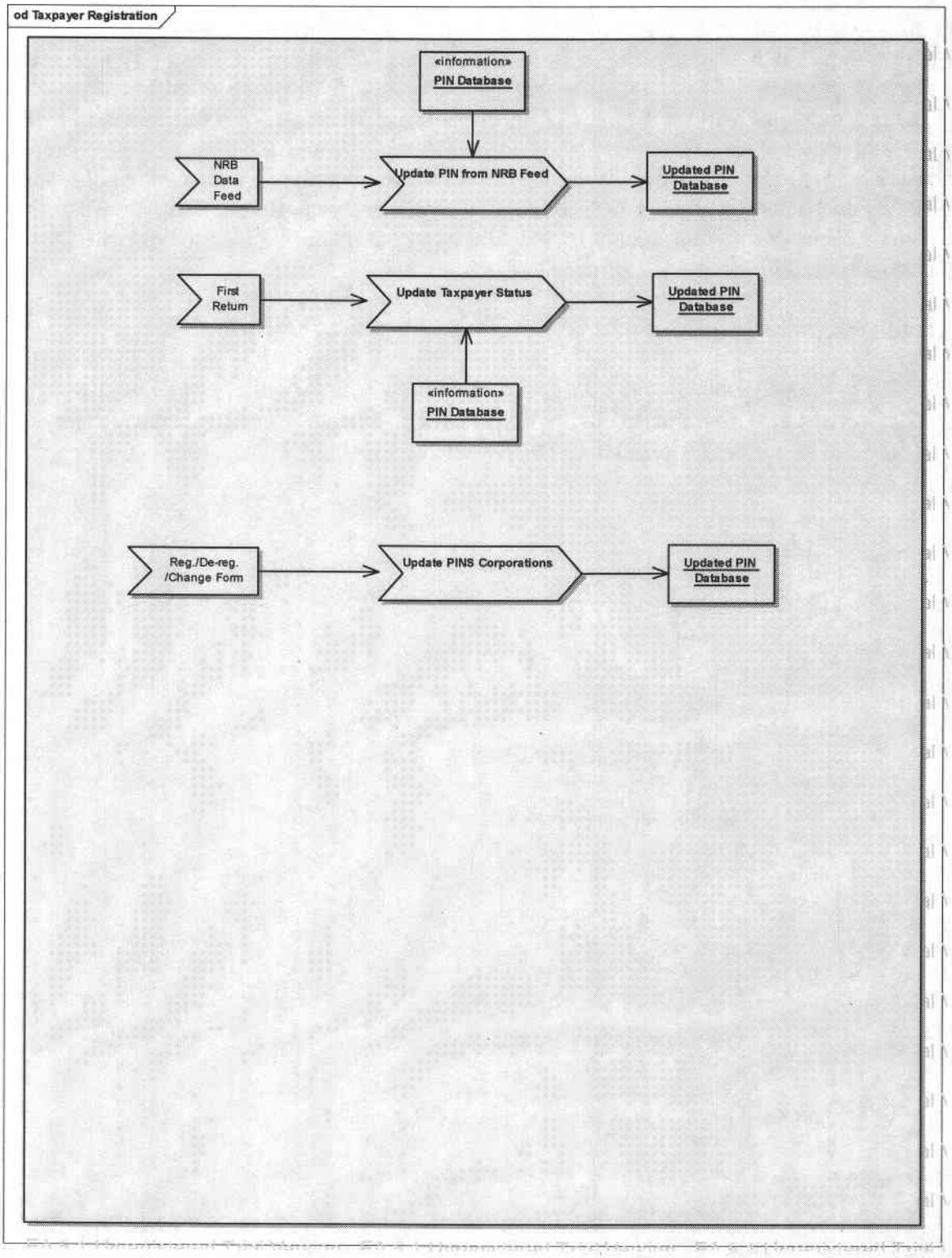
3.2 Taxpayer Registration System

The taxpayer registration process/module of the future Integrated Tax Management System would have the primary responsibility of the managing the PIN database for both individuals and legal entities (corporations, partnerships, parastatals, etc.). As currently envisioned, the PIN database should have a direct feed from the Personal ID database from NRB. In addition, DTD should continue to provide registration/de-registration/update capabilities for legal entities. In future, a feed similar to NRB could be established with various registration bodies for legal entities, for example, the company registrar's office. As a general rule, PIN numbers should become part of the PIN database as soon as the PINs are issued (for example, at birth for individuals and at formation of the corporation). Thus, the PIN database should have a total base of individuals/corporations (whether they are active taxpayers or not). More complete the PIN database is, more successful the taxpayer recruitment process is likely to be. The feed/linkage from NRB database to KRA should provide information on all newly issued PINs as well as updates to existing PINs (such as change of address/death, etc.). The frequency of feed would need to be a consideration in final implementation of the ITMS.

Requirements:

26. A centralized database for Taxpayer PIN (Individuals/Corporations/Vehicles) should be maintained in the system with PIN information.
27. This database should be able to accept a linkage or a feed from NRB database on Personal Ids. In future, a similar feed from company registrar's office may be developed. At the present, the company registrar's office is not computerized at a sufficient level. KRA might consider putting a commercial registration terminal at the Company Registrar's office.
28. For individuals, when taxpayer files the return for the first time, the Taxpayer database would need to be updated for status of the taxpayer after verifying that such a record exists based on NRB feed on personal ids.
29. For corporations, a tax payer registration process should be provided. It should allow for registration/de-registration and changes/updates to registration information.
30. Registration for corporations could take place at Headquarters/Stations offices around the country as well as the system should provide for registration via web to taxpayers.
31. The taxpayer database should include name, date of birth, main address and alternate addresses. For corporations, it should provide for date of establishment, main address and alternate addresses, taxpayer classification, economic activity, etc. Furthermore, the database should include fields on type of taxpayer, status of taxpayer, taxpayer segment, accounting periods. (The design of this database may get re-designed as part of the BPR exercise in Task 1.b).
32. For corporations or other legal entities, the system should be able to record PINs for owners (sole proprietorship/partnerships) and directors for public corporations.
33. It should have a provision for recording Bank Accounts belonging to taxpayers.

Figure 3.2 Taxpayer Registration



3.3 Taxpayer Recruitment

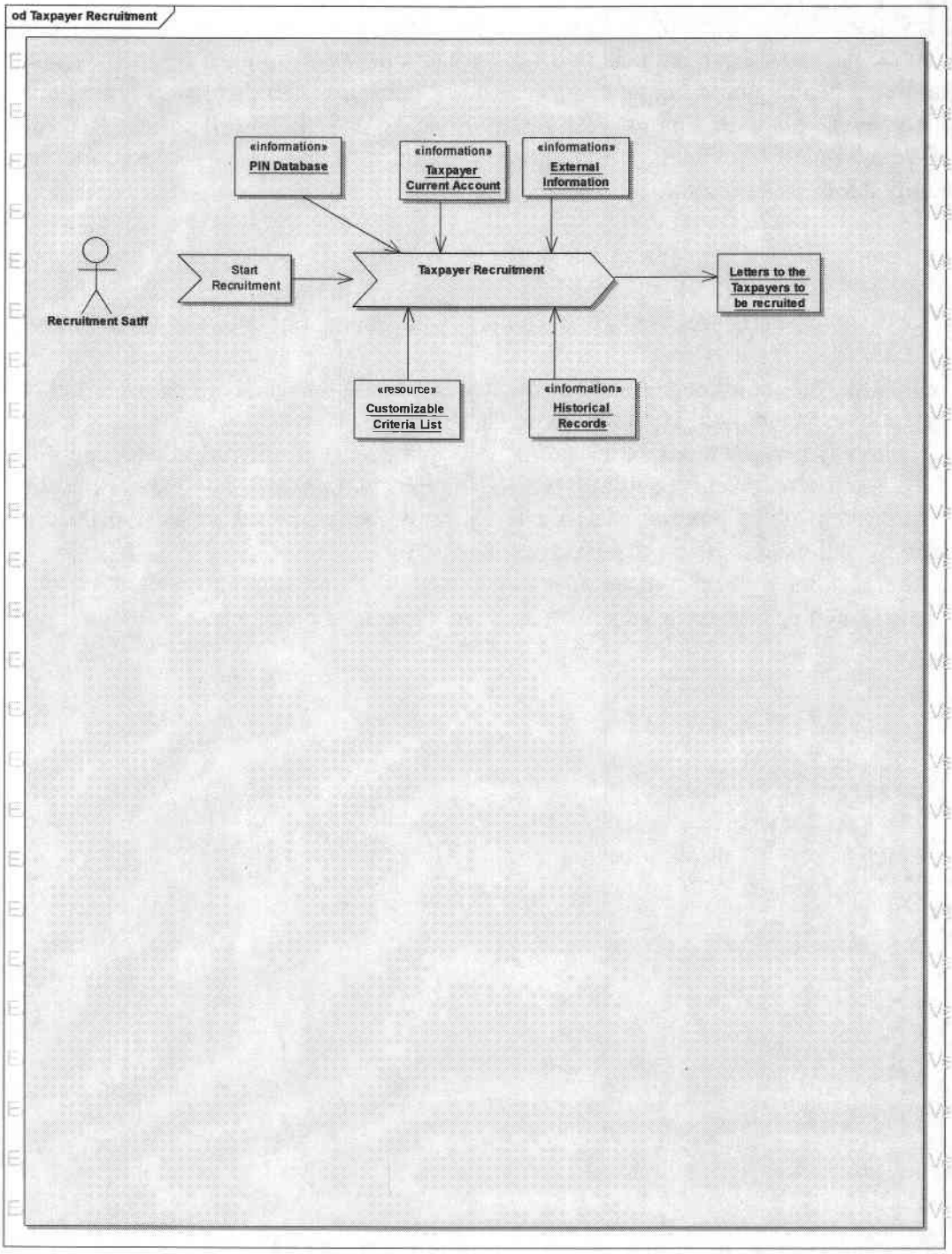
The taxpayer recruitment function (currently housed in Taxpayer Services) is to recruit persons/entities which have income or revenue liable for tax but are currently not in the tax net.[16] The primary purpose is to increase revenue collection. To help in the recruitment process, the KRA staff would use various sources of information related to taxpayers both within KRA's systems and external data sources. The proposed system should have an external information database where information from different external sources (both sources outside KRA and from sources inside KRA but outside DTD) could be organized and stored. This database together with taxpayer current account database and PIN database could be used to generate the list for taxpayer recruitment.

Requirements:

34. The system should support selection of taxpayers based on a customizable list of criteria for recruitment for a particular type of tax. The system should generate letters for thus selected taxpayers for expanding the tax net and reducing the non-filers.

[16] The Contractor's Task 1a report recommends shifting this out of Taxpayer services, and to Collections and Compliance.

Figure 3.3 Taxpayer Recruitment



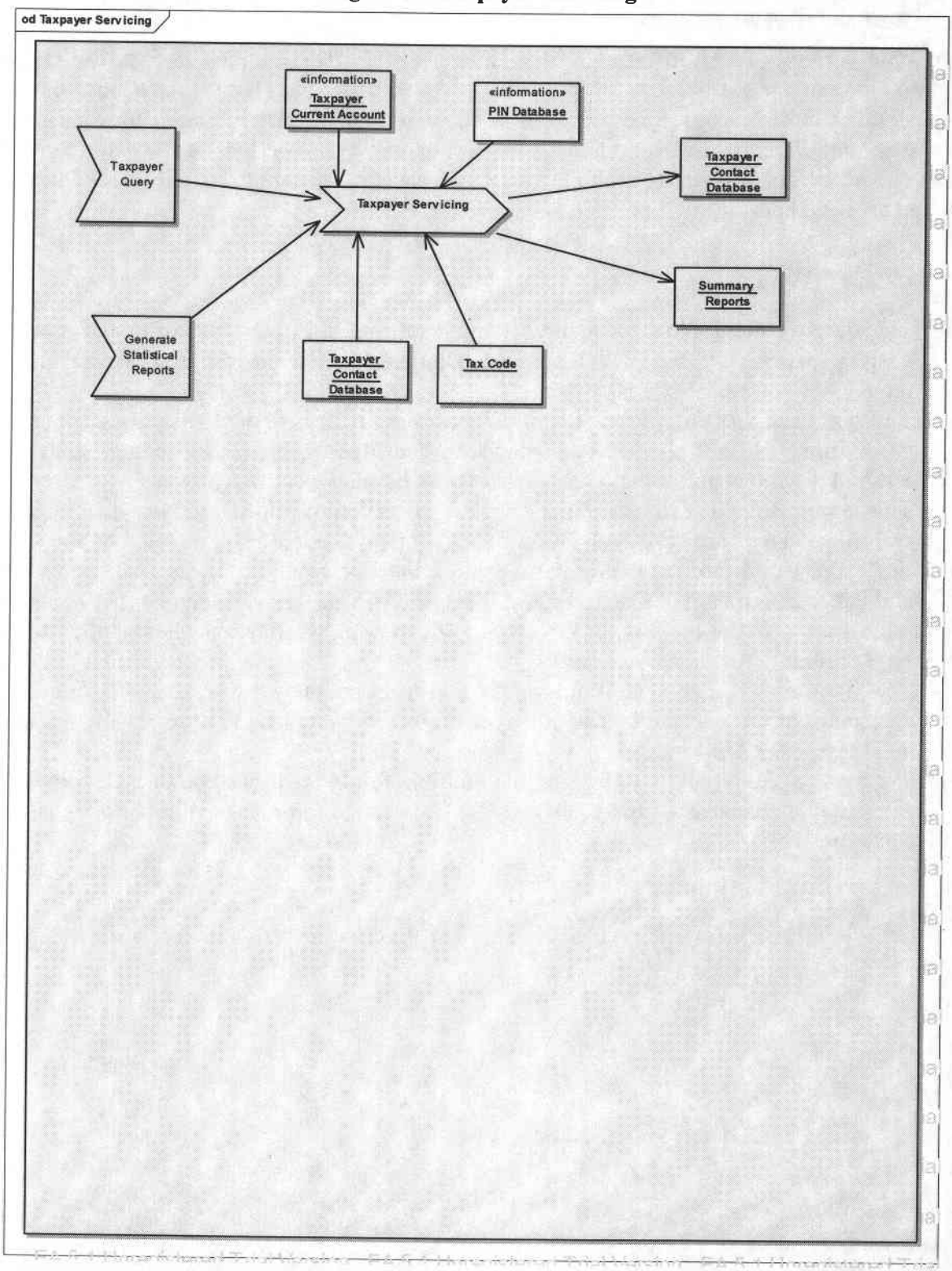
3.4 Taxpayer Service and Education

The taxpayer service and education function informs taxpayers about tax laws, procedures, their current taxes, payment arrangements and tax legislation. When request of such service is made by the taxpayer it falls under taxpayer service sub-function. When the tax authorities proactively educate taxpayers about tax laws, filing requirements and their obligations it is referred as taxpayer education. This function is similar to running a call center operations and similar functionality needs to be provided.

Requirements:

35. The system should provide for running a call centre operation for answering taxpayer questions.
36. The taxpayer inquiries could be presented in a walk-in service type environment; on the telephone, in letters of correspondence or via web.
37. The taxpayer contact database maintained by the system must be able to record the name of the assistant, date, type of tax, type of inquiry, and primary question or questions.
38. The system must generate statistical reports of walk-in service, on the telephone or in correspondence in different periods of time.
39. The Tracking System will be able to prepare trend information in the type of questions being asked or type of taxes giving taxpayers the most problems.

Figure 3.4 Taxpayer Servicing



3.5 Returns Receipt/Processing

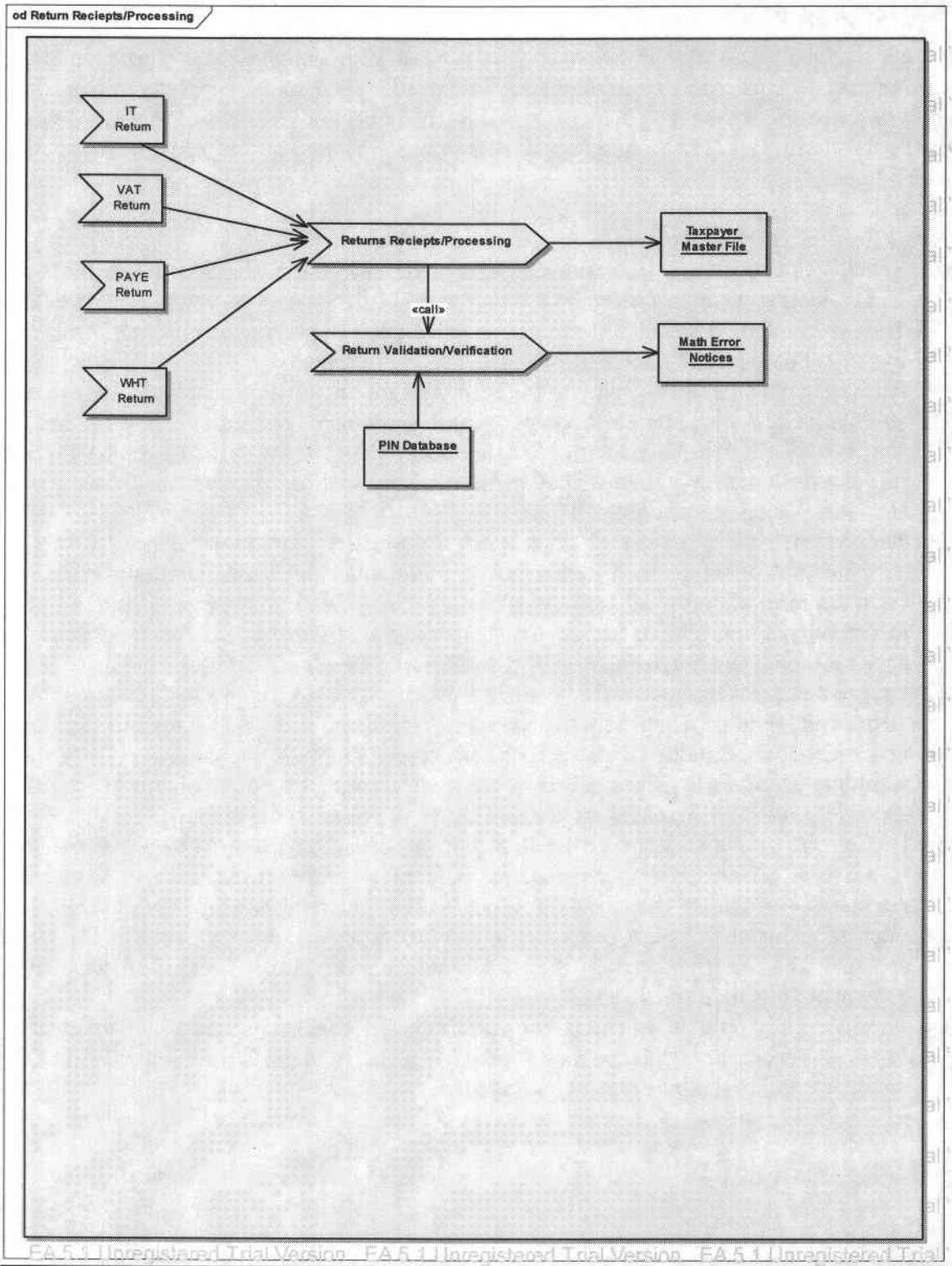
Returns are currently received through hand delivery to the DTD station assigned to taxpayer based on hid geographical location or by mail. However, under the ITMS, the returns could also be web-filed or electronically filed using ftp or encrypted email[17]. Due to late filings, it is likely that system could receive forms pertaining to more than one tax periods at the same time. The system should be able to handle multiple versions (related to different tax periods) of the same form and process them appropriately.

Requirements:

40. The system should allow for receiving and capturing different types of taxpayer returns, such as Income Tax, VAT, PAYE, WHT, Domestic Excise and other tax returns used by the KRA's domestic tax department.
41. The system should provide several options of filing returns to the taxpayers, such as web-based filing, fill-in forms to be downloaded/filled/filed by ftp/email or paper-based filing. KRA may choose that some returns would only be filed electronically.
42. This system should perform validation and verification of information on the returns. For web-filers, a reduced set of validation and verification should be completed online.
43. For paper-based returns, the system should allow for grouping of tax return documents and the determination of group control totals prior to data entry. Document groups would typically be by tax type, with different verification and validation rules applied to each type of return.
44. Any math errors encountered during the return processing should generate a notice for correction of error to the taxpayer. Taxpayer would have an option to review the notice and dispute KRA's notice.
45. The system should allow user to define multiple forms for each type of tax as tax return forms could change over the years and KRA may need to process multiple periods at the same time.

[17] See the discussion in the earlier section about use of 2-D bar-coded pdf forms at KRA to reduce the data capturing overhead and processing time.

Figure 3.5 Return Receipt/Processing



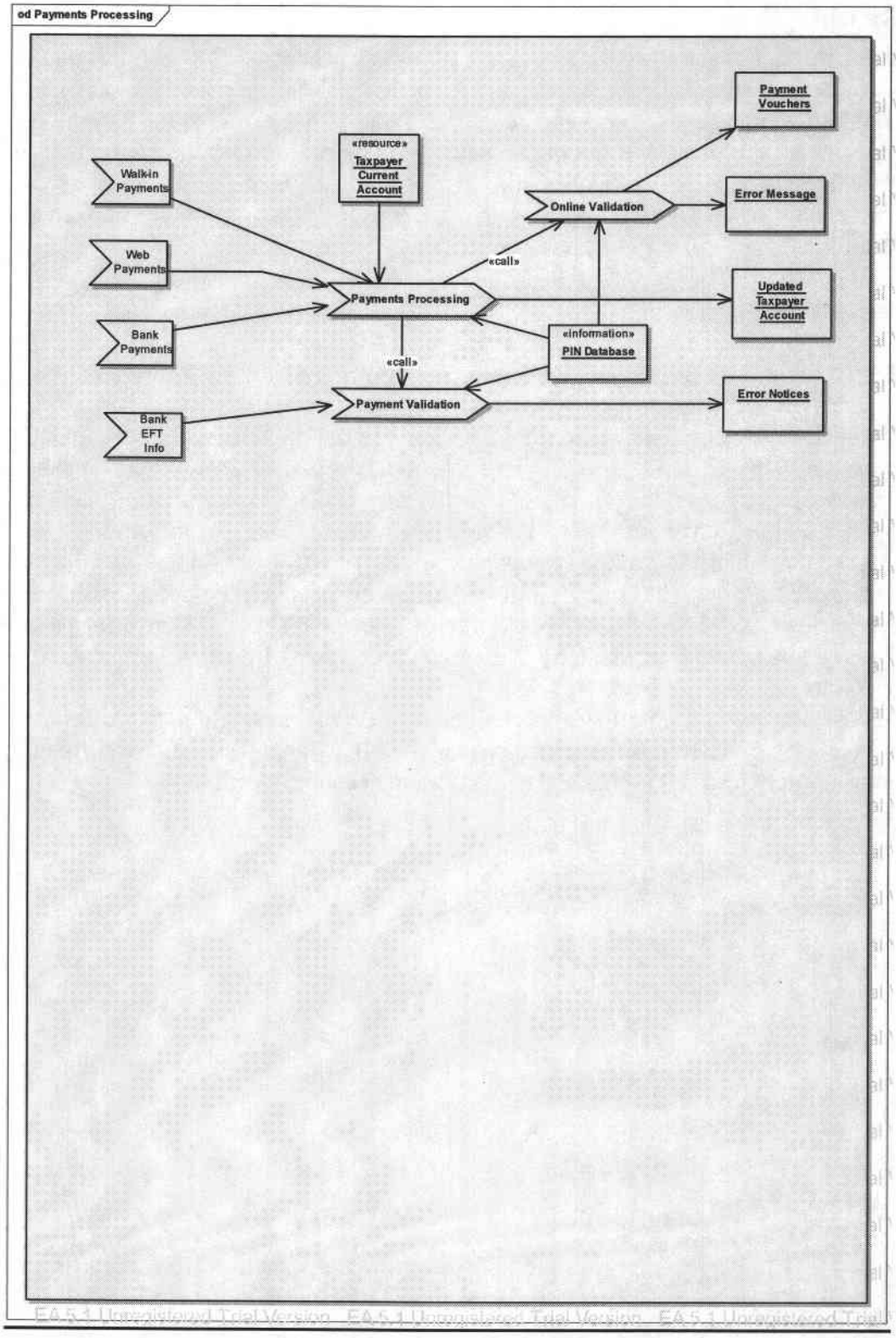
3.6 Payments Processing

Payments may be made by the taxpayers via several payment methods. Current methods of payment (cash, cheques and bank deposits) would still need to be supported. In addition, if feasible in Kenya, in future the payments could be made on-line by the use of credit/debit cards. Normal control processes for running a cash-receipts window needs to be provided by the ITMS.

Requirements:

46. Should regulations allow and a decision is made, the system should provide for receiving and validating payments made by the taxpayers via Internet (via credit/debit cards).
47. The system should have ability to get, validate and process the payment information sent by the collecting banks on magnetic media or via Internet.
48. All the payments made should be recorded in the central database and should be automatically reflected in the taxpayer's current account.
49. The system should allow for the follow-up of each transaction and keeping the control information (such as mode of payment, date, transaction numbers or cheque numbers, etc.) identifying the amount collected.
50. The system should be able to track amount collected and amount deposited in Kenyan Treasury and flagging any differences in amount collected vs. amount deposited.
51. Payment information from banks must be reconciled with taxpayer returns and in case of discrepancies appropriate notices must be generated for the taxpayer and delinquency case should be generated and assigned to taxpayer's account status.
52. Payment processing for the Domestic Tax System at KRA should include a cash receipts "front end" module. Data from the cash receipts system should be automatically posted to taxpayer accounts, once validated. The cash receipts module should also provide for daily summary reports of cash received by tax type, taxpayer type. Furthermore, the module should be able to print payment vouchers to be provided to the taxpayer.
53. Unidentified payments should be kept into a special account called *suspense account* (often the "999999999" account) that is kept to record unidentified payments, i.e., payments for which the taxpayer identification number cannot be determined. It is important that the system provide a means of reporting on payments in the suspense account and of transferring the payments to the correct taxpayer account with accompanying audit transaction trails.
54. The system should allow processing of bounced checks returned due to insufficient funds. Appropriate adjustments to taxpayer's account and generation of notice for bounced check event needs to be provided.

Figure 3.6 Payments Processing



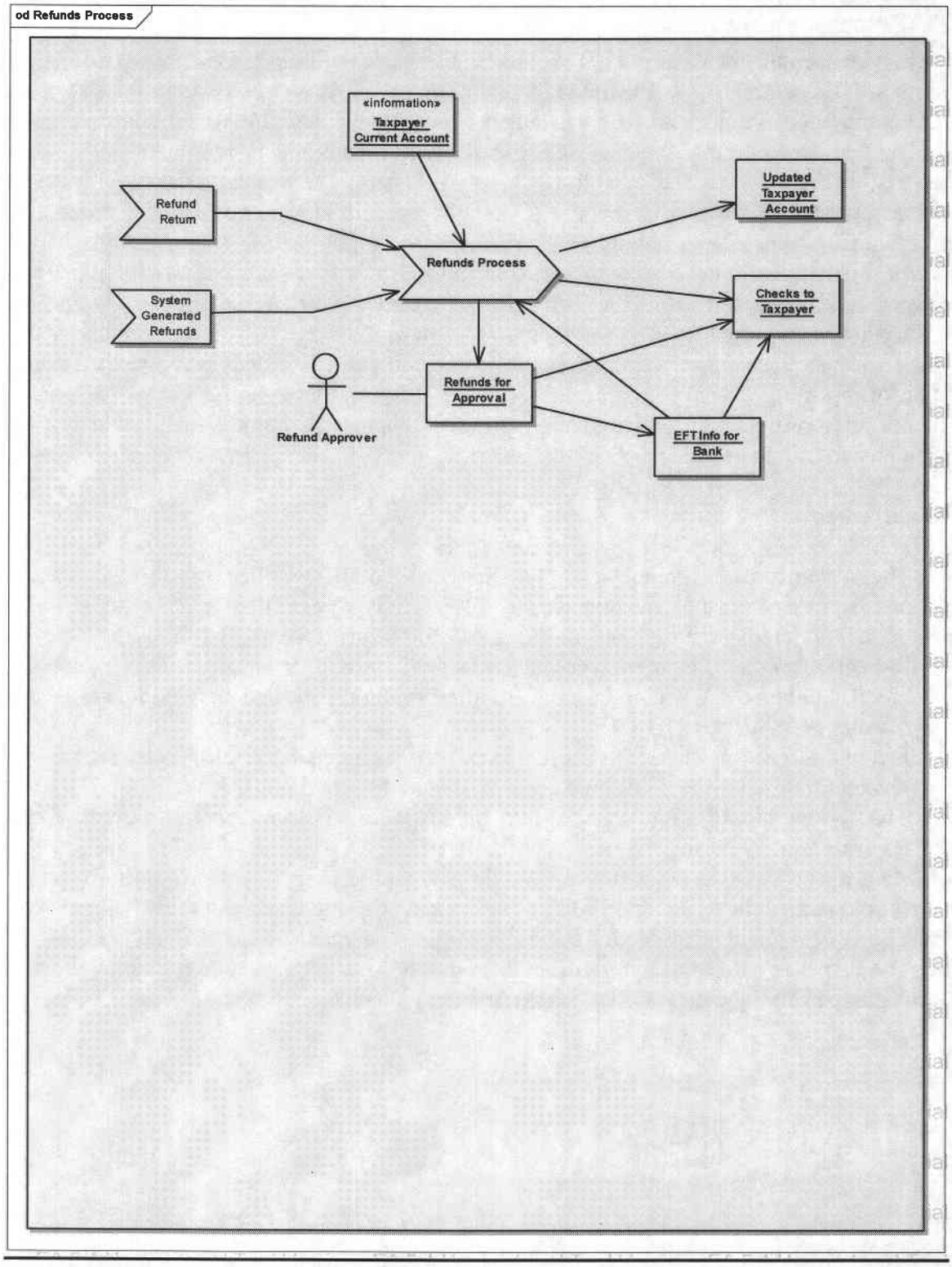
3.7 Refunds

The refunds transactions are generated as the returns are processed. The refunds could be either directly mailed as refund checks by the KRA (below a KSh threshold amount) or made by Central Bank of Kenya to the taxpayers' accounts. Some refunds (due to the nature or amount of refund) may need approval by appropriate KRA staff before checks can be issued. For refund checks issued, a status flag to reflect cashing of the check on taxpayer's current account should be kept. Similarly, when an EFT transfer has been consummated, the flag on taxpayer's current account should be appropriately updated.

Requirements:

55. As the returns are processed, the system should generate refund transactions to be applied to taxpayer accounts.
56. Refund transactions should have provision for approval by appropriate KRA person based on type or amount of refunds. Approver's ID and should be tracked with the approvals.
57. System should have ability to generate the refund checks for refunds lesser than a threshold amount to be mailed to taxpayers.
58. The system should have the ability to generate lists of taxpayers and amount to be refunded by tax and transmit the information to Central Bank of Kenya for payment.
59. The system should have ability to issue direct EFT transfers refunds to taxpayers' accounts.
60. The system should also have the ability to receive information from Central Bank of Kenya when the refund payment is made so that taxpayer status information can be appropriately updated in the taxpayer's current account information.

Figure 3.7 Refunds Processing



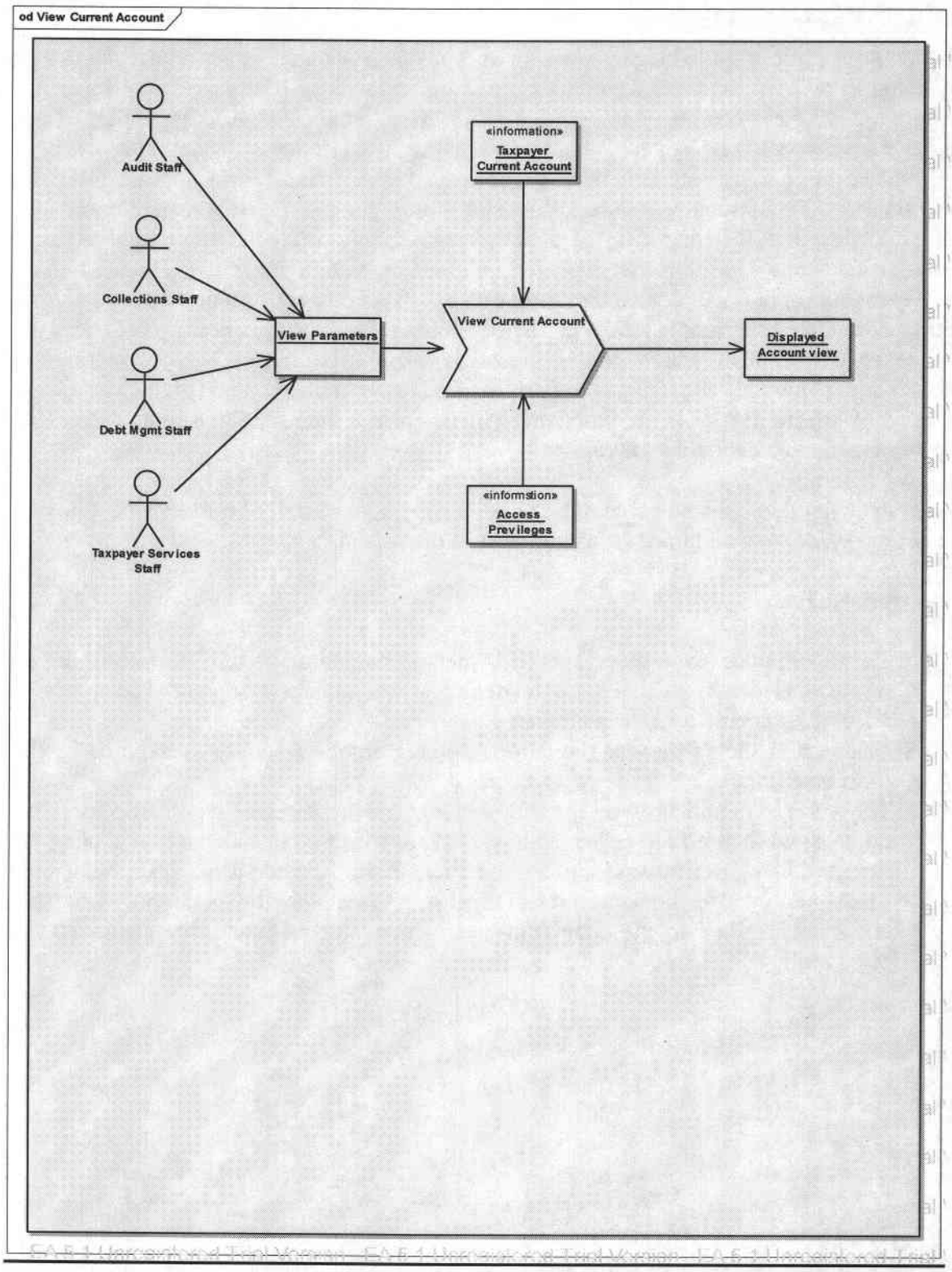
3.8 Taxpayer Current Account (Single Account View)

The taxpayer account database which would be the basic building block to provide a "single account view" is central to the integrated tax solution for KRA. At a minimum, the ITMS should provide comprehensive current account, ledger accounting, internal/external controls and audit trails. The taxpayer current accounts database should be centralized, relational and integrated, and accessible on an as-needed basis throughout the system. The system must provide a view of the tax account for all taxes or a specific tax at any given time. The tax periods, taxpayers, and revenue types as well as any ranges of the three for these queries must be definable within the system in order to restrict the view to particular periods. Furthermore, the system must provide accounting summaries and detail for each taxpayer's liability for each particular tax and period. This should be supported by necessary internal controls, audit trails. The application should provide a means of placing certain payments (which can't be identified) into a suspense account and also of reporting on payments in the suspense account. Once the payments are transferred out of the suspense account and into their proper accounts the application should provide an audit trail as described above.

Requirements:

61. The system should provide a single taxpayer account view tracking the liabilities owed and payments made by the taxpayer by different tax types. There must be audit trails with debit and credit transactions to track all financial activity (liabilities and payments, respectively) on a taxpayer account. *Audit trails* provide a means of tracking debits and credits applied to all accounts. Audit trail information recorded should include Document Locator Number (DLN).
62. Erroneous postings must be corrected by "backing out" the error transactions with a reversal transaction (a debit for a credit and a credit for a debit).
63. The system should allow user to limit the taxpayer's current account view to a specific tax type or a tax period.
64. Returns processed, payments received, payment arrangements, resolutions and fines should appropriately be updated into the Taxpayer's single account view.
65. The system should provide for correction returns/payments to be filed and applied.
66. The taxpayer current account information should have a status code reflecting the account is part of a delinquency, collect, audit or a debt management case.

Figure 3.8 Taxpayer Current Account View



3.9 Taxpayer Notification

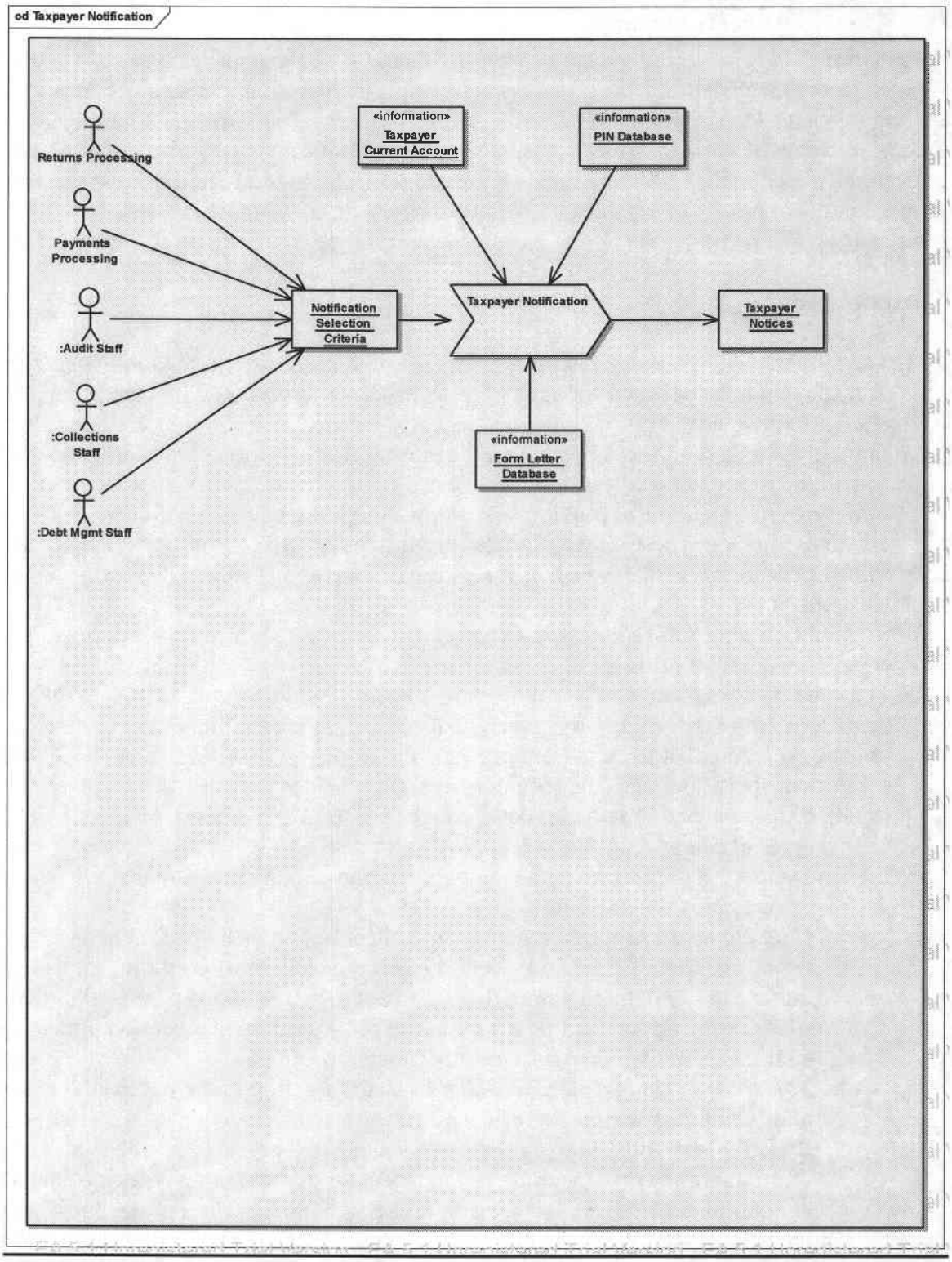
The taxpayer notices could be generated for arithmetic error on the paper return and those related to delinquency. The math error notices are informational and taxpayer may have option to dispute the error corrections done by KRA's system automatically. Another aspect of notices is delinquency notices. The system should monitor taxpayer accounts for delinquency in payment and returns filing. The software should automatically generate notices for the following non-compliant conditions such as failure to file, stop filing, late filing, late payment, non-payment or failure to pay in full. Generation of a notice for any one of these non-compliant conditions should establish a case for the taxpayer in question within the Case Tracking module. A Taxpayer Case is defined as a condition that exists in a taxpayer's record that requires tracking until resolution. The initial notice in each instance of noncompliance should be a taxpayer service style document which invites the taxpayer to meet his or her obligation in a non-threatening manner. If the Taxpayer fails to resolve the noncompliant situation, the relevant Enforced Collection and Audit functions will determine the tone of further notices and any follow up action that should be taken.

The system should be adaptable enough to add or modify the text of notices (the generic text of the notices could be maintained by a simple word processing program).

Requirements:

67. Taxpayer notices would be generated when processing tax returns to inform the taxpayer of math errors as well as due to delinquencies and assessments. The system should support automatic notice generation.
68. The system should provide the tailoring and addition of notices as required by the KRA in future.
69. The system should provide for the ability to use a standard word processor to design notices and merge PIN, name, address, amounts, and other information generated by the tax administration software into the word processing document is a desirable feature.
70. Must be able to generate automatically notices for the following non-compliant conditions: failure to file, stop filing, late filing, late payment, non-payment, failure to pay in full.

Figure 3.9 Taxpayer Notification



3.10 Case Selection/Tracking

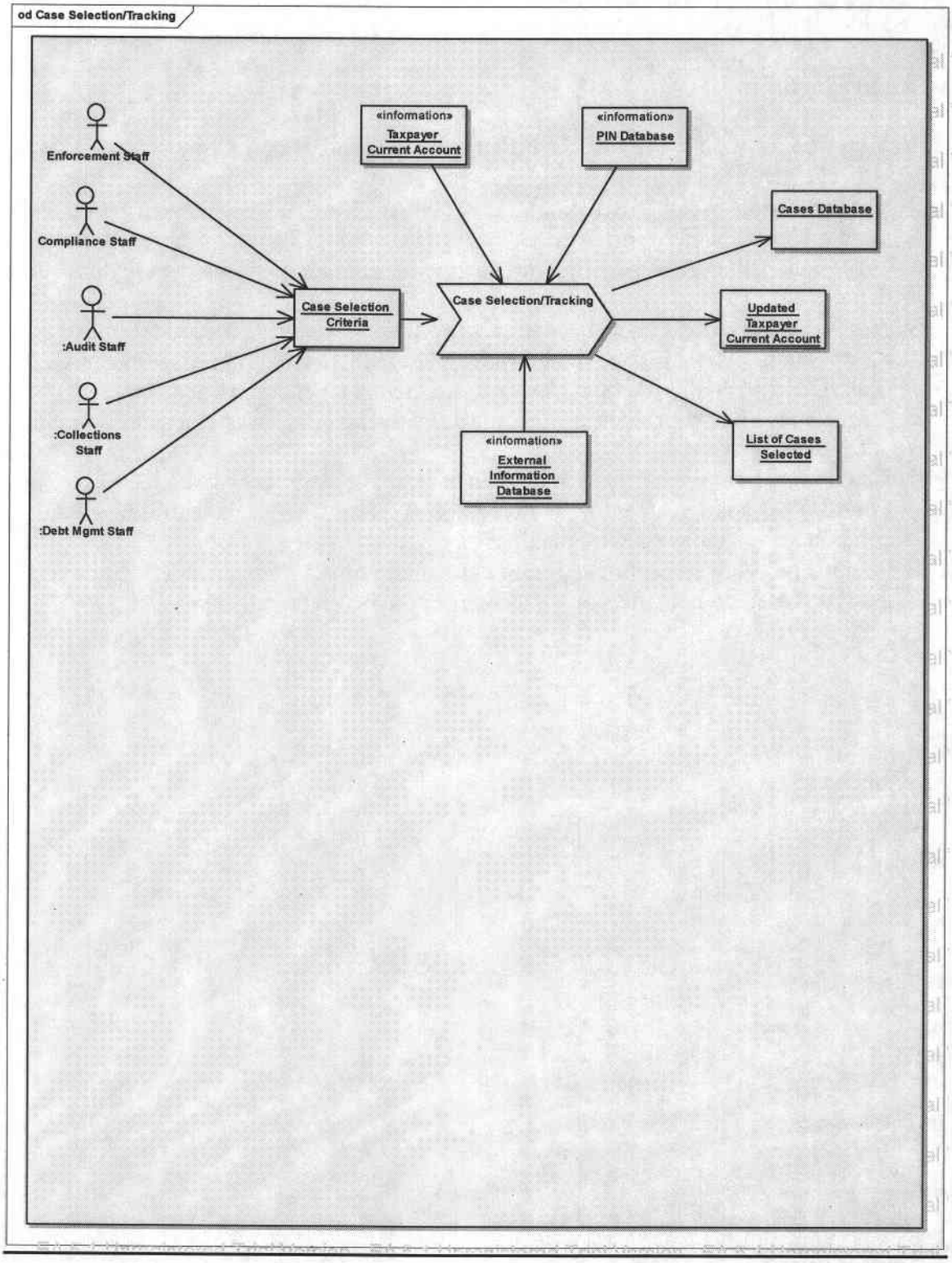
The system should have a case tracking capability that will allow taxpayer cases to be monitored as related to delinquency, collection, assessment, appeals, litigation, audit, objections and other case requirements that may be specified by the KRA staff. The case tracking capability will provide the status of each taxpayer's case and generate notices as described in the "Taxpayer Notification" functionality described above. In addition, the system should have the ability to generate list of taxpayers to be selected for audit based on a customizable risk-based selection criteria.

Requirements:

71. The system should provide risk-based analysis of taxpayer's information to generate a list of taxpayers to be selected for audit. The selection criteria should be customizable by the KRA Audit department.
72. Similarly, the system should provide for customizable selection criteria to generate list of non-filers to be examined further.
73. The system should also provide for storage and organization of data from various external sources. These external data stores would have information about taxpayer assets, revenues and net worth from external sources or other KRA systems such as Customs, RTD.
74. It should be able to search these external data sources based on user defined selection criteria to identify non-filers to be recruited.
75. The case tracking component of the tax system should provide a means of tracking taxpayer cases relating to delinquency, collection, assessment, audit, objections, appeals, litigation or some other area that the tax department decides to track. Case tracking component should provide detailed information that 1) identifies the case, 2) gives the status (state) of the case; and 3) provides details on the progress of the case. The system must track several types of cases:
    a. *Delinquency cases* are those relating to non-compliance, usually for not filing a tax return by the due date.
    b. *Collection cases* represent activity to collect liabilities owed for one or more taxes for one or more periods. Collection cases typically must go through specific steps that are easily defined within the context of a computerized case tracking system.
    c. *Audit cases* are opened as a result of a risk-based audit selection. Once opened, audit cases must follow the steps for processing audits.
    d. *Adjustment, Objection and Refund Cases* are important because of the great number of these cases.
    e. *Appeals and Litigation Cases* often extend over years; detailed case tracking information is very important to management of these cases. Much of the activity is determined by the court system and is reported to the tax department so that they can record the decisions in the system. Thus a linkage from tax court to the Integrated Tax Management System (ITMS) would need to be provided.

76. The system should provide for tracking the case through Immediate Demand Letter, Agency Notice, Distraint and Caveat stages of enforcement actions.

Figure 3.10 Case Selection/Case Tracking



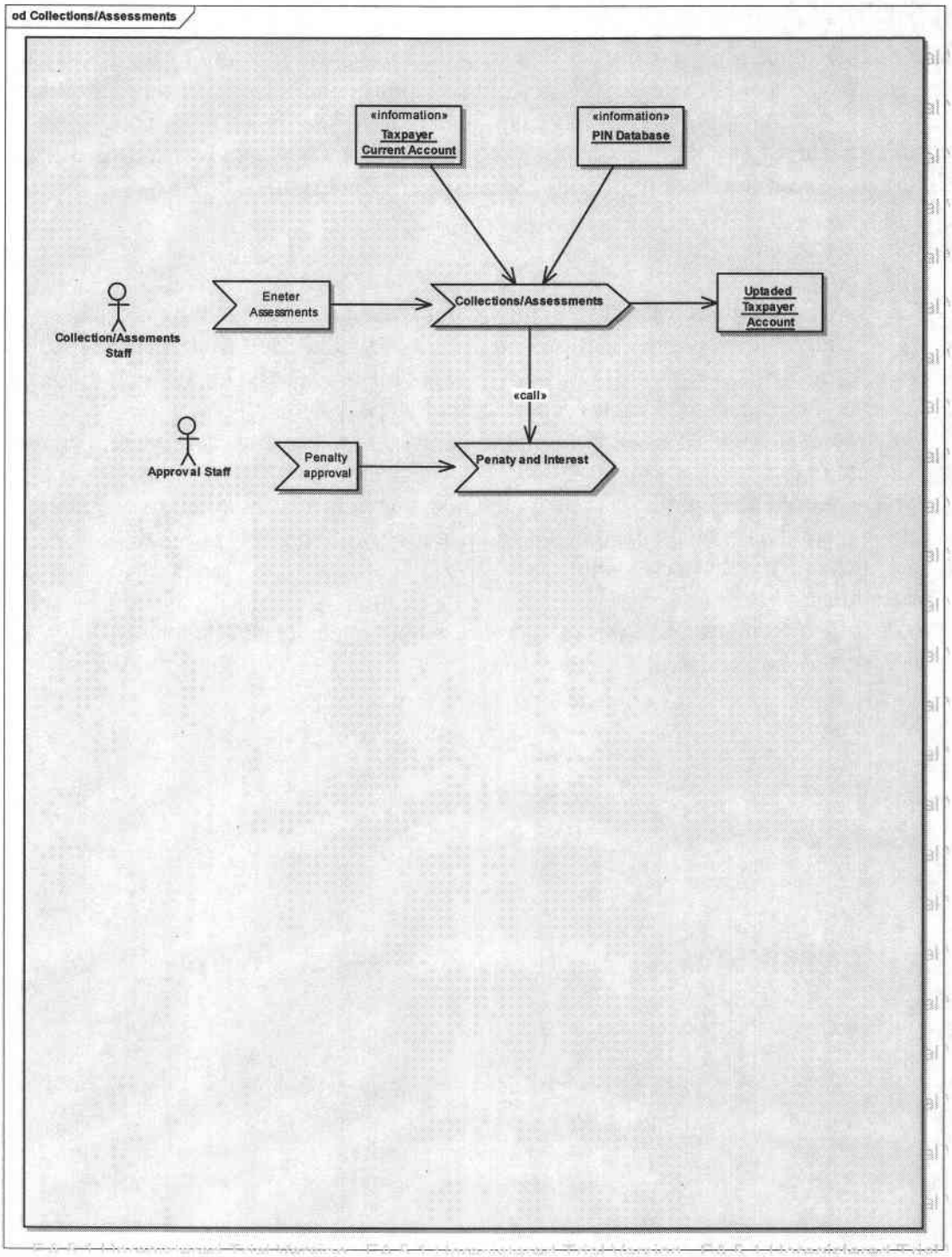
3.11 Compliance/Collections/Assessments

The system must have a collection component that will provide for the calculation of penalties, interest and refund, consistent with the Kenyan tax law. In addition, the system should be able to enter additional assessment information to a taxpayer's account based on an audit decision.

Requirements:

77. The system should provide facility to set customizable selection criteria to identify collection cases.
78. The collections component should have ability to calculate penalties and interest. The system should be able to post such debit transactions with or without intervention from collection officials, depending on the mode of operation selected by the collection department.
79. Assessments are made when a return is not filed, to override a filed return, or as a result of an audit. The system should have the ability to apply assessment transactions (liabilities and credits) to taxpayer's master file/taxpayer current account.
80. The system should provide a user interface for entering assessment information to the database.
81. Based on the taxpayer's state in the database, the system should be able to generate a list of non-filers and late-filers by tax type and taxpayer type. This would be beginning of a compliance case in the Case Tracking.
82. Users should have option to generate automatic notices for non-filers and late-filers by tax type based on non-filers and late-filers list to be sent to the taxpayers.

Figure 3.11 Collections/Compliance/Assessments



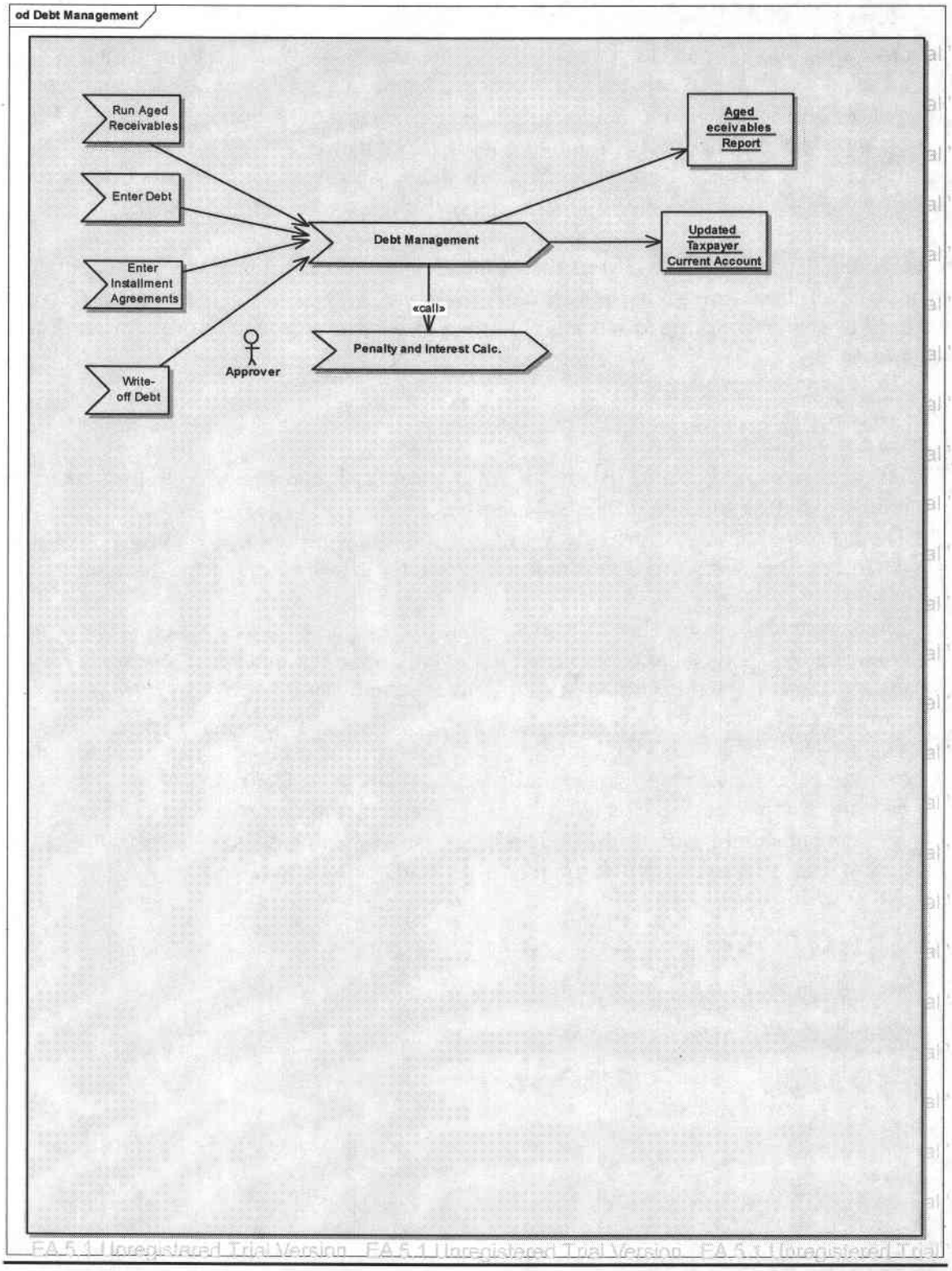
3.12 Debt Management

The debt management functionality needed in integrated system refers to the ability to record debt for a taxpayer account and apply appropriate penalty and interest to the debt owed by the taxpayer. The system should also have ability to generate reports showing debt by age. Furthermore, the ability to apply installment payment arrangements and write-offs of debt which is not likely to be recovered are important features the system should provide.

Requirements:

83. The systems should have ability to record debt owed by delinquent taxpayers.
84. Aged receivables report by station and tax types would need to be available to the users on demand from the system. Drill down capability to see the details making a particular element in the aged-receivables report should be provided.
85. The system should have ability to compute and apply penalties and interest on debt owed by the taxpayer.
86. System should have ability to update the taxpayer information after a negotiated payment arrangement has been reached between the delinquent taxpayer and KRA.
87. The system should have ability of write-off of the debt under strict authentication procedures.
88. Executive Information System should access debt management data to track write-offs by user, period, and taxpayer.

Figure 3.12 Debt Management



3.13 Report Writing/Executive Information System

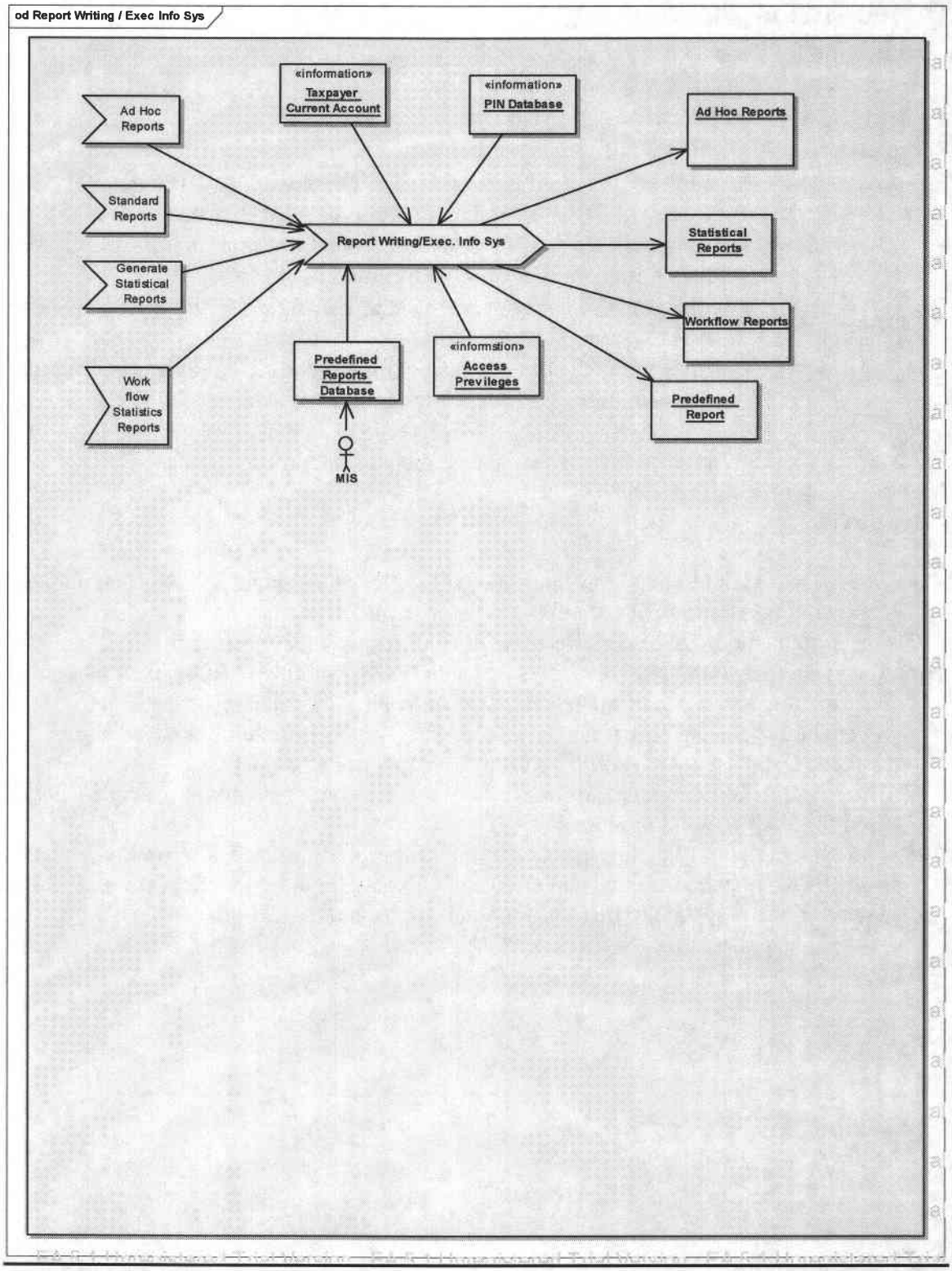
An accurate and timely reporting system can be of tremendous advantage to management. At the executive level, information reports can assist management in determining not only collection figures, but also point to the optimal locations for offices and personnel, efficiency of front line managers and staff, and additional training and development needs. At a station/regional level, information reports can be of great assistance in the compliance area. Reports generated could pinpoint weaknesses in compliance by location, type of tax, and economic sector.

Reports would also be useful as part of the audit selection process. Once there is a complete file on each taxpayer, the elements in the file, along with elements from the most recent return filed, can be used to create a risk-based scoring algorithm to determine which returns warrant selection for examination.

Requirements:

89. The system should be able to provide several standard reports as well as provide users the ability to define additional standard reports.
90. The system should also provide ability for users to write ad hoc reports against the tax database. The fields to be available to a user need to be limited by his security access level.
91. The system should be able to provide summary statistical information such as revenue collected by tax type, taxpayer type, fiscal year and geographical subdivisions for use by the executives. Such information should have several options of delivery – printed copy, worksheet and on-line.
92. The system should also be able to provide work flow related information – such as number of cases audited, closed and revenue recovered. The delivery mechanism could be printed copy, worksheet and on-line depending on the user request.
93. The system should support the budgeting process by allowing entry of revenue targets by period and tax type and providing reports tracking actuals to targets.

Figure 3.13 Report Writing/Executive Info. System



3.14 Interface Requirements

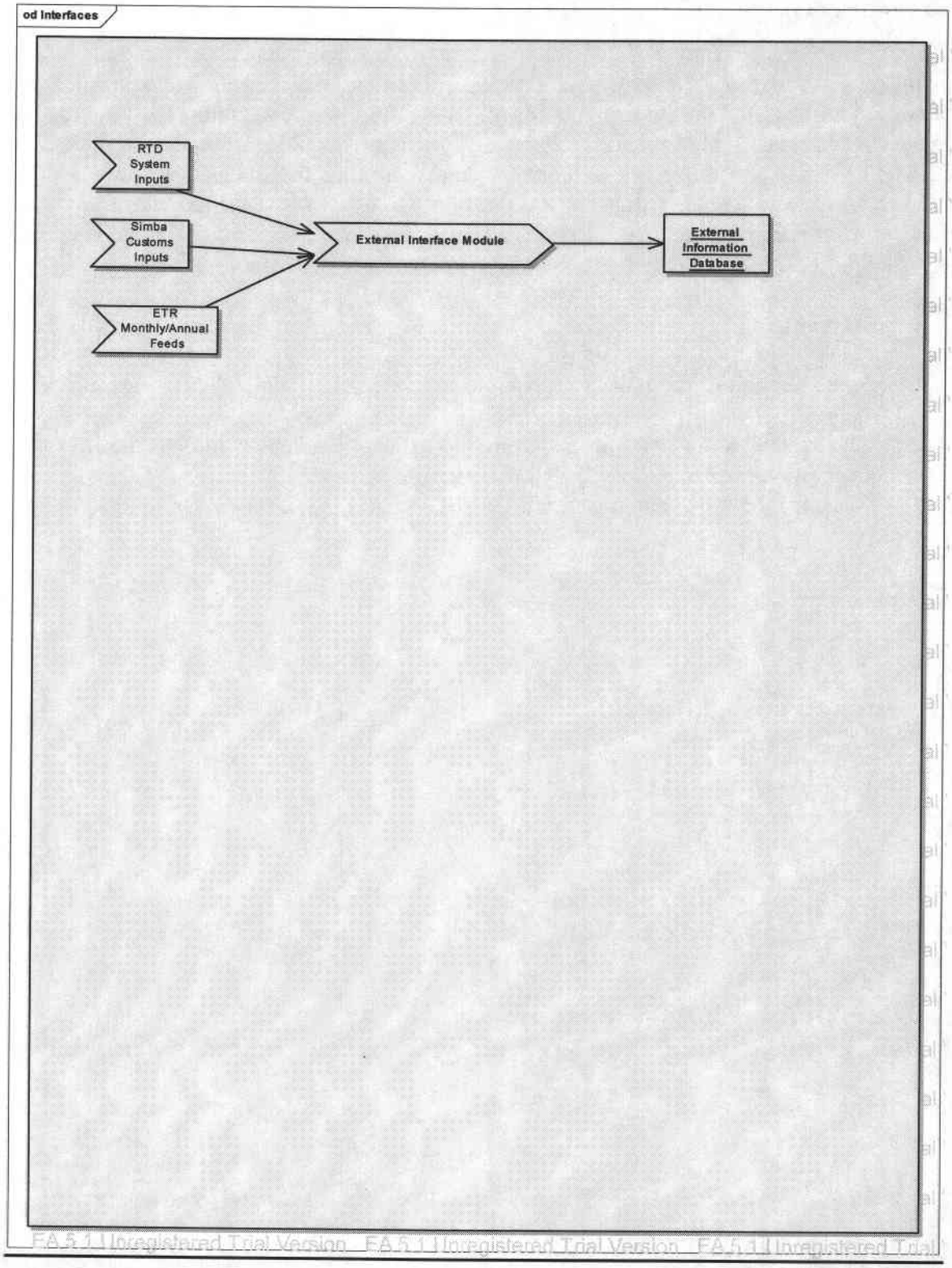
At present the following interfaces are visualized for DTD Integrated Tax System to external data sources and internal KRA systems:

- Interface with NRB data on Personal Ids/PINs
- Potentially, similar interface with company registration bodies
- Links with the authorized banks for EFT information
- Link with KRA's Simba system to provide PIN data on a real-time basis
- Link with KRA's Simba system to get information on cancelled bonds to help with compliance or audit function at DTD
- Link to RTD system to provide real-time feed of PIN database to the RTD system.
- Link with RTD to get information on vehicles registered by a taxpayer. This could be used for compliance/audit selection by DTD.
- Potentially a link to ETR data to get the monthly/annual summary reports from ETRs for reconciliation/audit purposes.

Requirements:

94. The system should be able to interface with NRB on personal id data. The interface with company registrar's office should also be possible.
95. The system should allow interfaces with bank for payment information.
96. The system should support interface with RTD where by RTD system could check information about a particular PIN. It should also be capable of receiving a feed from RTD about vehicles registered by a taxpayer. This information could be kept in External Sources Database which could be used for taxpayer recruitment.
97. The system should support a linkage between Customs data about cancelled bonds to be used for VAT Refund processing.
98. The system should be able to receive data/information related to monthly/annual reports from ETRs installed around the country. This data could be saved into external sources database of the system to be used for VAT audits and validations.

Figure 3.14 Interface Requirements



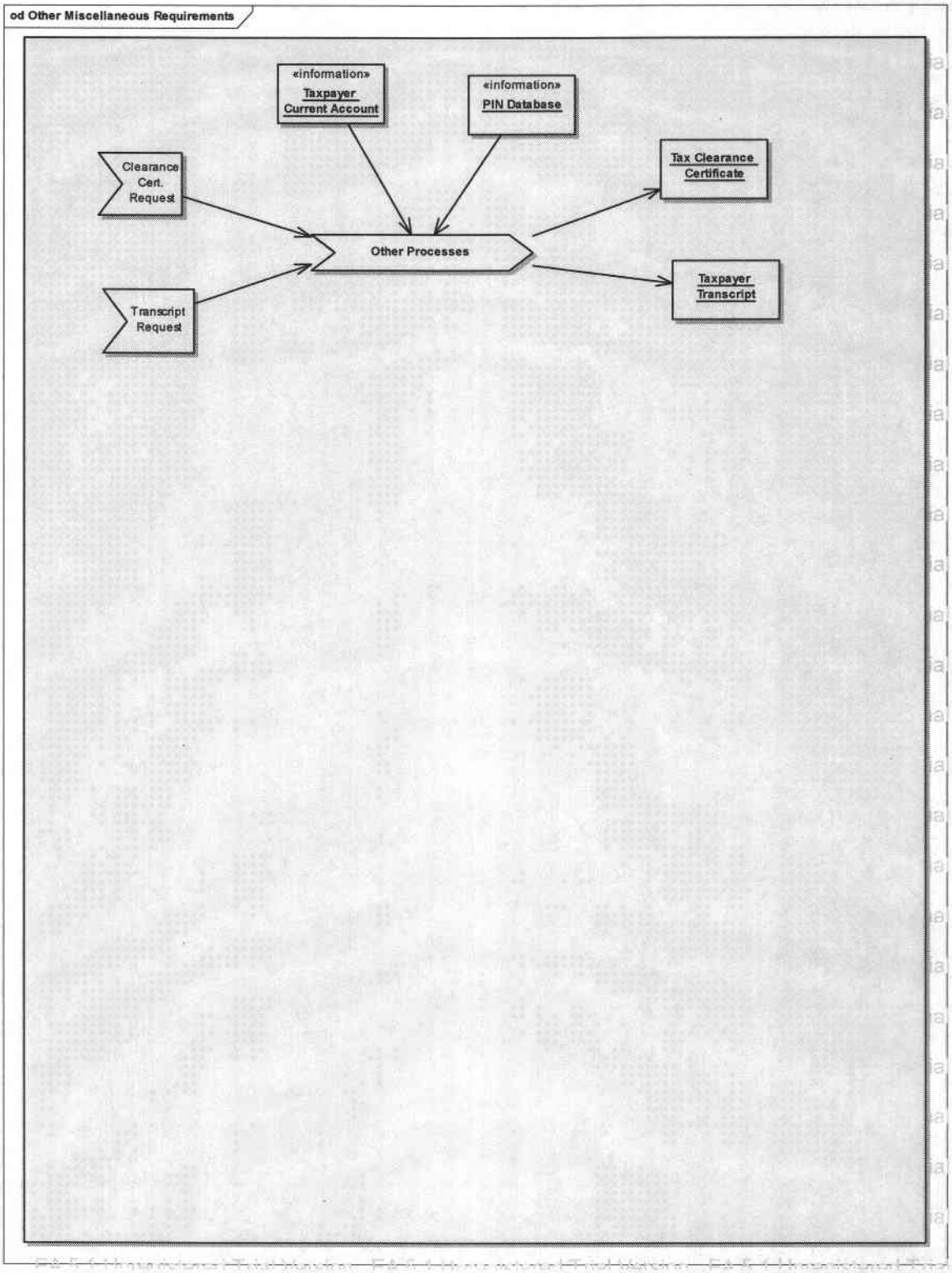
3.15 Other Miscellaneous Requirements

A reliable tax and taxpayer database is useful to entities outside the revenue authorities. Lawmakers, foreign governments and Credit Authorities need current valid business and tax statistics. An integrated tax system benefits all and could become an authoritative source about a taxpayer's financial condition and the financial institutions could start using the information for loans and grants. To utilize tax authority's data regarding the tax and financial status of a taxpayer, taxpayers could request a tax transcripts (showing relevant certified tax return information). Similarly, there are instances when taxpayer needs to certify that he is current with his tax liability. This certification is done via a tax clearance document.

Requirements:

99. System should be able to generate tax clearance documents for non-delinquent taxpayers.
100. The system should provide for a facility to update taxpayer information to reflect any exemptions and incentives granted to specific taxpayers.
101. System should be able to generate certified transcripts of taxpayers' returns on request.

Figure 3.15 Other Misc. Requirements



4. Integrated Off-the-Shelf Solutions for KRA's Consideration

This section presents various integrated off-the-shelf solutions for KRA's consideration (i.e., products which have both income tax and VAT tax processing modules and ability to add other tax types if needed). The motivations for exploring integrated off-the-shelf solutions for KRA's situation are manifold. First, the lead time to acquire, customize and implement an off-the-shelf solution is much shorter than that required for acquiring separate modules and integrating those to get a solution fitted to agency's requirements. KRA's mandate of having an integrated tax system for DTD by mid-2007 gives exploration of integrated solutions added importance. Second, the total cost of ownership (including KRA staff time) for an off-the-shelf solution is likely to be lower because much of the initial development and ongoing enhancement expenses get "shared" among several tax administrations. Third, these solutions lead to higher sustainability due to the leverage of maintaining a limited number of tax accounting solutions to fit the needs of a large group of countries.

The concept of using an off-the-shelf solution for tax administration purposes has been around for a while. UNCTAD has been distributing ASYCUDA as a "packaged" software system for customs tax automation for more than a decade. Currently there are several suppliers of Commercial off the shelf (COTS) general tax automation software solutions that have been, and are being implemented worldwide. Section 4.1 outlines the potential and sensitivities for a customized tax software solution. Subsequent sections describe the COTS tax administration software in general and outline a proposed approach for helping the KRA to select the most appropriate candidate system to address the immediate and projected functional requirements with optimal total cost of ownership and best technical fit with the KRA's ICT vision. Later in this section we would review some of the COTS solutions available which, with appropriate customizations, are likely to be able to meet KRA's requirements.

4.1 Custom Tax Software potential and Sensitivities

All of the above advantages and sensitivities associated with COTS software can be forgone if the KRA chooses to develop a custom Integrated Tax Administration System themselves. In the case of Bosnia, the decision to build custom software was made in 2001 due to the lack of n-tier COTS tax administration software availability in that time.[18] This decision would not be so clear cut today. It is still necessary that the KRA consider the option of building custom systems from the ground up, or utilizing a system such as that of Bosnia as a starting point for the creation of its own custom system.

Custom software has the advantages of being totally controlled by the KRA. This advantage comes at the cost of a longer time to deployment and potentially a much greater cost of total

[18] The Bosnia case is referred to as a relevant comparison based on DevTech's experience conducting business process analysis, redesign, and managing the system design, development, and implementation for the three decentralized tax administrations (Federation of Bosnia and Herzegovina, the Republic of Srpska, and the District of Brcko). In addition, at the time that DevTech began working in the country the tax administrations did not have adequate ICT to support electronic-transactions at the required level.

ownership. If none of the COTS solutions are a good fit for the KRA and its ICT strategy then the KRA must reevaluate its flexibility and strategies or the development of custom software must be considered. As part of this feasibility study, the Contractor Team will assist the KRA in evaluating all options as due diligence requires. During this evaluation it will become clear whether the KRA is a candidate for either completely custom systems or adaption of an existing custom system such as the Bosnian system.

4.2 COTS Tax Software – Advantages and Sensitivities

In addition to accelerated implementation schedules and potentially lower cost of ownership intrinsic advantages of individual COTS solutions over the alternative of creating custom systems in the KRA context are presented below.

All of the advantages of COTS tax software have specific sensitivities that need to be evaluated by the KRA in the light of the KRA's ICT strategy to optimize the selection of a candidate system. Following are the advantages of COTS solutions with relevant sensitivities in *italics*:

- The implementation of a COTS tax administration solution will profoundly direct the KRA's ICT process re-engineering strategy. Possibly the greatest advantage of COTS for the KRA will come in the form of international standards based procedures, accounting and business rules imposed by the selected solution. This issue is of such importance that the KRA should select a specific candidate COTS solution before investing resources in detailed process re-engineering that has already been documented and will be imposed by the COTS solution. *A candidate COTS tax administration solution must be flexible enough to support the business processes and rules required by the KRA and the legislative/regulatory framework that the KRA works in - when/if that framework cannot be altered to accommodate the candidate COTS solution.*

- COTS solutions imply the ongoing support of the core technology of the solution as well as the ability to benefit from continued enhancement of functionality of the solution as it matures in the international marketplace. These two values of COTS solution must be carefully considered by the KRA in the selection of a potential supplier to assure that the KRA's ICT strategy is protected through the viability of the supplier and the long-term costs associated with procuring this ongoing service. Since the life-cycle of the selected COTS solution will exceed 10 years this implies a commitment by the candidate supplier that may exceed reasonable expectations of a commercial suppliers viability to support the international tax administration marketplace. *COTS solutions must be supplied with complete tools and training required for the KRA to independently pursue the ongoing support and development of the solution in the event of the KRA's dissatisfaction with the COTS supplier. Tools typically include complete source code for the COTS software applications, third party utilities required by the COTS software, and a complete hardware/software development platform to maintain, enhance, and test modifications to the software applications made by the KRA. In addition, all software received from a COTS supplier should be received as source code and "built" by the KRA utilizing the development system to assure that the KRA possess the complete source code and utilities for all distributed executable application software.*

Note that two of the three major suppliers of COTS software attempt to hold back portions of the software that they consider "proprietary" in nature. The third supplier states "Yes. They can modify the source for themselves as they want... I find that users in general are dangerous with the source or can't do very much with it, but yes, they have it." [19]

- Contracting with a supplier of COTS solutions will provide the KRA with a clear strategy of outsourcing maintenance and development of its core tax administration software. This allows the KRA to focus its efforts on KRA-specific issues while seamlessly budgeting for the outsourcing of non-KRA-specific (common to the community of COTS solution users) issues addressed by the selected COTS supplier. *Since the KRA may end up "owning" complete responsibility for the COTS software, candidate software selection needs to take into account the appropriateness of KRA software engineering resources ability to cost effectively maintain the software.*

- The COTS supplier may be able to provide contractual variable technical resources to meet specific technical needs of the KRA as required. This availability of a "virtual variable workforce" specializing in the technical solution used by the KRA may become extremely important to meet unforeseen requirements imposed by legislative action or regulatory adjustments. *If the KRA becomes too dependent on outsourcing services provided by a COTS supplier it may not be able to independently in a timely fashion if the relationship with the COTS supplier is interrupted for any reason.*

4.3 Required and Desirable Features in COTS Tax Software

The following features are examples of those deemed Desirable or Required in any COTS tax administration solution.

- Any candidate COTS system must be supplied as an n-tier, centralized system utilizing a single instance of the tax administration database for transaction posting/update purposes. An *n-tier* architecture assures the ability of the system to perform in a secure and predictable manner while providing thin-client services via WAN to local and remote workstations.
- A highly desirable feature of a candidate COTS system is that of paperless document management. Paperless document management allows all documents (returns/payments, etc) to be scanned at the point of entry to the KRA, and then all subsequent processing, such as detailed data entry and retrieval of documents for support of the audit department may be carried out utilizing the original scanned image. In the case of the Bosnia system, documents are archived at the point of original reception and are only physically retrieved if necessary for legal purposes. This eliminates the majority of all document management procedures that would be required if performing data entry and audit from the original documents.
- Another required feature is that of a single taxpayer account view of all tax transactions managed by the KRA. This includes all tax/customs transactions, all payments, all vehicle registrations and any other transaction availably to the KRA that may be useful in normal operations including audit selection and execution.
- To complement a single taxpayer account view of all tax transactions managed by the KRA, a candidate COTS system must provide clear and flexible means of importing tax and

19 Wendy Osmond, CRCSOGEMA Response to email question from Kevin Kyriss, March 22nd, 2006

associated transactions from external systems such as customs, other tax systems, vehicle registration, etc.

- E-government portal and transaction processing services are key issues addressed by the KRA's ICT strategy. Any candidate COTS system must provide a clear direction to address these issues.
- Integrated audit selection and execution Must be supported by candidate COTS systems.
- MIS Reporting capabilities and integration with popular reporting tools will be an important criteria for the evaluation of candidate COTS systems.
- Data communications requirements and flexibility to handle district/regional/central processing/service centers with the utmost transparency are critical success issues for any candidate COTS system. Should resources be available, the Contractor Team can assist the KRA (within the context of the DFID-funded activity) develop a data communications service strategy to support any selected solution.

4.4 Brief Overview of Selected COTS Tax Software

Following are overviews of three COTS solution providers which have been preliminarily identified as potential candidates to supply the KRA:

- *Bull* is an information technology company, dedicated to helping corporations and public sector bodies develop open and secure information systems to sustain their business strategies. The premier European-based global IT supplier, Bull has a worldwide presence in more than 100 countries, and is particularly active in the defense, finance, healthcare, manufacturing, public and telecommunication sectors.

  Bull IRIS - IRIS is a comprehensive solution for tax Administrations aiming at improving, via automation and use of leading edge technologies, the reliability and efficiency of their tax collection processes. The Bull Tax Administration System was originally developed in 1997 and has undergone several evolutions since then, with Release 3 being available since 2003. Release 3 has been istalled in Saudie Arabia and Bulgaria. Release 2 was installed in Zambia, Botswana, Namibia, Ethiopia, and other countries as outlined by the appended brochure.

- *CRCSOGEMA - CRC SOGEMA* is a Canadian management consulting firm working closely on the international scene with developing countries in the fields of management, training and systemization. In addition, thanks to its subsidiary CRC SIMA, its fields of expertise have extended to the management of geographic information, natural resources and the environment.

Founded more than fifteen years ago, CRC SOGEMA is 100% wholly owned by nine shareholders with vast experience in management consulting, both in Canada and abroad. It offers services in French, English and Spanish to institutions, companies, organizations and agencies in the public, para-public and private sectors. CRC SOGEMA has carried out more than 150 projects throughout the world, including Africa and the Middle East, Latin America and the Caribbean.

- *Crown Agents* is an international development company delivering capacity-building and institutional development services in public sector transformation, particularly in revenue enhancement and expenditure management, banking, public finance, training and procurement. Projects are often undertaken in joint venture or partnership with other organizations, and with local firms in client countries. Crown Agents works for the public and private sectors in more than 100 countries, as well as for international development agencies and institutions.

For many years Crown Agents was a British public corporation. Recently it transferred to the private sector as a limited company owned by a new entity, The Crown Agents Foundation, a company limited by guarantee. Members of the Foundation are companies and other organizations with a keen interest in our activities and include firms, non-governmental organizations and international bodies.

4.5 Brief Overview of USAID Bosnia Tax Software

In 2001 USAID started a project to supply the country of Bosnia with an Integrated Tax Administration System. DevTech Systems, Inc. (DevTech) was awarded a contract to subcontract to manage the design and development process, and continues to be a key player in its implementation. To date this project has supplied Bosnia with tax system business process analysis, businesses process re-engineering, a national broad-band data communications network for tax, and an integrated *n-tier* tax administration software system.

The system was designed and built as a "custom system" to address the needs of 13 tax administration bodies in the highly segmented and decentralized country. Design of the system was completed by a team of international tax administration automation experts while implementation is performed by a Bosnian software engineering team. The resulting system is an ideal example of *n-tier*, thin client applications utilizing open-source technology connected to approximately 120 tax offices via a broad-band microwave network designed specifically for the tax administrations. Some of the key functional attributes of this system include digital document capture and management; centralized data entry from digital documents; single centralized database supporting on line operations; unified client accounting; audit selection and execution management.

In contrast with the current feasibility study, the number of processes included in the integrated tax administration system is fewer because not until this current year has Bosnia instituted a VAT. Another donor is financing the systems side for VAT. Nevertheless, due to the demonstrated success and ease of utilizing the USAID-funded system, USAID (and therefore DevTech) has been requested to provide urgent support in the design and development of a VAT refund module in March and April of 2006.

Since designed utilizing U.S. government funds, it is anticipated that this system can be made available for use by the KRA as a starting point for development of a KRA custom system if that is found desirable. However, to date, no specific enquiries have been made as to the feasibility. To support this process, the KRA would likely need to contract with a vendor to support the customization.

5. Non-Integrated Products for KRA's Consideration

The previous section described the integrated products (commercial-off-the-shelf or customized), which are available in the marketplace and could meet KRA's general requirements for the integrated tax system. In this section, available non-integrated software solutions that could be acquired to complement a customized solution are presented. These non-integrated solutions may be able to meet KRA's needs when a judicious combination of these products is implemented by a software integration vendor.

The non-integrated alternative focuses on assembling different software products categories and tools that combined appropriately can provide a robust and optimal solution for the KRA, as well as the fact that these are products available in the marketplace and have a solid track record of successes in multiple government-related implementations. Table 5.1 contains a list, organized by software category, of the different software providers for each category that has government and large project experience, several success stories, and comprehensive information on their products. This list is not exhaustive as several companies did not provide relevant information; nevertheless, the present list is sufficient to start analyzing the feasibility of assembling a software solution out of these different and complementary software products in the event that integrated product solution is rendered infeasible.

A summary list of these groups of software products categories, high-level description of each category, related benefits and successful implementations is provided below.

Summary of Software Products Categories

- Web Portals
- Electronic Forms
- Joined-Up Government (Integration)
- Mobile Government Solutions
- Information Collaboration Tools
- Document and Records Management
- Case Management and Workflow
- Citizen Relationship Management
- Enterprise Resource Planning
- ICT Infrastructure Solutions
- Business Intelligence

5.1 Web Portals

Web portals are often the first point of contact with your organization for citizens and businesses with Internet access. Good portal solutions deliver clear, up-to-date government communications. They are often required to accommodate multiple languages, and be easily accessible to anyone.

Benefits:

- Accurate, up-to-date information and content.
- Efficient content and style updates.
- Delivery of content in multiple languages.
- Facilitating multiple content channels.
- Addressing digital inclusion.

Experiences:

U.K. Corporation of London: New Web site refreshes old content and makes information delivery easier while supporting several different languages.

Portugal Citizen Portal: 730 public services from 120 government departments aggregated as life events drive improved service delivery.

Latvia, Ventspils City Council: Portal reaches citizens through voice recognition and speech technologies (developed in pan-European AVANTI Project).

5.2 Electronic Forms

Delivering government services online often requires the replication of traditional paper forms. These forms may be simply reproduced and published electronically. But more sophisticated solutions embed business rules into the form. They can authenticate the author and integrate the form's data into back-end systems.

This development process, including versioning and synchronization with paper forms, can be made simple with modern desktop and available technologies such as HTML or XML to create common information formats.

Benefits:

- 24-hour access to government services.
- Simplified transactions with government.
- Greater government service transparency.
- Faster turn-around and response capability.
- Reduced re-keying and data-entry errors.

Experiences:

Government of Norway: Increased efficiencies are delivered through common electronic reporting channel used by businesses to file government forms.

District of Stara Zagora: Portal supporting forms download and online transactions, increases citizen access and meets Bulgarian modernization agenda.

Dubai Ports and Customs: Thousands of freight transport companies reduce time and costs, with 24-hour access to customs clearance services using the Internet.

5.3 Joined-Up Government

'Joined-up government' is a widely-used term to describe the integration of services, processes, systems, data, and applications that are necessary to achieve a seamless, citizen-centric government. It must fit in with the traditional structures of departments and agencies, and overcome differences in data and legacy systems.

At the technical level, to ensure that disparate systems interact and work with each other, the use of open Internet standards such as XML and Web services is required.

Benefits:

- Delivery of integrated citizen-centric services.
- Acceleration of e-government transformation.
- Increased efficiencies with data sharing.
- Detect data anomalies in different systems.
- Reduced service load on individual departments.

Experiences:

Romanian Ministry of Interior: Illegal immigration reduced by 'Cobra' visa processing system, which integrates databases from different ministries.

Cambridge shire County Council: Better elderly care solution delivers information sharing, driving efficiency and savings of more than £3 million (U.S.$5.48 million) per year.

Northern Ireland e-Government Unit: e-Services launched securely through shared infrastructure for central and local government departments.

5.4 Mobile Government Solutions

Mobile information technologies deliver secure government services in a more immediate way. For example, they can provide critical information that can enable officers in the field to take previously authorized and defined in-situ tax avoidance prevention actions.

Mobile devices provide real-time presentation and collection of critical information. Security mechanisms such as data encryption and smart-cards help to protect data as it is transmitted to and from back-end systems.

Benefits:

- Real-time access to critical business data.
- Fewer errors due to data entry at point of service.
- Integration with existing systems and processes.
- Increased productivity and time savings through process efficiencies.

Experiences:

North Wales Police: Pocket PCs with Bluetooth and GPRS connections provide access to key information resources in the field.

Irish Postal Authority (SDS): Increased efficiencies and better customer contact using short message service (SMS) have increased services and reduced costs.

Germany's Ingolstadt Hospital: Tablet PCs used to automate admission procedures and deliver data directly to a standardized ward workflow.

5.5 Information Collaboration Tools

Tools such as e-mail and calendars are designed to make interaction and collaboration between information workers easier, but having so many channels on offer can complicate knowledge management. In response, government agencies and organizations are embracing best practices used to resolve similar challenges in the private sector.

Benefits:

- Better management of information assets.
- Improved data sharing between employees.
- Creation of higher-quality information.
- Moving from data to knowledge management.
- Increased employee efficiency.

Experiences:

Danish Fredericia Kommune: Kommune employees can now collaborate online, track projects, manage documents, and easily locate and share information.

Oman Municipality of Muscat: Using a single sign-on, municipal employees can easily locate and share higher quality information and work together on projects.

East of England Development Agency: New contacts information solution integrates contact information with e-mail and case flow to improve efficiency and productivity.

5.6 Document and Records Management

Document exchange between government agencies and constituents has historically relied on paper-based processes. But as wide-spread electronic methods are adopted, organizations are capable now of enjoying cost savings and better service delivery through more efficient document capture, archive, and retrieval.

Benefits:

- Archive, index, and sort huge amounts of data.
- Quicker access to stored information.

- Data integration to business processes.
- Reducing expenditure on physical storage and paper file handling.

Experiences:

Rhineland-Palatinate Higher Administrative Court: Electronic records solution saves time and money while paving the way for service transformation.

Swiss Federal Parliament: Document Management System manages more than 100,000 documents a year quickly, reliably, and securely.

Italian Province of Lecco: Document management solution for local health services eliminates paper-based processes and drives efficiency.

5.7 Case Management and Workflow

Many governments are moving away from isolated projects towards a more integrated approach. They are keen to provide front-line staff and case workers with a single point of access to appropriate data and legislation. This will ensure more uniform processing of cases, shorter response times, and lower administrative overheads.

Integrated case management solutions have demonstrated increased efficiencies through the elimination of multiple data entry and wasteful paper trails. They can also help to identify fraudulent cases and false claimants who leave a trail of evidence across different IT systems.

Benefits:

- Increased efficiencies.
- Reduced case handling times.
- Automated workflow and approvals.
- Integrated information and cross checks.
- Reduced errors and operation costs.

Experiences:

Slovak Ministry of Justice: Court case management system automates workflow while helping to create an anti-corruption environment within the judiciary.

Austrian Ministry of the Interior: Electronic case management reduces administration time by 72 per cent and workflow cycle time from 10 days to a few hours.

Spanish Ministry of Science and Technology: Reduced paper-based processes and centralized documentation provide faster decision-making in one user-friendly tool.

5.8 Citizen Relationship Management

Citizen relationship management (CRM) solutions help government agencies to better manage their communication with citizens, business, and other constituents. They support requests for

information, and boost service delivery. CRM solutions may also be used for marketing and outreach, as well as targeting for specific services or audits, such as permits or tax collection.

Today, most CRM solutions can scale from single department constituent and service management, to more sophisticated and inclusive solutions. These CRM solutions can, now, effectively, integrate multiple sources of customer data with multiple channels of service delivery, including call centers.

Benefits:

- Effective and efficient service delivery.
- Increased levels of citizen service and satisfaction.
- Sophisticated data capture and reporting.
- Tools enhance outreach and marketing.
- Tracking of service delivery metrics.

Experiences:

U.K. National CRM Program: Local authorities deliver better services at reduced costs using a hosted CRM solution.

Greek Ministry of Interior: Election results service automated the gathering, processing and reporting of votes through Internet.

Norwegian Student Records: Secondary school reduces administration overhead by implementing 'mobile' student relationship management.

5.9 Enterprise Resource Planning

Enterprise Resource Planning (ERP) in government has made a significant impact in the finance, human resources, and procurement areas. ERP solutions integrate with existing in-house and external systems, track business transactions, and generate customized reports that meet regulatory compliance.

Nowadays, ERP solutions are more flexible, automated, and more easily integrated into existing system. However, to ensure success, a comprehensive and inclusive approach must be taken from the start (design phase).

Benefits:

- Deliver greater efficiencies through automated processes.
- Pave the way for business transformation.
- Deliver accurate audit reports on time.
- Make better business decisions.

Experiences:

Norwegian Ministry of Fisheries: Outdated reporting processes are revolutionized by dynamic solution that enhances productivity and reduces human error.

NATO Maintenance and Supply Agency: Online bidding and procurement solution delivers savings of more than €45,000 (U.S.$56,518) per month.

5.10 ICT Infrastructure Solutions

At the core of e-government is an ICT infrastructure that provides a platform for service delivery, sustainability, and transformation. As budgets become tighter, it is important to maintain and enhance this infrastructure cost effectively.

Benefits:

- Better security & Updates management.
- Ongoing service capability enhancement.
- Cost savings through ICT consolidation.
- Lower total cost of ownership.

Experience:

U.K. West Yorkshire Police: A consolidated, secure authentication framework enhances capability and reduces costs by €50,000 (U.S.$62,844) annually.

City of Copenhagen Council: Server refresh and introduction of network storage cuts data recovery time from days to minutes.

Austrian Ministry of the Interior: IT upgrade enhances security, centralizes server management, and consolidates 1,500 servers into 500.

Table 5.1: Summary of Software Products by Category

Tool	Company Name	Product Name	Other Complementary Products/ Services	company Website	Case Stadies / Brochures	White Papers
Web Protals	Citrix	Citrix Presentation Server™, Citrix® NetScaler® Citrix Metaframe	Siemens Business Services & Microsoft's Windows Terminal Server	www.citrix.com	Norwegian Revenue Service; State of Minnesota; Danish municipalities	IDC Paper - Using Technology to Help U.S. Government Agencies; Citrix Access Suite: Modernize, Centralize, and Optimize IT Operations
	Vignette	Application Portal : Vignette Portal & Vignette Builder	Vignette Business Integration studio	http://www.vignette.com/	Government of Madrid; Vignette Postal Service US Case Study	Vignette Government Portals
	PeopleSoft	Peoplesoft Enterprise Government Portal			N/A	N/A
	BEA	BEA WebLogic Portal		www.bea.com	N/A	WP: Enterprise Portal Rationalization
	SAP	SAP for Public Sector: The Business Process of Tax and Revenue Management		www.sap.com	SAP for Public Sector: The Business Process of Tax and Revenue Management	N/A
	Microsoft	SharePoint Portal Server 2003		www.microsoft.com	N/A	Differentiating the Business Value of SPs (SharePoint Server)
	CGI / AMS	Single Window Government		www.cgi.com	Single Window Government	N/A
	IBM	E-Government Portals	IBM's Application Framework for E-business	www.ibm.com	N/A	Creating and Implementing E-Government Portals

Tool	Company Name	Product Name	Other Complementary Products/ Services	company Website	Case Stadies / Brochures	White Papers
Joined-Up Government (Integration)	IBM	IBM WebSphere Information Integrator ; IBM DB2® Universal Database(tm) ; IBM Tivoli® Storage Manager		www.ibm.com	Shandong unifies tax system	
	Oracle	Interaction & Collaboration suites		www.oracle.com	The Unified Workplace	N/A Oracle Collaboration Suite
	BEA	BEA WebLogic Integration		www.bea.com	N/A	WP: BEA AquaLogic Product Family
	SAP	SAP Enterprise Service Architecture		www.sap.com	SAP Enterprise Service Architecture	
Mobile Government Solutions	Adea	Consulting		www.adeasolutions.com	Adea Government Solutions	N/A N/A
	Adesso	Smart Data Management		http://www.adessosystems.com	N/A	N/A
	Apriva	APRIVA S5700 / S6700 / S7700 / SX200-C / SX510-C Smart Card;	Sensa Management Server - Administration; Sensa Mail Server - Enterprise Mail Server Inteface; Sensa RIM 857/957 DoD CAC-enabled Clients Sensa Pocket PC 2003 DoD CAC-enabled Client; Sensa Pocket PC 2003 Soft Token Client	www.apriva.com	N/A	N/A
	Avaya	Avaya Government Teleworker solutions		www.avata.com	Avaya Mobile Solution	N/A
	BEA	BEA WebLogic Mobility Server		www.bea.com	BEA Mobility Server Datasheet	N/A

Tool	Company Name	Product Name	Other Complementary Products/ Services	company Website	Case Stadies / Brochures	White Papers
	WaveLink	Mobile Application Development & Mobile Infrastructure Management	Studio COM & Studio Edge	www.wavelink.com	End-to-End WLAN Management	N/A
	HP	Services & Products packages		www.hp.com	Mobile Government Solution	N/A
Electronic Forms	IBM	EFP-Taxes (Electronic Forms Processing - Taxes); E-Filing Product; Electronic Forms Processing Licencing		www.ibm.com		
	Adobe	Tax and Revenue Authorities		www.adobe.com	N/A Tax and Revenue Authority solutions	N/A US Gov Delivering Interacting Government
	Parascript	Parascript® *Form*Xtra® Enterprise	Parascript SignatureXpert	www.parascript.com	Parascript® FormXtra® Enterprise & The frontline Defense against signature fraud	N/A
	FormScape	Complete ERP Document Lifecycle Solution		www.formscape.com	Complete ERP Document Lifecycle Solution	Siemens Case Study & Caradon District Council Case Study
Case Management and Workflow / ERP (Enterprise Resource Planning)	IBM	WebSphere Customer Center; WebSphere Data Integration Suite		www.ibm.com	El Salvador Tax Authority	Customer Data Integration Solutions
	ILOG	ILOG Jrules (Business Rules Platform)		www.ilog.com	ILOG Jrules & ILOG Rules	ILOG Business Rules Platform
	SAP	SAP for Public Sector: The Business Process of Tax and Revenue Management: SAP Enterprise Service Architecture & SAP Tax and Revenue Management		www.sap.com	SAP Enterprise Service Architecture & SAP Tax and Revenue Management	
	CGI / AMS	Strata		www.cgi.com	CACS and Strate for Government & Strata Enterprise	N/A CGI Enhances Performance of Tax Administration
	Siebel	Universal Customer Master; Universal Application Network; Siebel Data Quality		www.siebel.com	Sieble The Forrester Wave Customer Data Integration	Helping clients Achieving High Performance Through Better Customer Data Management & Challenges of Effective Case Management

Tool	Company Name	Product Name	Other Complementary Products/ Services	company Website	Case Stadies / Brochures	White Papers
	Microsoft	BizTalk & SharePoint		www.microsfot.com	Microsoft SharePoint Case Study & Microsoft BizTalk (CitiGroup and BizTalk)	N/A
	Oracle	Integrated Case Management Solution;		www.oracle.com	Oracle Integrated Case Management Solution	N/A
	Computer Associates	CleverPath™ Aion® Business Rules Expert		www.ca.com	Business Rules Expert to Ensure Policy Accuracy	Delibering Intelligence for Business Value and Insight
	Singularity	Singularity Process Platform		www.singularity.co.uk	Singularity Process Platform	Business Process Trends
Citizen Relationship Management	Siebel	Siebel Call Center & universal Application Network	IBM's DB2 and Hardware; Accenture Consulting Services; and Natural Adabas for Back Office	www.siebel.com	Siebel Achieving a Single View of the Taxpayer & SARS Single View of Tax Payer Solution	N/A
Business intelligence	IBM	IBM iSeries™ or IBM AS/400® ; IBM pSeries® or IBM RS/6000® ; IBM zSeries® or IBM S/390®	Tivoli Storage Manager, WebSphere Application Server, WebSphere Commerce Suite, WebSphere Payment Manager	www.ibm.com	State of Michigan enhances e-government with help from IBM Global Services	N/A

Tool	Company Name	Product Name	Other Complementary Products/ Services	company Website	Case Stadies / Brochures	White Papers
Document and Records Management	Siebel	Siebel Business Analytics	Siebel Intelligence Dashboard; Siebel Answers; Siebel Mobile Analytics; Siebel Advance Reporting Edition; Siebel Miner and Siebel Data Mining Workbench; Siebel Real-Time Decisions Engine; Siebel Marketing Segmentation	www.siebel.com	Siebel Business Analytics 7.8	N/A
	Computer Associates	CleverPath™ Aion® Business Rules Expert		www.ca.com	Service Availability	Delibering Intelligence for Business Value and Insight
	Adobe	Adobe Intelligent Document		www.adobe.com	Adobe Government Forms	Kansas DOT
	IBM	DS4100, McDATA Fibre Channel Switches/Directors, xSeries Servers	IBM Global Services, IBM Integrated Technology Services; Tivoli Storage Manager for System Backup and Recovery	www.ibm.com	Santa Barbara Sheriff's Department wields innovation to fight fraud and inefficiency.	N/A

Annexes: Brochures

IPS™

e Integrated Processing System

dular system to manage government revenues,
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Gabay, Crown Agents,
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t www.crownagents.com

Frequently Asked Que

Q If a country is currently running either of the two Crown Agents' existing software packages (TIMS© and VIPS©), will it be possible to upgrade to the new TRIPS™ system?

A Most definitely. TRIPS™ contains all of the functionality available in the previous Crown Agents' systems plus much more. Please contact Crown Agents for further details of how to plan an upgrade path.

Q How will Crown Agents' TRIPS™ assist with an integrated system?

A Until now no information technology system has been capable of providing the necessary support to track, control and co-ordinate all of a government's various revenue streams. TRIPS™ provides the complete solution, having been designed from the outset to support the management and collection of all direct and indirect taxes, customs duties and other non-tax revenue payments.

Q Is the system capable of connectivity with other systems, such as ASYCUDA? Can legacy data be imported or linked to TRIPS™ from existing databases for both customs and domestic tax?

A TRIPS™ is designed for connectivity with other systems using mechanisms which include XML, EDIFACT and direct database posting. Implementing a data interchange with any specific third party system does, of course, require that the third party system is also designed with connectivity in mind. However, it is possible to import legacy data into TRIPS™, providing that sufficient information is available to be able to define its data dictionary. It may even be possible to import data from non-Relational Database sources.

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different forms of revenue collection (e.g. VAT and Customs), which each have their own unique methods of processing?

A The flexibility of TRIPS™ is based around the concept of a workflow engine which can be parameterised to support a wide variety of business processing regimes. The core building blocks for all transactions can remain the same - correct identification of the trader(s) involved with the transaction, correct and validated declaration information, authorised receipt of payment (either online or cash/cheque/other financial instrument payment), risk analysis of the transaction, selectivity for control (goods inspection/ trader audit etc) - but the combinations of data elements, order of process, validation rules and inputs/outputs to each process can be defined uniquely for each process type in order to fully model each business process.

Q Are there separate audit processes/ departments for Customs and tax or is this also integrated?

A TRIPS™ does allow capture and storage of audit reports electronically and either model (separate or integrated audit departments) can be supported. In a true Integrated revenue environment the expectation would be for a single integrated audit department. However, Crown Agents recognises that there are many interim steps to achieving full integration and can provide implementations of TRIPS™ to support all of these steps. TRIPS™ is designed to keep step with the move to a fully integrated administration.

Q Who would be responsible for administering and managing TRIPS™, including the monitoring of data and enforcing actions that arise as a result of intelligence gained?

A The data within TRIPS™ does of course belong exclusively to the country where the system is implemented. Crown Agents will be able to provide advice, training and change management support in order that revenue departments are structured to gain maximum benefit from the TRIPS™ system. (Examples include the development and implementation of a Risk Management Unit, reform of the selectivity process, or training in trader audit

server services delivering both business rules functionality and also controlling the distribution of, and access to, all data. TRIPS™ is designed to take advantage of the most up-to-date and modern network topographies whilst at the same time - since it is recognised that TRIPS™ needs also to be rolled out in environments where communications are more problematic - the system is capable of providing robust and secure service in remote regions without 'online' access.

Q Once Crown Agents has delivered the TRIPS™ system, will we be able to manage it using internal resources?

A Crown Agents takes a partnership approach to all project implementations. Clients are encouraged to nominate counterpart staff to work with Crown Agents during all stages of the project lifecycle. Crown Agents provides comprehensive support and training to these counterparts in order that they can eventually become the backbone of the client's internal support unit for the TRIPS™ system. In addition Crown Agents operates a '3T' (Train The Trainers) approach to user training - ensuring that sustainable training resources are developed within the client organisation.

Q Is it necessary to implement the whole of TRIPS™, or is it possible to select only certain modules, e.g. VAT? If only certain modules are selected for implementation in the first instance, is it still possible to integrate other modules at a later stage?

A It is of course possible to implement modules of TRIPS™ in any one project, on a selective basis, and these modules are quite capable of 'stand alone' operation. Crown Agents will always supply the total TRIPS™ package in any one implementation (even if only certain modules are required) and will then be happy to parameterise and activate (in accordance with business requirements) the dormant modules at some point in the future.

Q What is the underlying framework for TRIPS™?

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SIGTAS

Standard Integrated Government Tax Administration System

SIGTAS is an integrated information system that enables revenue departments to automate the administration of taxes and licenses

Benefits

- SIGTAS is **fully integrated**, it supports all tax administration processes in one integrated system;
- SIGTAS is **comprehensive**, it supports most types of taxes and licenses including VAT, Excise and Property Tax;
- SIGTAS uses a **centralized taxroll** with all tax types and modules;
- SIGTAS provides **management tools**, to track amounts assessed, collected and outstanding including aging of arrears;
- SIGTAS **increases operational efficiency** through computerisation of tax administration;
- SIGTAS **enhances taxpayer service**, it includes a suite of account query and analysis features;
- SIGTAS **improves control** over taxpayer compliance by providing late filing/late payment reminders and case management features;
- SIGTAS **reduces the learning curve** by providing a standard, user-friendly graphical interface;
- SIGTAS **simplifies** the administration of tax laws;
- SIGTAS **protects all information** through tight, role-based security;
- SIGTAS **ensures** data integrity, with data validation and a solid database design;
- SIGTAS **restricts sensitive transactions**, such as refunds, based on approval tracking;
- SIGTAS is **multilingual**. Tax officers can use the system in the language of their choice, and taxpayers can receive correspondence in their preferred language;
- SIGTAS **accommodates changes** in tax forms, tax rates, penalty and interest rates without programming;
- SIGTAS **optimises decision-making** by providing operational and strategic management reports;
- SIGTAS **integrates seamlessly** with other mission-critical government systems, and statistical sampling tools;
- SIGTAS is **personalised** to each country's requirements. Each country operates its own, tailored version.

Operational Sites

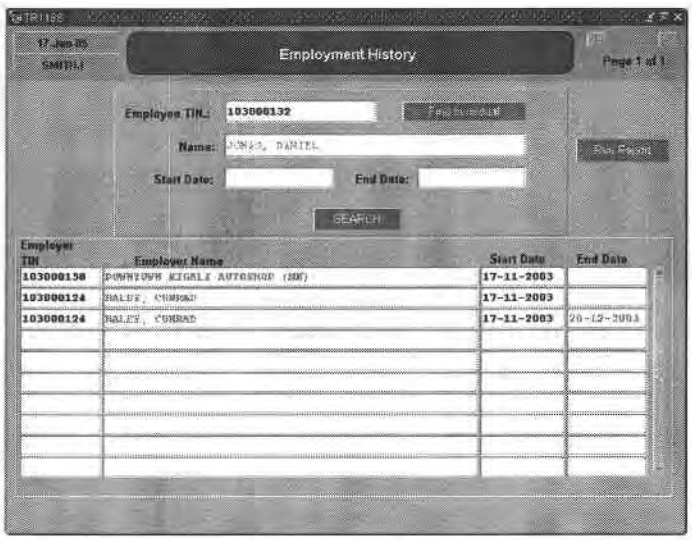
Since 1996, SIGTAS has been implemented in many countries located in Africa, the Caribbean, the Middle East, Southeastern Europe and Southeastern Asia.

Main Modules

Tax Roll

Taxpayers are at the heart of the system. The Tax Roll module tracks taxpayer information, manages taxpayer accounts and provides one unique identification number for the taxpayer, to be used to record transactions across all tax types. This unique number can also be used by other Government agencies, to facilitate information exchange, as required.

Taxpayer Information



- Supports numerous taxpayer types including Individuals, Corporations, Partnerships, Trusts, Government departments, Non-Government Organisations or Sole-Proprietorships;
- Stores diverse information concerning the taxpayer, including multiple addresses, business activities, branches, representatives, etc.;
- Generates taxpayer registration certificates;
- Special registration module for VAT taxpayers including printing and managing of VAT certificates;
- Produces tax clearance certificates for taxpayers with no outstanding arrears;
- Provides security mechanisms to protect sensitive taxpayers;
- If required, can generate a unique identifier based on specific algorithms;
- If required, can be linked with an external taxpayer identification system.

Tax Account Management

- Supports most types of taxes and licenses;
- Handles most non-fiscal revenue types;
- Generates tax account statements;
- Supports taxpayer and tax account inactivity periods (liability suspension and exemptions);
- Provides for flexible tax periods: yearly, monthly, weekly, bi-weekly, etc.;
- Supports regular and presumptive taxes;

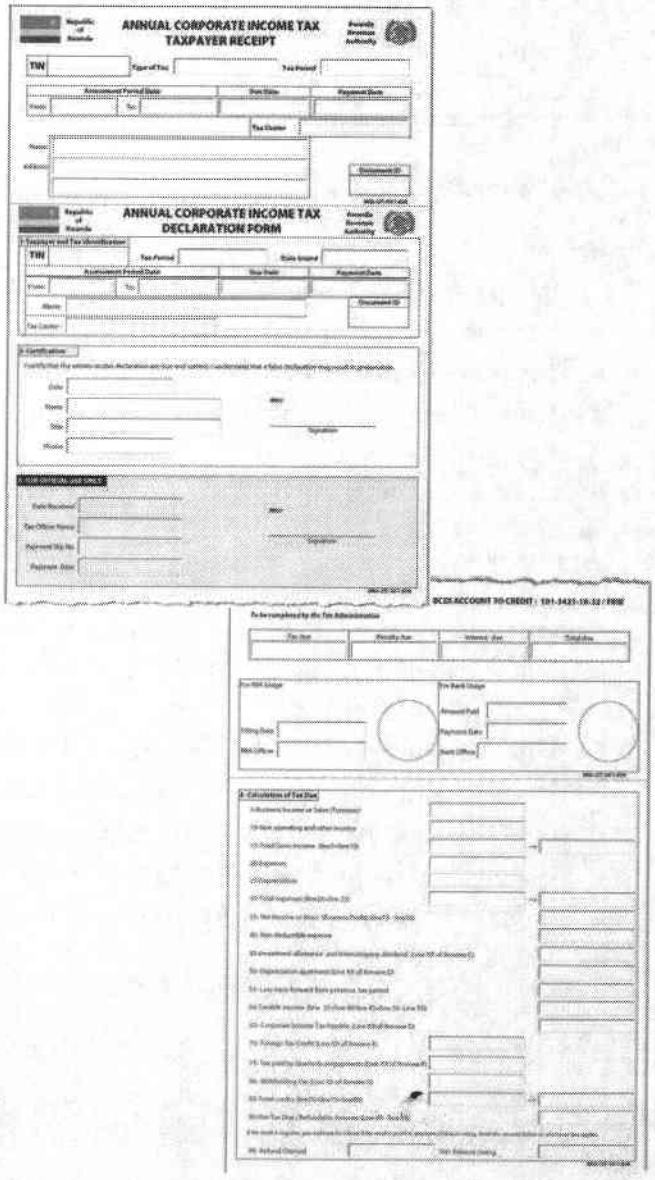
- Posts transactions automatically to taxpayer accounts when remittances are captured, or when transactions such as payments or penalty/interest calculations are performed across the SIGTAS modules;
- All transactions posted to a taxpayer's account are tracked by user, time and date, and can not be deleted. They can only be reversed;
- Allows entry and tracking of opening arrears (arrears owing before the implementation of SIGTAS).

Assessment

The Assessment module can produce individualised declaration forms for your tax base. When taxpayers return their declarations, they are entered into the system, and assessments are calculated according to the tax form's specific calculation rules. The Assessment module can also print assessment notices without declaration forms, when the tax amounts are known.

Declaration Forms

- Supports the set-up of declaration forms and calculation rules;
- Automatically determines who should receive a declaration for a given period, based on tax account start/end dates and exemption periods;
- Supports personalization of pre-printed government tax forms, or SIGTAS-printed personalized forms;
- Tracks form versions to accommodate changes to the tax form, over time;
- Processes current and previous year declarations using the appropriate rules of the tax year;
- Supports both calendar and fiscal year processing (including country specific calendars);
- Supports modifications of filing and payment dates for individual taxpayers;
- Supports multiple language remittance forms;
- Supports non-personalized tax forms.



Assessment

- Supports the entry and calculation of assessments (declaration forms);
- Supports the printing of assessment notices;
- Allows single declaration entry or batch processing;
- Allows unlimited reassessments;
- Supports estimated assessment processing (best of judgement assessments);
- Provides historical tracking of assessments and reassessments;
- Supports instalment processing, including flexible rates and end-of-year penalty and interest calculation;
- Automatically handles minor write-offs based on user-defined parameters.

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Page 1 of 2
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Due Assessment History

SELECTION CRITERIA:
Assessment No.: 2511 Include Replaced: NO

Assess No.: 2511 Tax Account No: 414
Assess. Type: REVISED BY THE AUTHORITY Batch User No.: 19
Taxpayer: 100088359 REGISTNM120
Tax Type: VAT-VALUE ADDED TAX Centre: KIGALI LTD
Enterprise:
Establishment:

License:
Reception Date: 13-05-2005 Prepared By:
Replaced By: Period Covered
Tax Period : Week: Month: 04 Year: 2005 Payment Date :13-05-2005
Tax-P Start Date: 01-04-2005 Tax Period End Date:30-04-2005
Due Date: 13-05-2005 Pen To Pay: 0.00
Tax To Pay: 0.00 Pen Paid: 0.00
Tax Paid: 1,122.00 Int To Pay: 0.00
Balance: -1,122.00 Int Paid: 0.00

Line No.	Line Description	Comment	Submitted	Revised
5	Total Value of Supplies		111,111.00	111,111.00
10	Exempted Sales		.00	.00
15	Zero-Rated Sales		.00	.00
20	Exports		111,111.00	111,111.00
25	Total Not-Taxable (lines 10+15+20)		111,111.00	111,111.00
30	Taxable Sales subject to VAT (lines 5-25)		.00	.00
35	VAT on Taxable Sales		.00	.00
40	VAT Paid on Imports		11.00	11.00
45	VAT Paid on Local Purchases		1,111.00	1,111.00
48	VAT Reverse Charge		.00	.00
50	Total VAT Paid on Inputs (Lines 40+45-48)		1,122.00	1,122.00
55	VAT Net / Credit Repayable (line 35-50)		-1,122.00	-1,122.00
57	VAT Credit for Month		1,122.00	1,122.00
58	Total VAT to Pay for Month		.00	.00
60	Credit carried from Previous Month		.00	.00
65	VAT Due / Credit Payable (lines 55-60)		-1,122.00	-1,122.00
66	Other Credits (Goods on Hand, Payments, etc		.00	.00

Letters and Reminders

- Prints personalized non-filing and late-payment reminders;
- Supports the set-up and printing of standard letters;
- Identifies non-filers across multiple periods;
- Lists all non-filed tax periods for a given taxpayer;
- Supports printing of follow-up reminders after a set period of time, or after printing of another reminder.

Withholding

- Supports final and non-final withholding taxes;
- Supports withholding on salaries (Pay As You Earn); Withholding on Payments and Withholding on Imports;
- Uploads employee P.A.Y.E. information submitted by employers;
- Uploads withholding details from withholding agents;
- Supports automatic crediting of employee accounts with employer contributions;
- Reconciles employee and employer P.A.Y.E. declarations, monthly and yearly declarations;
- Supports multiple employers for the same employee;
- Validates P.A.Y.E. deductions.

Penalties and Interest Calculation

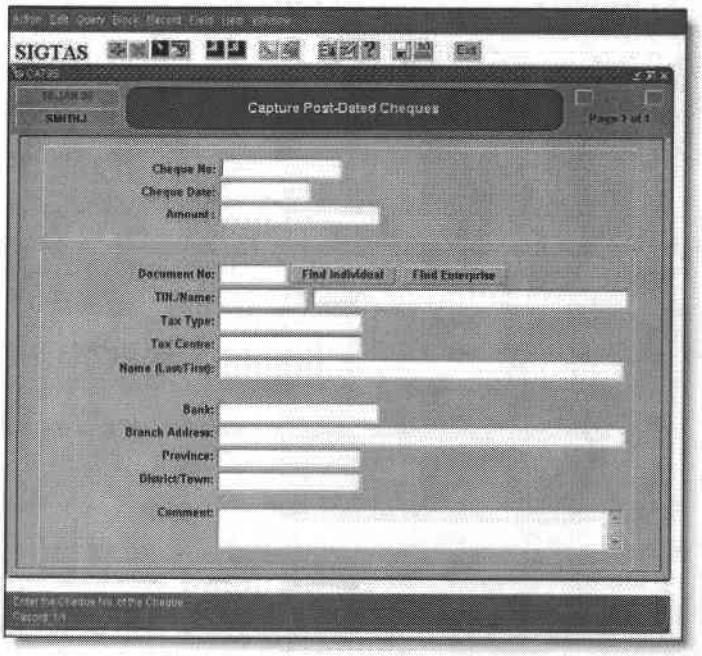
- Allows for flexible set-up of penalty and interest parameters according to the legislation and regulations;
- Automatically calculates non-filing and late-filing penalties;
- Supports the entry and tracking of manual (discretionary) penalties;
- Allows changes to penalty and interest rates without the need for programming;
- Supports refund interest;
- Supports penalty handling specifically for assessments and reassessments.

Cashing

The Cashing module allows you to capture payments and update taxpayer accounts accordingly.

On-Line Cashing

- Supports multiple receipting methods, including Point of Sale receipts;
- Disallows cheque payments by taxpayers flagged for NSF cheque incidents;
- Supports multiple currency cashing transactions;
- Handles post-dated cheques;
- Distributes payments based on the aging of outstanding arrears.



Interface with Commercial Banks

- Allows the electronic posting of taxpayer payments made directly at selected commercial banks, through an interface program.

Cash and Bank Account Management

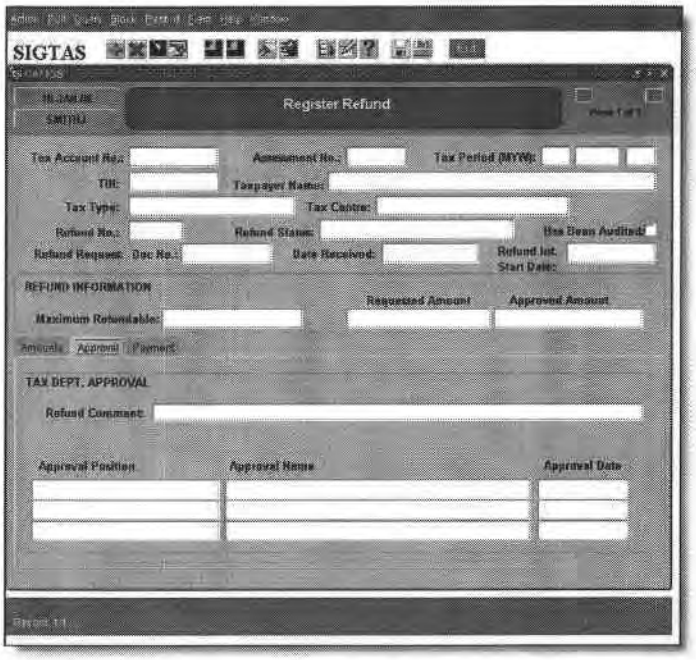
- Supports the daily cash reconciliation process using cash balance reports and cashier denominations entry;
- Generates bank deposit slips once the cash intake is reconciled.

Refunds

The Refunds module allows you to manage refunds, while using SIGTAS to ensure that refunds are only issued in accordance with Tax Authority policies.

Refund Management

- Tracks and lists refund requests;
- Supports refund transfers to other liabilities;
- Calculates refund interest based on user-defined parameters;
- Creates refund vouchers;
- Allows capture of bank information for taxpayer refunds transferred directly to banks;
- Special VAT refund processing module to support VAT refund rules.



Collection

The Collection module allows collection officers to identify delinquent payers, create collection cases, set-up payment agreements and collect outstanding taxes.

Case Management

- Provides aging analysis and statistics for outstanding arrears;
- Identifies delinquent accounts through inquiries and reports;
- Allows for the creation of collection cases and assignment of collection officers;
- Allows collection department monitoring and related reporting;
- Tracks outstanding balances stemming from both opening arrears (outstanding amounts prior to the implementation of SIGTAS) and SIGTAS assessments;
- Allows the collection officer to register collection actions for each case;
- Provides collection statistics analysing the outcome of collection efforts.

Payment Agreement (Payment by Instalment)

- Provides a *what-if* capability allowing the collection officer and the taxpayer to negotiate a payment schedule;
- Automatically prints payment agreement remittance forms indicating the amount and date that the payment is to be made;
- Generates reminders for taxpayers who renege their payments agreement;
- Supports collection from collection agents such as banks and employers.

Budgeting

- Supports the entry of annual revenue targets broken down by month;
- Tracks actual versus targeted revenue intake.

Audit

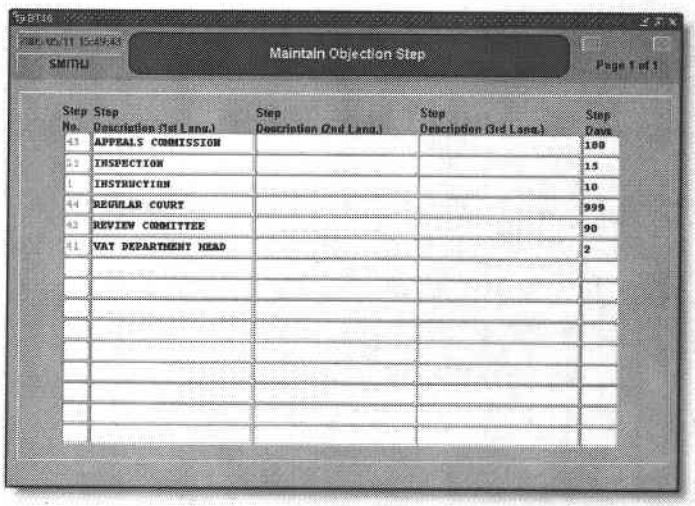
The Audit module allows you to register audit plans, create and manage audit cases, and analyse the efficiency of auditing efforts accordingly.

Case Management

- Supports the entry of financial statements and the calculation of ratios;
- Selects audit cases based on a set of strategic criteria that include the following:
  - Specific declaration lines or financial ratios;
  - Risk criteria;
  - Occupation;
  - Sector of activity;
  - Etc.
- Allows the auditor to open audit cases and register audit contacts and results for each case;
- Outlines the impact and efficiency of audit collection activities.

Objection

The Objection module allows you to manage the appeal process and ensuing results.



Case Management

- Tracks receipt of objection letters;
- Allows for the creation of objection cases and assignment of objection officers accordingly;
- Tracks the status and result of the objection process for each case;
- Outlines the impact and efficiency of objection activities.

Document and File

The Document and File module allows the organisation to control all document flow and file handing requests in an efficient manner.

File Handling

- Provides for easy searches through electronic records of taxpayer files;
- Supports electronic requests for files, from tax officers;
- Allows filing clerks to tend to electronic requests chronologically, or based on other criteria;
- Tracks the borrowing and return of physical files, as well as their contents.

Document Management

- Tracks incoming and outgoing documents;
- Assigns a unique document number to each document;
- Supports bar code printing and scanning of the document number;
- Includes reports of document flow based on various criteria, including Taxpayer Number;
- Allows scanning and viewing of scanned documents.

Interfaces

The Interfaces module allows you to exchange information with various external parties, to increase the efficiency of the tax administration. Note that each interface program needs to be tailored to the specific requirements of the tax administration as well as the external party. Below are some interfaces that have already been built for SIGTAS.

Interface Programs

- Interfaces with applications used by Customs (ASYCUDA), for audit cross-checking purposes;
- Interfaces with commercial banks to register taxpayer payments;
- Interfaces with Government financial accounting systems, for rapid posting of daily revenue figures to the General Ledger;
- Interfaces with external taxpayer identification systems to produce identification cards or driver licences based on data stored in SIGTAS;
- Interfaces with the corporation registry department to validate corporate taxpayer information;
- Interfaces with the department of social security to validate individual taxpayer information.

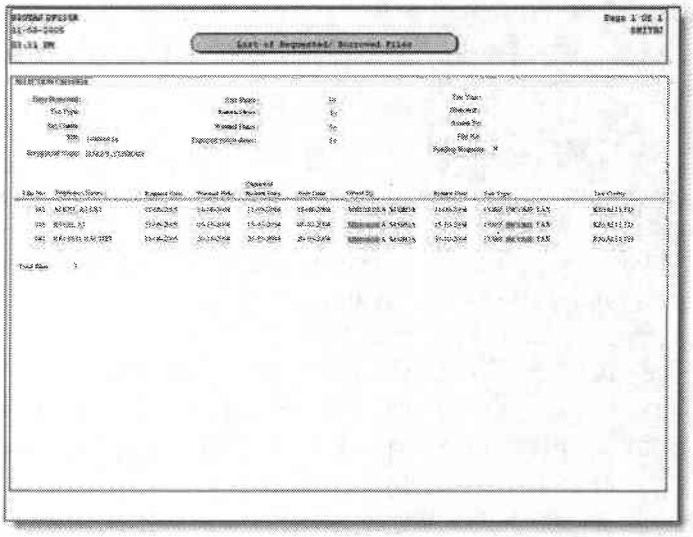
In addition to the interface itself, reports are available to compare data from these external sources and from tax declaration forms to identify discrepancies between sources and identify taxpayers for audit activities.

Reporting

Reporting is a key part of SIGTAS, aiming to support the daily operations of the tax administration, as well as supply management with critical information to assist them during the decision-making process.

Reports

- Includes numerous standard reports designed to rapidly provide key information in each module, based on relevant selection criteria;
- Includes special management reports and statistics, supporting management in establishing the impact and efficiency of particular sections or activities of the organisation;
- Specialized VAT reports for increased control of VAT taxpayers;
- Allows the use of third party ad-hoc reporting tools, for entirely customized data analysis, if required.

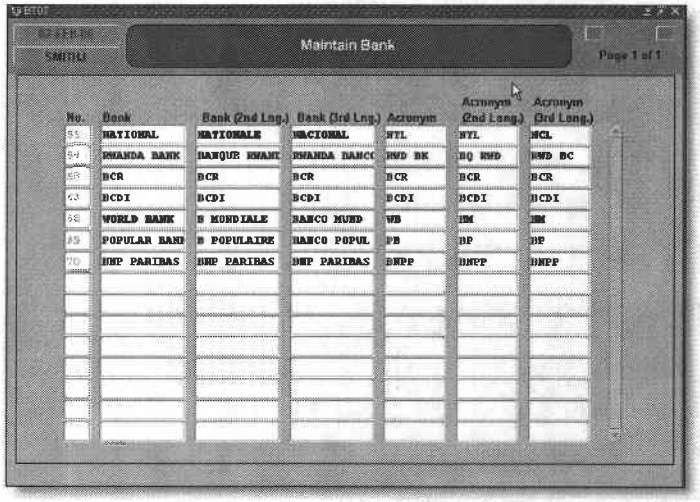


Administration

The Administration module allows the SIGTAS Administrator to control the fundamental elements of the system, allowing them to maintain an optimal configuration of SIGTAS in the long term.

System Configuration

- Provides dynamic look-up table values;
- Provides set-up of parameters used in the system such as write-off rules, refund rules, penalty and interest rules, etc;
- Supports the set-up of numerous security aspects of the system;
- Allows the control of system access based on user roles and responsibilities.



Add-on Modules

- SIGTAS includes special add-on modules that are fully integrated in the system and can be implemented as part of the system, if required. There are special modules to administer vehicle registration and licenses and property tax and property valuation.

SIGTAS Project Methodology

At CRC Sogema, our approach is not just to install a software product. We adapt SIGTAS to meet each country's specific requirements.

The SIGTAS Project Methodology is our information systems implementation approach. It includes legal framework review, business process reengineering, administrative procedures design, user training, user guide creation, quality assurance testing post-implementing support and local programmer training, if required.

Our team of experienced project managers, tax legislation advisors, business analysts, systems analysts, database administrators, programmers, trainers, quality assurance experts and technical writers, work seamlessly together with local counterparts to ensure a successful SIGTAS implementation, thus paving the way towards increased revenue for the state, and sustained social development for its people.

Technological Platform

SIGTAS was developed based on an Oracle database and is available in a web-based version.

For More Information

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Feasibility Study for Integrated Tax Management System

Final Report

Chapter 4

Deliverable from Task 1b: Redesigned Business Processes Report

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Feasibility Study for Integrated Tax Management System

Deliverable from Task 1b: Redesigned Business Processes Report

Submitted to:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted by:
DevTech Systems, Inc.

June 2006
Revised July 17, 2006

This report was funded by the U.S. Trade and Development Agency (USTDA), an agency of the U.S. Government. The opinions, findings, conclusions, or recommendations expressed in this document are those of the author(s) and do not necessarily represent the official position or policies of USTDA. USTDA makes no representation about, nor does it accept responsibility for, the accuracy or completeness of the information contained in this report.

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Feasibility Study for Integrated Tax Management System

(USTDA Grant GH04142396)

Deliverable from Task 1b: Redesigned Business Processes Report

Submitted To:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted By:
DevTech Systems, Inc.

Primary Authors:
Allan Robinson, Yassiemine Hodges, and Kevin Kyriss
June 2006
Revised July 17, 2006

DEVTECH

the M group inc.

TABLE OF CONTENTS

INTRODUCTION 1

1. TAXPAYER SERVICES 3

1.1 Returns Processing 3
- 1.1.1 Current Process 3
- 1.1.2 Business Process Improvement 5
- 1.1.3 Benefits/Impact 24
- 1.1.4 Challenges 24
- 1.1.5 Performance Management 24

1.2 Refunds Processing 25
- 1.2.1 Current Process 25
- 1.2.2 Business Process Improvement 26
- 1.2.3 Benefits/Impact 34
- 1.2.4 Challenges 34
- 1.2.5 Performance Management 34

1.3 Taxpayer Education 35
- 1.3.1 Current Process 35
- 1.3.2 Business Process Improvement 36
- 1.3.3 Benefits/Impact 36
- 1.3.4 Challenges 36
- 1.3.5 Performance Management 36

1.4 Registration & Recruitment 39
- 1.4.1 Current Process 39
- 1.4.2 Business Process Improvement 40
- 1.4.3 Benefits/Impact 50
- 1.4.4 Challenges 51
- 1.4.5 Performance Management 51

1.5 Customer Care Overview 52
- 1.5.1 Current Process 52
- 1.5.2 Business Process Improvement 52
- 1.5.3 Benefits/Impact 53
- 1.5.4 Challenges 53
- 1.5.5 Performance Management 53

1.6 Tax Agents 54
- 1.6.1 Current Process 54
- 1.6.2 Business Process Improvement 54
- 1.6.3 Benefits/Impact 54
- 1.6.4 Challenges 54
- 1.6.5 Performance Management 54

2. AUDIT 55
- 2.1 Current Process 55
- 2.2 Business Process Improvement 56
- 2.3 Benefits/Impact 57
- 2.4 Challenges 57
- 2.5 Performance Management 58

3. COLLECTIONS AND COMPLIANCE **63**
3.1 Current Process 63
3.2 Business Process Improvement 64
3.3 Benefits/Impact 66
3.4 Challenges 66
3.5 Performance Management 66

4. FINANCE **69**
4.1 Current Process 69
4.2 Business Process Improvement 71
4.3 Benefits/Impact 102
4.4 Challenges 102
4.5 Performance Management 102

5. DEBT MANAGEMENT **103**
5.1 Current Process 103
5.2 Business Process Improvement 104
5.3 Benefits/Impact 112
5.4 Challenges 112
5.5 Performance Management 112

6. POLICY AND LEGISLATION **113**
6.1 Current Process 113
6.2 Business Process Improvement 115
6.3 Benefits/Impact 131
6.4 Challenges 131
6.5 Performance Management 132

7. REVENUE FORECASTING **133**
7.1 Current Process 133
7.2 Business Process Improvement 133
7.3 Benefits/Impact 134
7.4 Challenges 134

8. AGENCY REVENUE **135**
8.1 Current Process 135
8.2 Business Process Improvement 136
8.3 Benefits/Impact 144
8.4 Challenges 144
8.5 Performance Management 144

9. ELECTRONIC TAX REGISTER (ETR) **147**
9.1 Current Process 147
9.2 Business Process Improvement 147
9.3 Benefits/Impact 147
9.4 Challenges 147
9.5 Performance Management 148

10. RECORDS MANAGEMENT **149**
10.1 Current Process 149
10.2 Business Process Improvement 149
10.3 Benefits/Impact 154
10.4 Challenges 154
10.5 Performance Management 154

11. INTERNAL DATA ACCESS: DTD, CSD, AND RTD 155
11.1 Current Process 155
11.2 Business Process Improvement 155
11.3 Benefits/Impact 156
11.4 Challenges 157
11.5 Performance Management 157

ANNEX I: KRA CURRENT PROCESSES

ANNEX II: KRA FORMS

ANNEX III: TAX COMPLIANCE INFORMATION SOURCES

Abbreviations and acronyms

C&C	Collection and Compliance
CBK	Central Bank of Kenya
CED	Customs and Excise Department
DFID	Department for International Development
DLN	Document Locator Number
DM	Debt Management
DTD	Domestic Tax Department
EFT	Electronic Funds Transfer
ETR	Electronic Tax Register
GUI	Graphic User Interface
HQ	Headquarters
HR	Human Resources
ICT	Information and Communications Technology
ISO	International Organization for Standardization
IT	Information Technology
ITD	Income Tax Department
ITMS	Integrated Tax Management System
KRA	Kenya Revenue Authority
KREISA	KRA Enterprise Information System Architecture
KSh	Kenya Shillings
LTO	Large Taxpayers Office
MIS	Management Information Systems
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MVR	Motor Vehicle Registration
PAYE	Pay As You Earn
PIN	Personal Identification Number
PIT	Personal Income Tax
PRO	Principal Revenue Officer
PSV	Public Service Vehicle
RARMP	Revenue Administration Reform and Modernization Program
RTD	Road Transport Department
SAC	Senior Assistant Commissioner
SD	Stamp Duty
SDC	Senior Deputy Commissioner
SDL	Sugar Development Levy
SL	Standard Levy
SOW	Scope of Work
TIS	Tax Information System
TOR	Terms of Reference
TPC	Tax Procedures Code
UPS	Uninterrupted Power Supply
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
VAT	Value Added Tax
WAN	Wide Area Network
WLAN	Wireless Local Area Network

Introduction

The United States Trade and Development Agency has provided a grant to the Kenya Revenue Authority (KRA) for its Domestic Tax Department (DTD) to conduct a feasibility study to: review the KRA's business processes and assist in the documentation of re-designed processes; coordinate the proposed business process improvements with other donor-funded ICT programs, and overall KRA ICT strategy; and map a strategy for the procurement and implementation of a computerized integrated tax management system based on the documentation of the proposed re-designed processes. This study is conceived by the KRA to be part of its Revenue Administration Reform and Modernization Program. DevTech Systems, Inc. (DevTech) was awarded a contract to assist the KRA in the completion of this study.

This report is the Deliverable from Task 1b, and is based on 12 weeks of technical assistance building on the first two deliverables under this study, namely:

- Deliverable from Task 1a: Situational Assessment Findings Report
- Deliverable from Task 2a: Requirements Definition Report

The KRA has identified business process improvement to be a critical step in assisting in the eventual identification and acquisition of an Integrated Tax Administration Management System. In order to build ownership internally for the changes, the KRA DTD requested that the U.S. contractor (funded through USTDA funds) work alongside the respective KRA departments to accomplish this task. These Business Analysts assisted KRA DTD in conducting a critical assessment of the organization to help identify business problems and propose solutions. The assistance focused on:

- Mapping current business processes
- Identifying areas of potential change and improvements, and
- Recommending business process reengineering (BPR) when appropriate

Two sensitization sessions with KRA DTD business analysts were conducted to demonstrate

- How to evaluate processes for potential improvement; and
- Utilizing and interpreting flowcharts as a tool to assist the organization in understanding how it currently operates.

The business process analysis was meant to bring the KRA more in line with other Tax Administrations' policy and practices, and the use of new technologies. It provides for a more efficient lodging of all returns, payment streamlining, and improved efficiencies for both taxpayers and the KRA. Consolidation of processes is outlined where possible to eliminate repeated Taxpayer document submission and KRA repeated data capture. The process recognizes the consolidation of three separate tax regimes into one Department, and the harmonization of processes and procedures in law. The implementation of the Integrated Tax Management System (ITMS) provides for a new management methodology in tracking Taxpayers, collecting debt, identifying non-filers, and provides performance measurement systems to manage resources within the KRA and compliance with Tax Payers code. Overall, the recommended processes provide the avenue for streamlined and responsive operations which support voluntary compliance with Taxpayers.

This document is organized by DTD Business Process, with each current process described, outlined, and diagrammed. Following the description of the current process, areas of concern will be highlighted, and solutions to these challenges offered. Where possible, these solutions are specified as one of four types: *Organizational, IT/Integrated System, Procedural* and *Policy*. The purpose of

these notations is to assist the KRA identify those processes improved further on application of available technologies and those that are improved based on administrative improvements. Finally, improved processes are outlined and diagrammed for easy reference. The processes outlined in this report provide improvements from the use of technology and administrative changes. The "quick wins" listed are for the most part administrative changes, such as organizational changes, policy changes, or involve the use of existing data or technology possibilities within the KRA. Changes of a technological nature are included in the ITMS/RMS systems that have been outlined, such as e-filing, electronic risk management, and scanned images for all documents. The full breadth of the timing of the implementation of the technological improvements ultimately depends on the final selection of the ITMS software and its components and capabilities.

It is important to note that the improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. Some functions, such as debt management, require *more* processes to become effective in achieving their goals. Other processes can be streamlined through automation, for example through the reduction of many registers that will not be required in the electronic environment. Other processes, such as electronic reconciliation in Finance, do not remove the requirement of the task completion, but do remove much of the manual work in completing the tasks.

To ensure the recommendations from this Deliverable would also assist KRA DTD in meeting the requirement for the International Organization for Standardization (ISO) 9000 for Quality Management Systems, the ISO process approach was utilized. The process approach is built on the belief that a desired result is achieved more efficiently when activities and related resources are managed as a process. If effectiveness and efficiency are not achieved, the process has failed and needs attention. This becomes apparent quickly in a tax processing environment because the output of one process becomes the input for the next one.

1. Taxpayer Services

The Taxpayer Services Division is comprised of several sections that provide a variety of services to Kenyan taxpayers: Returns Processing, Refunds Processing, Taxpayer Education, Registration and Recruitment, Customer Care, and Tax Agents. This wide variety of services covers the main areas of interaction between a Taxpayer and the KRA, and so a high quality of service is necessary to maintain strong relationships with the taxpaying public.

1.1 Returns Processing

The Returns Processing section is a critical back-office support function for KRA DTD. Currently, Returns processing is responsible for issuing, receiving, and recording all income and value added tax (VAT) returns which include:

Form Number	Type Return	Due Date
I.T.1	Return of income for individuals	On or before June 30th
I.T.1.NR	Return of Income for non-residents	On or before June 30th
I.T.2.C	Return of Income for Corporations, Clubs, Trust	On or before the last day of the 6th month after the end of the accounting period
I.T.2.P	Return of Income for Partnerships	On or before June 30th
VAT3	Monthly Tax Return	On or before the 20th Monthly
VAT32	Weekly withholding VAT Return	Weekly

Although Returns Processing is responsible for both Income and VAT returns, separate procedures exist for the filing and processing of each category. However, both processes involve manually keying select information into a computer terminal by data entry operations.

1.1.1 Current Process

Income Tax

- *Issuing of Returns:* Towards the end of each year, taxpayers who previously filed I.T.2C, I.T.2P, and I.T.1 (reflecting income other than employment) returns are identified through a special computer run performed by the IS staff and targeted to receive blank returns by post (mail). Labels are ordered and in March they are printed reflecting: PIN, Name, and Last known Address; affixed to the blank returns; and posted (mailed). For those taxpayers who did not receive a return by post, forms can be secured on the website or at a Station.

- *Receiving of Returns:* Completed returns are currently received through hand delivery or post. Upon receipt, they are stamped to reflect the date of receipt, sorted by return type and stored in a central area awaiting recording into the organization's central computer system.

- *Recording:* Returns are recorded into the organizations central computer system in batch order series. Each batch contains no more than 50 returns (in the case of I.T.2C and I.T.2P) and 99 returns (in the case of I.T.1 and I.T.1NR). The system automatically assigns a batch number and sequence number to each return based on the station to which the taxpayer belongs. The recorder manually writes the system generated number in the top margin of the return.

- *Sorting/Batching:* The employees assigned to sort the returns retrieve returns from the recorders and manually assemble them into batch and numerical order. Once complete, the batches are stored in a central holding area to await screening.

- *Screening:* The screeners, usually Revenue Officers, are utilized to determine if returns as submitted by taxpayers are completed correctly, as well as to provide a preliminary review of technical issues.

- In the case of income tax returns, the screener manually transposes data from the returns to a data entry worksheet. The purpose is to assist the data entry officer to quickly identify the appropriate information to be keyed into the central computer system. Once screening of the batch is completed, it is stored in a central holding area to await data capture.

- *Data Entry:* Data from the data entry worksheet is keyed into the system. Once completed, the system prints a worksheet showing the details of data captured and the tax due or refundable. Once the printout has been associated with the returns, the batch is stored in a central holding area awaiting data checking.

- *Data Checking:* The data reflected on the printouts are checked against the return and supporting documents. In cases of error, information is corrected and a corrected worksheet is printed. Once a batch complete, it is stored in a central holding area awaiting data confirmation.

- *Data Confirmation:* The final step in the processing cycle is confirmation. The confirmer reviews the information generated by the data checker and confirms the accuracy on the information in the system. Once the data is confirmed, changes can only be made by the IS staff.

(*For detailed description and diagram of Current Process, please see Appendix I*)

Value Added Tax (VAT)

The processing of VAT returns is more streamlined than the processing of income tax returns.

- *Issuing of Returns:* Taxpayers required to file VAT3 returns are issued a booklet of 12 blank monthly tax returns at the time of registration. Additional returns can be obtained from selected banks or any KRA - DTD Office. The VAT32 Returns are collected from KRA DTD offices by withholding tax agents as needed. The returns have no pre-printed details.

- *Receiving of Returns:* VAT returns which reflect a tax liability must be filed at a commercial bank along with applicable payment. KRA DTD Finance Section receives the returns from

the banks and captures the payment amount received. If the return reflects nil (no taxes due) or a refund, it must be filed at the district KRA DTD Office.

The VAT3 returns are processed by the respective DTD office whereas the VAT 32 returns are forwarded to Returns Processing for centralized processing.

- *Recording/Data Capture/Confirmation:* Returns Processing records the returns in the central computer system (excluding information recorded by Finance). Select information from the VAT 3 is captured including input and output figures, whereas the entire VAT 32 Schedule is captured. The system automatically generates an identification and batch number. Each batch contains 50 returns. Once completed, the system prints a worksheet showing the details of data captured.

- *Data Checking:* The data reflected on the printouts are checked against the return and supporting documents. In cases of error, information is corrected and a corrected worksheet is printed and the Data is confirmed.

- *Sorting/Dispatch*: The processed returns are sorted and forwarded to the station servicing the taxpayer.

(*For detailed description and diagram of Current Process, please see Appendix I*)

1.1.2 Business Process Improvement

There are enormous work burdens on the staff of the Returns Processing section, much of which are unnecessary. These burdens have been created by excessive procedural and organizational practices and policies which have created a cumbersome process. As the key entry point of information for the KRA, the Returns Processing section should be free of bottlenecks which delay every subsequent interaction between the KRA and a taxpayer. A series of IT, procedural, and organizational solutions can reduce the work burden on Returns Processing staff and improve the efficiency of the section, resulting in improved efficiency both within the section and in the KRA as a whole.

- *Lack of Computers*: The Returns Processing Section currently has approximately 170 employees consisting of both full-time and casuals (seasonal workers). Although the staffing level appears more than adequate, there are not sufficient computer terminals to accommodate this staffing level. As a result, there are substantial backlogs at each step of the processing cycle.

✓ **Solution (*IT*):** The securing of adequate terminals is essential to eliminating current backlogs and preventing them from reoccurring during the upcoming processing cycle.

- *Labor Intensive Processes*: The current process is extremely labour intensive. A clean income tax return, for example, passes through the hands of a minimum of 8 employees before the processing cycle is completed. A question was posed to the administration regarding the value added by each step of the process, especially screeners, data reviewers and confirmers.

  To assess the value added from the screening phase of the process, a mini test was conducted. The Senior Assistant Commissioner selected 8 batches of "screened" returns consisting of 99 returns each. The returns were assigned to experienced Revenue Officers to review the quality of

the work performed by the screeners, as well as the value added as a result of the resources expended. The results indicated that changes were made to the information recorded by the taxpayer, on average, 2 out of 99 times. Based on the test cases, the value added from the screening process does not appear to justify the amount of time expended in subjecting 100% of filed returns to the screening process.

The second phase of the test was to have employees' key data directly from the return as filed by the taxpayer, as well as key data from the data entry worksheets provided by the screeners. The results indicated that it took the data captures twice as long to complete a batch of 99 returns utilizing the returns as filed by the taxpayer. However, the comparison should have also taken into consideration the time it took to screen a batch of 99 returns that would have narrowed the time gap between the two categories.

Another area that appears to be an ineffective use of resources is the printing and manual association of worksheets on all returns. It was determined that one return can generate upwards of 12 printouts which then requires additional resources to print and manually associate with the return before the processing cycle is complete.

✓ **Solution (*Procedural*):** It is recommended that the worksheets be printed on an as needed basis as opposed to being printed on 100% of the returns filed. It is also recommended that consideration be given to merging activities such as Recording/ Data Capturing, and Review/ Confirmation.

- *Limited Return Data Keyed*: Only select information from returns submitted is keyed into the central computer section. However, there is information reflected on the return that could be utilized for compliance activities, which are not available electronically. This additional data, however, will become more important as the organization moves toward automated risk based management for its compliance programs.

✓ **Solution (*Procedural*):** Returns Processing should coordinate with Audit and Compliance to determine the data that would be most important to ensure success in those programs.

- *Returns Processing does not handle all returns*: The Returns Processing Section does not process all returns received by KRA DTD. For example, the Pay as You Earn (PAYE) year-end returns is not processed by the Returns Processing Section, but instead by the Collection and Compliance section.

✓ **Solution (*Organizational*):** Consideration should be given to processing all returns with the Returns Processing Section.

- *Soft Copies of Returns and Documents*: Soft copies of documents are not collected.

✓ **Solution (*IT*):** Until modernization efforts are completed, consideration should be given to soliciting soft copies of returns and related documents (especially from large taxpayers), which can be downloaded into computer systems.

- *Security*: Another area of concern in the Returns Processing Section involves security. Although there is a guard at the entrance to the Returns Processing area, unauthorized personnel can simply

walk into the workspace. Taxpayers were observed entering the area in search of their refund. With unsecured returns throughout the area, the security as well as confidentially of taxpayer data is at risk.

✓ **Solution (*Organizational*):** It is therefore recommended that steps be taken to limit access to the Returns Processing Section.

- *Re-engineered Returns Processing (Based on Best Practices)*: In order to upgrade KRA for purposes of improving the processing of tax returns for the ultimate goal of improving service and increasing collections, the following procedures are recommended.

✓ **Solution (*Interim Procedures*):** Until the modernization efforts are completed, the process shown below is being suggested as an option to streamline the current process in the Returns Processing Section:

  - *Issuing of Returns:* Towards the end of each year, taxpayers who previously filed I.T.2C, I.T.2P, and I.T.1 (reflecting income other than employment) returns are identified through a special computer run performed by the IS staff and targeted to receive blank returns by post. Labels are ordered and in March they are printed reflecting: PIN, Name, and Last known Address; affixed to the blank returns; and posted. For those taxpayers who did not receive a return by post, forms can be secured for the website or and station.

  - *Receiving of Returns:* Completed returns are currently received through hand delivery or post (mail). Upon receipt, they are stamped to reflect the date of receipt, sorted by return type and stored in a central area awaiting recording into the organizations central computer system.

  - *Screening:* The screening process should be limited to ensuring that returns submitted by taxpayers are completed correctly and available for data capturing. The data entry worksheet should only be completed on an as-needed basis.

  - *Recording / Data Capture:* One individual will capture all of the appropriate information required at once, eliminating the need for a redundant step of recording and then capturing data.

  - *Data Checking/Data Confirmation:* The functions of the data checker and confirmer should be combined.

✓ **Solution (*Integrated System*):** The most ideal situation, however, would be an integrated system that successfully automates the processing of tax returns. Although e-filing should be a key feature under modernization, it is recognized that internet access may be limited in many areas of the country. Therefore, it is recommended that the capability of scanning paper returns whereby digital images are sent electronically to a computer with intelligent character recognition to recognize and capture machine and hand printed data be included in the modernized system. In addition, consideration of 2D barcode containing detailed information from completed returns is also recommended. Manual keying of data would be limited to information that could not be recognized electronically. Instead of keying from paper, capabilities should be in place that would allow the operator to key from images of the return. [*This solution has not been modeled pending completion of the COTS responses and other decisions to be made*].

Several countries including Norway, Sweden, Chile, and Spain are using the concept of pre-populated returns and the State of California in the United States is testing a similar concept referred to as ReadyReturn. Under this arrangement, the revenue body, rather than the taxpayer is the originator of tax-returns, using a large range of third-party information sources and other information relevant to each taxpayer's tax affairs. In this way taxpayers are assisted in meeting their tax return filing obligations and the need to amend assessments, particularly resulting from taxpayers' unintended errors is greatly reduced. In addition, there is less need to key return data.

- Once the return has been processed, an automatic analysis based upon predefined business rules should be available. This would include comparing return data with information contained in other databases. If no business rules are violated the return would be accepted as filed.

- However, if business rules are violated, a correspondence unit could be established within Returns Processing to follow-up on non-complex returns. If appropriate, returns could also be sent to other functions, such as audit, compliance, or collection for resolution.

A concern has been raised about the mandatory requirement to have all taxpayers file a return. Since DTD currently does not have sufficient information within its databases to adequately determine its tax filing base, it is not recommended that this practice be discontinued at this time. However, to help ease the burden on taxpayers *once more reliable data is available electronically,* consideration could be given to the use of pre-populated returns or ReadyReturn.

Returns Processing – Income Tax
Business Process Improvement*
Based on procedures at time of initial review[1]

1. Issue blank returns
2. Request priority taxpayer listing from MIS – IT2C, IT2P, IT1 Accounts
3. *Priority Taxpayer*
4. No
5. *>150 Employees*
6. No
7. Package Returns by site
8. Deliver to Business Centers / KRA Offices
9. >150 Employees - Yes
10. Package Returns by Employer
11. Record in Transmission Book / Hand Deliver
12. Priority Taxpayer - Yes
13. Receive Hardcopy Printout
14. Determine # of Blank Labels Required
15. Procure Blank labels / Forward to MIS
16. MIS Print Labels with Name, PIN, Address and forward to RP
17. Affix Labels to Returns
18. Mail Returns
19. Receive Completed Returns
20. Date Stamp / Sort by Return Type and Year
21. *Current Year*
22. No
23. Forward to Officer specializing in prior year
24. Capture Data
25. Current Year - Yes
26. Screen Return for Completeness
27. *Does Data on Return Match supporting documents*
28. No
29. Correspond with taxpayer
30. Store for 21 days waiting period
31. *Does info received resolve problem*
32. No
33. Forward to Station
34. Does data on return match supporting documents – Yes
35. Store Returns awaiting data capture
36. Employee Retrieve Returns
37. Key in PIN
38. *Does data Entity Info Automatically Populate*
39. No

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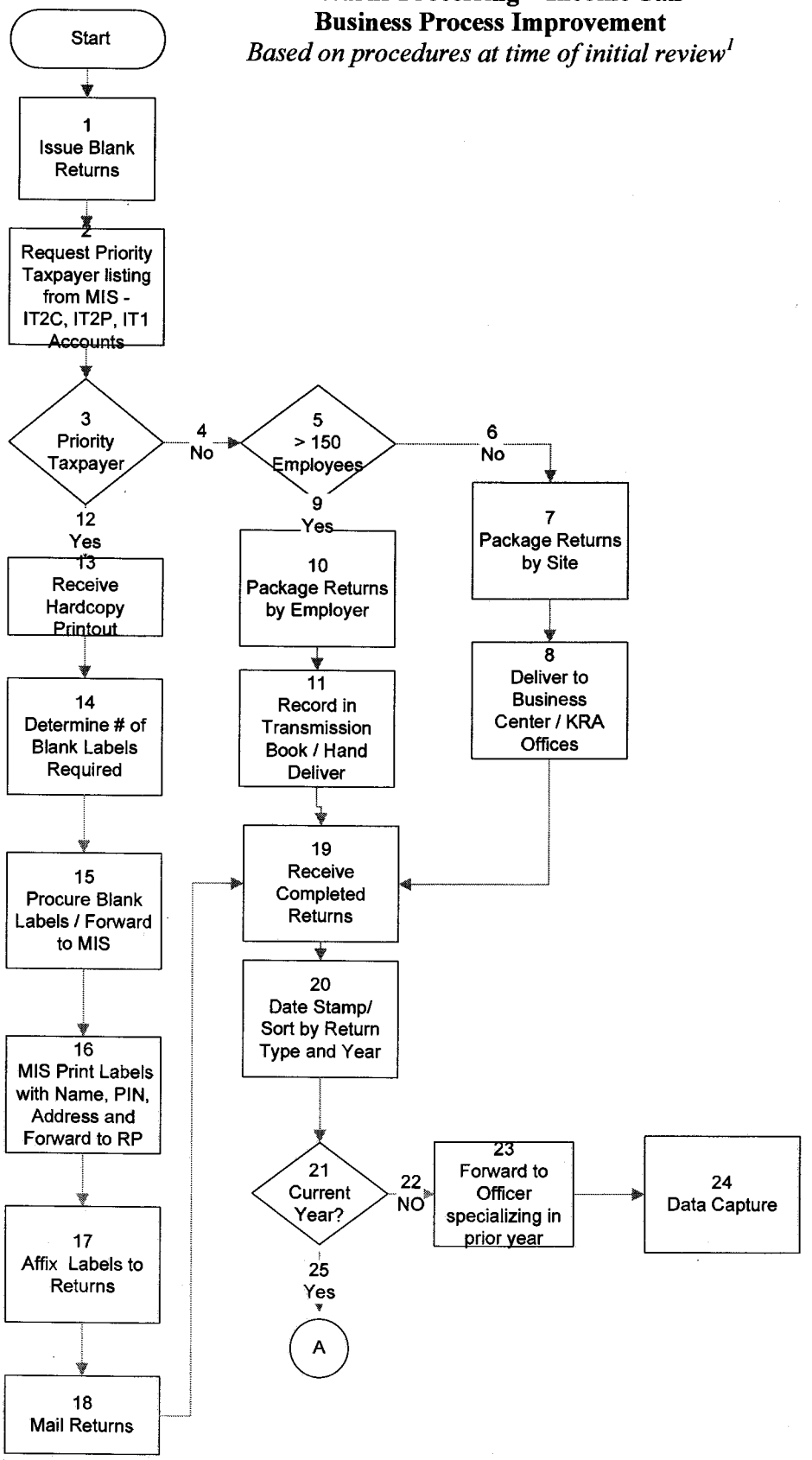
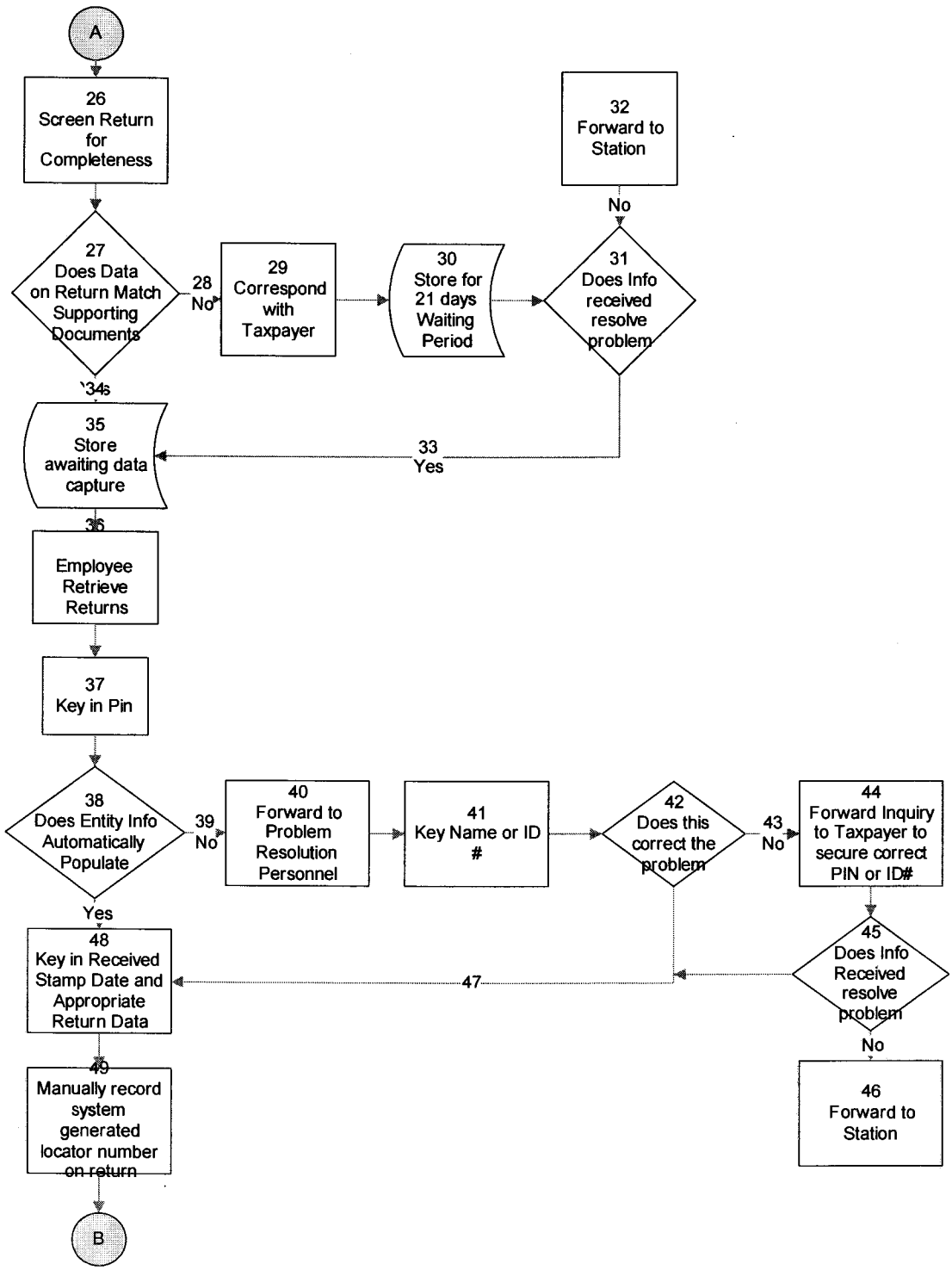
[1] Note that these procedures are based on the current situation of no e-filing, and will need to be revisited when e-filing is implemented.

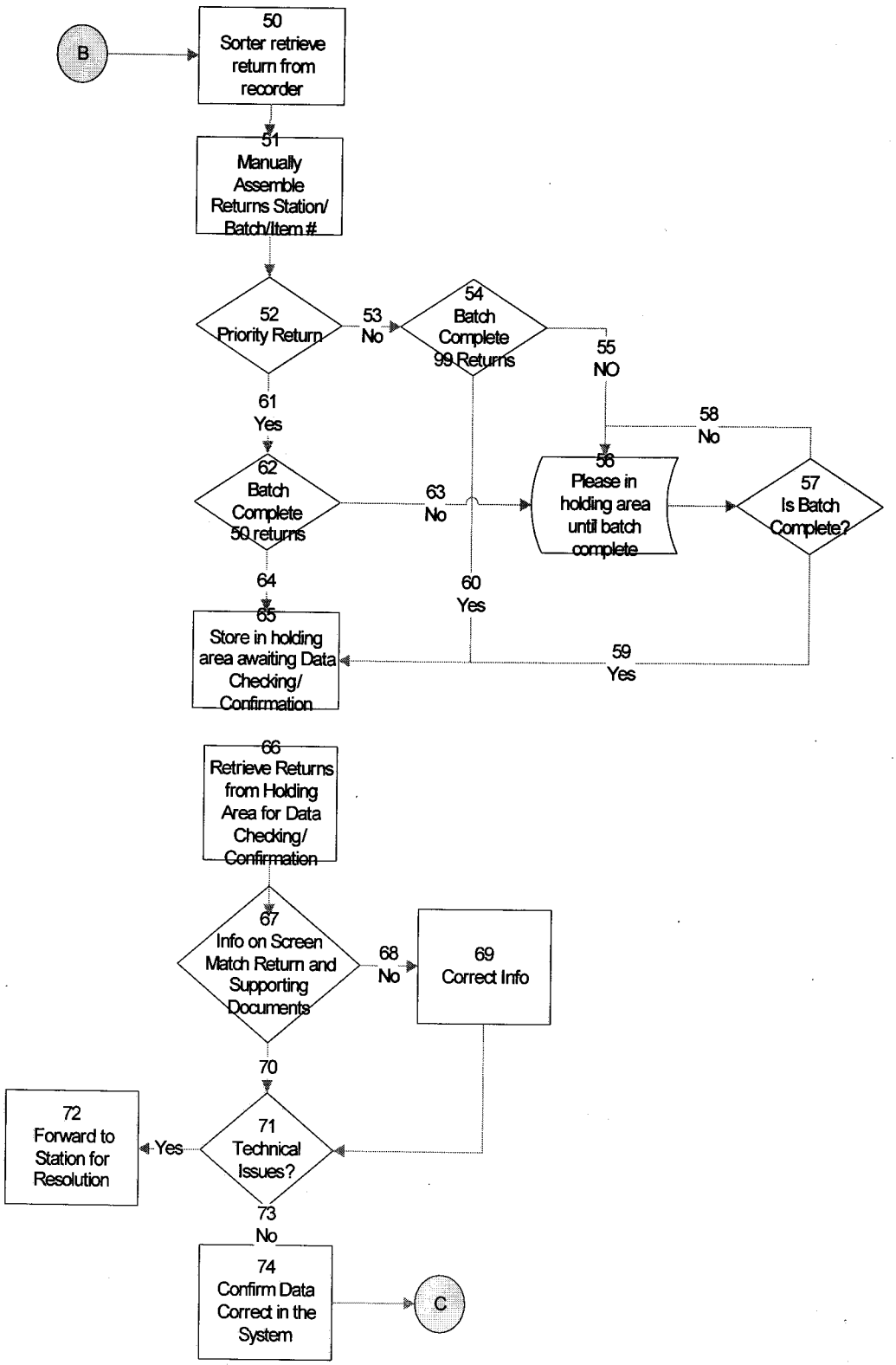
* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

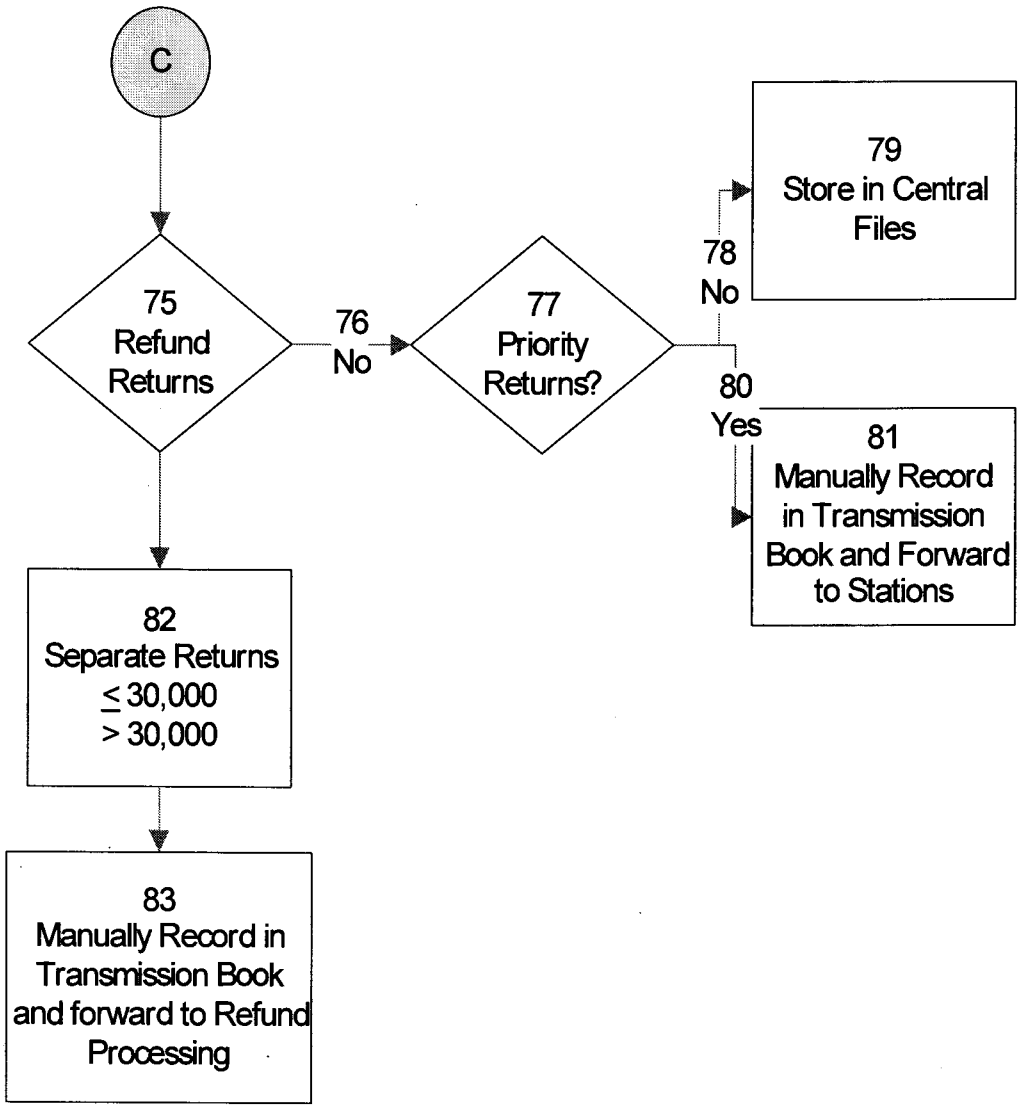
40. Put Aside – Resolve when other returns complete
41. Key Name or ID #
42. *Does this correct the problem*
43. No
44. Forward inquiry to taxpayer to secure correct PIN or ID#
45. *Does this resolve the problem*
46. No - Forward to Station
47. *Does this correct the problem - Yes*
48. Key in Received Stamp Data
49. Manually record system generated locator number of return
50. Sorter retrieve return from Recorders
51. Manually Assemble Returns Station / Batch / Item #
52. *Priority Return*
53. No
54. *Batch Complete - 99 Returns*
55. No
56. Place in holding area until batch complete
57. *Is batch complete?*
58. No – Place in holding are until batch complete
59. Batch Complete Yes
60. Batch Complete Yes
61. Priority Return - Yes
62. *Batch Complete - 50 returns*
63. No - File in holding area awaiting screening
64. *Batch Complete – 50 returns – Yes*
65. Store in holding area awaiting data checking / confirmation
66. Retrieve returns from holding area for data checking/confirmation
67. Info on screen Match return and supporting documents
68. No
69. Correct Data
70. *Info on screen match return and supporting documents – Yes*
71. Technical Issues?
72. Forward to station for resolution
73. Technical Issues? – No
74. Confirm data correct in the system
75. *Refund returns*
76. No
77. *Priority Returns?*
78. No
79. Store in central files
80. Priority returns? Yes
81. Refund Returns? Yes - Manually record in transmission book and forward to stations
82. Refund Return – Yes / Separate
83. Separate Returns < 30,000 and > 30,000
84. Manually Record in Transmission book and forward to Refund Processing

Returns Processing – Income Tax
Business Process Improvement
Based on procedures at time of initial review[1]




A
26 Screen Return for Completeness
27 Does Data on Return Match Supporting Documents
28 No
29 Correspond with Taxpayer
30 Store for 21 days Waiting Period
31 Does Info received resolve problem
No
32 Forward to Station
33 Yes
34 Yes
35 Store awaiting data capture
36 Employee Retrieve Returns
37 Key in Pin
38 Does Entity Info Automatically Populate
39 No
40 Forward to Problem Resolution Personnel
41 Key Name or ID #
42 Does this correct the problem
43 No
44 Forward Inquiry to Taxpayer to secure correct PIN or ID#
45 Does Info Received resolve problem
No
46 Forward to Station
47
Yes
48 Key in Received Stamp Date and Appropriate Return Data
49 Manually record system generated locator number on return
B


B
50
Sorter retrieve return from recorder
51
Manually Assemble Returns Station/ Batch/Item #
52
Priority Return
53
No
54
Batch Complete 99 Returns
55
NO
61
Yes
58
No
62
Batch Complete 50 returns
63
No
56
Please in holding area until batch complete
57
Is Batch Complete?
64
60
Yes
65
Store in holding area awaiting Data Checking/ Confirmation
59
Yes
66
Retrieve Returns from Holding Area for Data Checking/ Confirmation
67
Info on Screen Match Return and Supporting Documents
68
No
69
Correct Info
70
72
Forward to Station for Resolution
Yes
71
Technical Issues?
73
No
74
Confirm Data Correct in the System
C

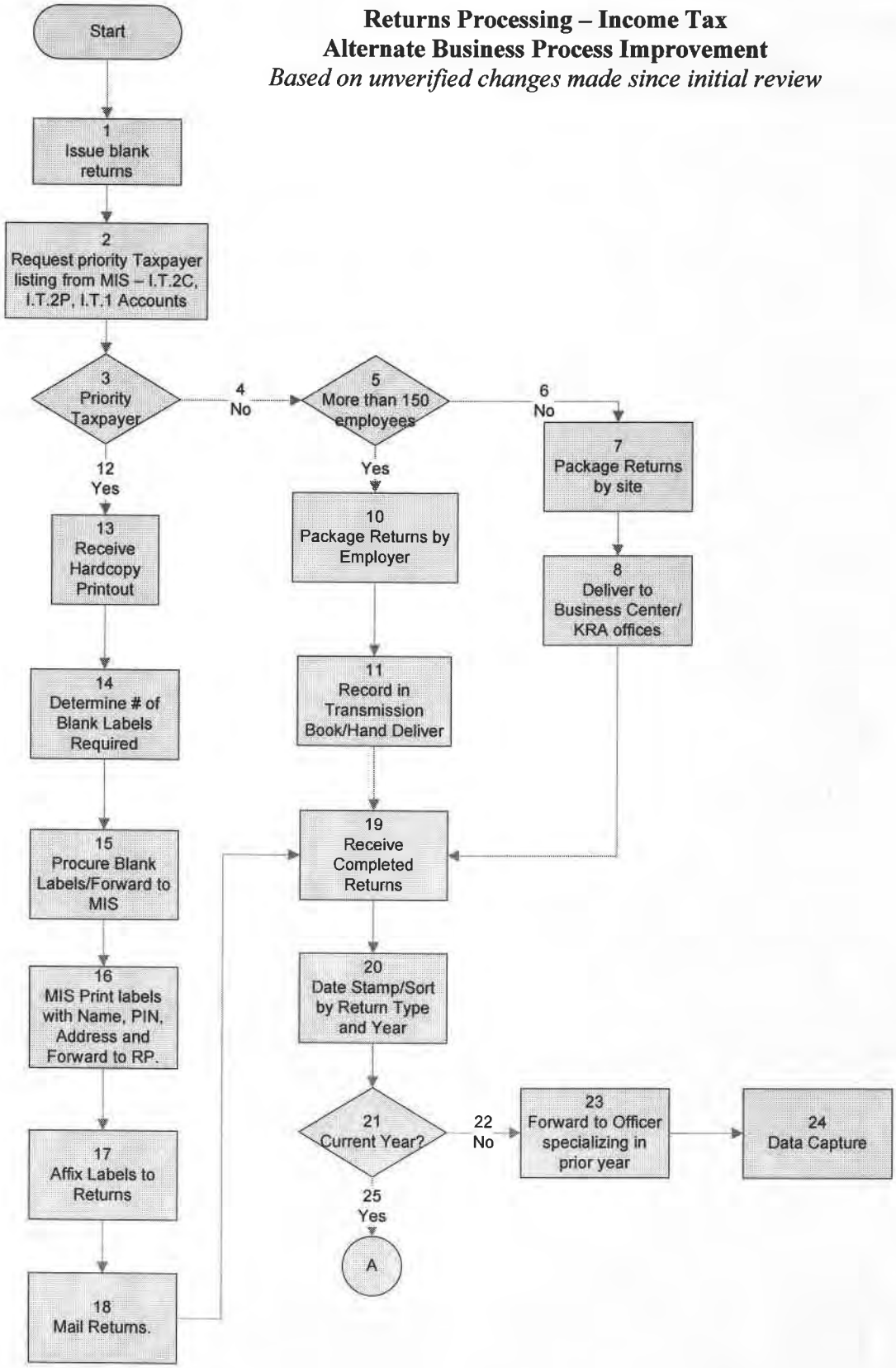

C
75
Refund
Returns
76
No
77
Priority
Returns?
78
No
79
Store in Central
Files
80
Yes
81
Manually Record
in Transmission
Book and Forward
to Stations
82
Separate Returns
≤ 30,000
> 30,000
83
Manually Record in
Transmission Book
and forward to Refund
Processing

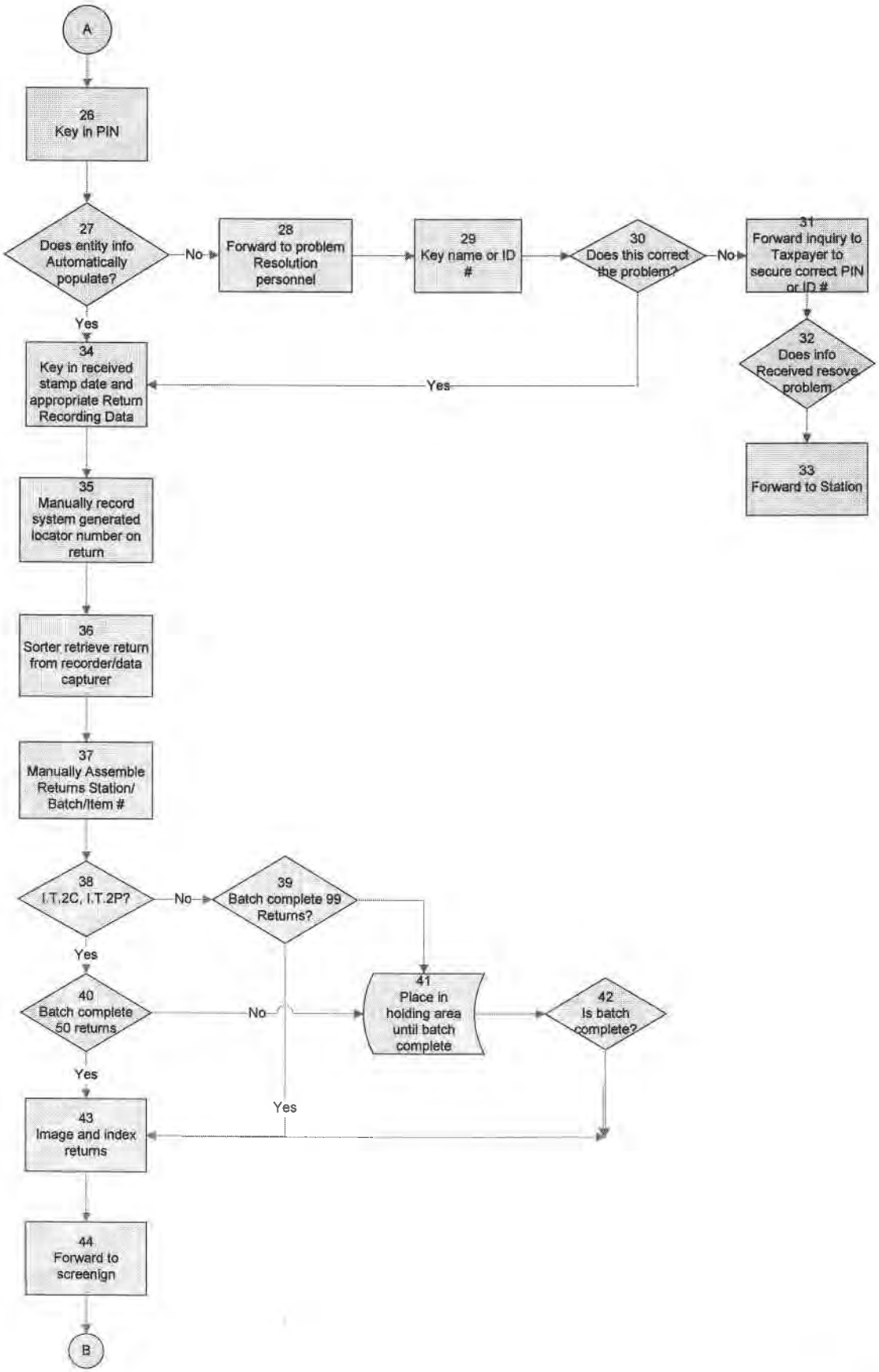
Returns Processing – Income Tax
Alternate Business Process Improvement
Based on unconfirmed changes made since initial review

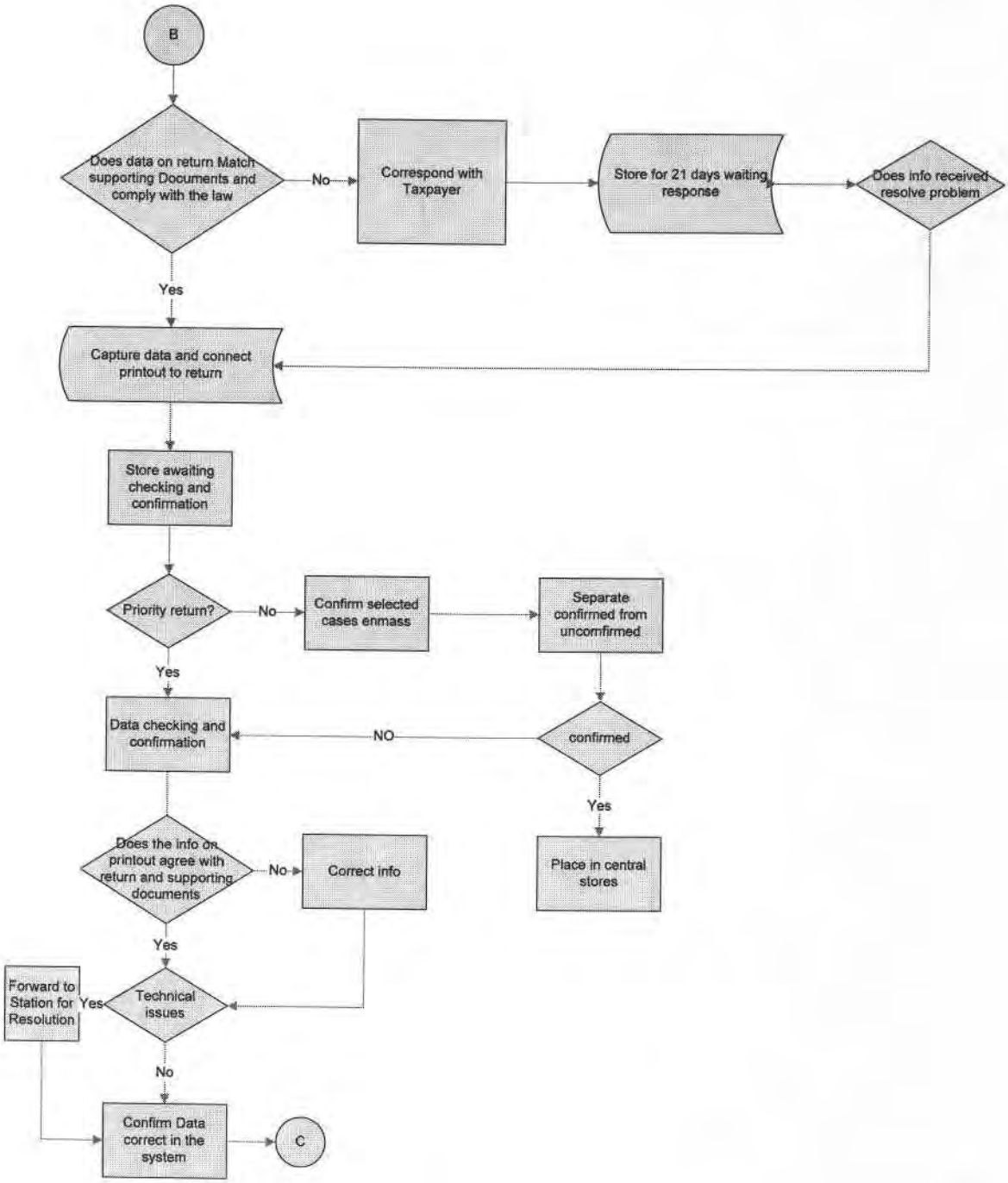
1. Issue blank returns
2. Request priority taxpayer listing from MIS – IT2C, IT2P, IT1 Accounts
3. *Priority Taxpayer*
4. No –
5. *>150 Employees*
6. No
7. Package Returns by site
8. Deliver to Business Centers / KRA Offices
9. >150 Employees - Yes
10. Package Returns by Employer
11. Record in Transmission Book / Hand Deliver
12. Priority Taxpayer - Yes
13. Receive Hardcopy Printout
14. Determine # of Blank Labels Required
15. Procure Blank labels / Forward to MIS
16. MIS Print Labels with Name, PIN, Address and forward to RP
17. Affix Labels to Returns
18. Mail Returns
19. Receive Completed Returns
20. Date Stamp / Sort by Return Type and Year
21. *Current Year*
22. No
23. Forward to Officer specializing in prior year
24. Capture Data
25. Current Year - Yes
26. Key in PIN
27. *Does entity info automatically populate?*
28. No – Forward Problem to resolution personnel
29. Key Name or ID #
30. *Does this correct the problem?*
31. No – Forward Inquiry to Taxpayer to secure correct PIN or ID #
32. *Does info received resolve problem*
33. Forward to Station
34. Key in received stamp date and appropriate Return Recording Data
35. Manually record system generated locator number on return
36. Sorter retrieve return from recorder/data capturer
37. Manually assemble returns station/Batch/Item #
38. *I.T.2C, I.T. 2P?*
39. No – Batch complete 99 returns
40. Batch complete 50 returns
41. Place in holding area until batch complete
42. *Is batch complete?*
43. Image and index returns
44. Forward to screening

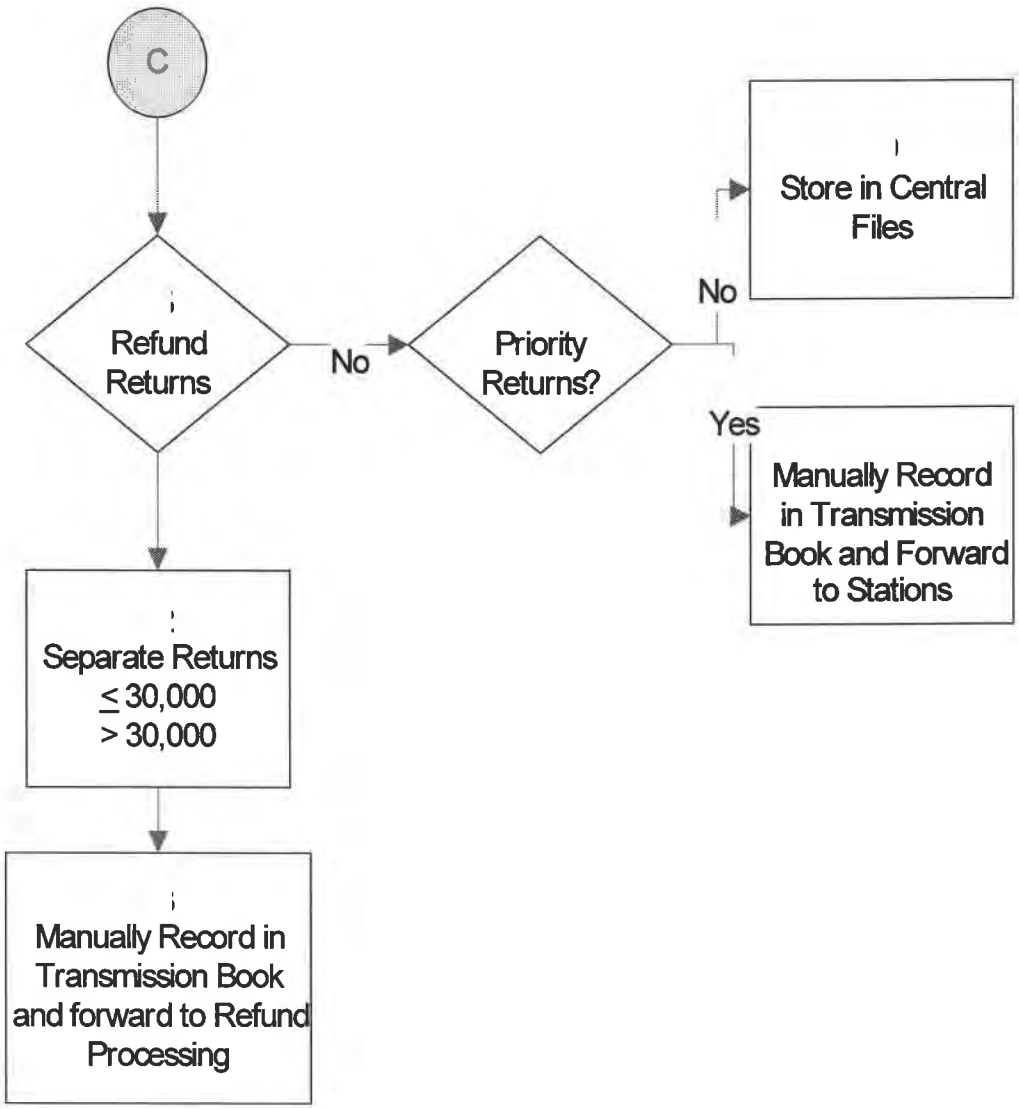
45. *Does data on return match supporting documents and comply with the law?*
46. No -
47. Correspond with taxpayer
48. Store for 21 days waiting response
49. *Does info received resolve problem*
50. Yes
51. Capture data and connect printout to return
52. Store awaiting checking and confirmation
53. *Priority return?*
54. *No*
55. Confirm selected cases enmass
56. Separate confirmed from unconfirmed
57. *Confirmed?*
58. Yes
59. Place in central storage area
60. Confirmed – No
61. Yes
62. Data checking and confirmation
63. *Does the info on printout agree with return and supporting documents?*
64. No
65. Correct Data
66. Info on printout agree with return and supporting documents – Yes
67. Technical Issues?
68. Forward to station for resolution
69. Technical Issues? – No
70. Confirm data correct in the system
71. *Refund returns*
72. No
73. *Priority Returns?*
74. No
75. Store in central files
76. Priority returns? Yes
77. Refund Returns? Yes - Manually record in transmission book and forward to stations
78. Refund Return – Yes / Separate
79. Separate Returns < 30,000 and > 30,000
80. Manually Record in Transmission book and forward to Refund Processing

Returns Processing – Income Tax
Alternate Business Process Improvement
Based on unverified changes made since initial review




A
26
Key in PIN
27
Does entity info Automatically populate?
No
28
Forward to problem Resolution personnel
29
Key name or ID #
30
Does this correct the problem?
No
31
Forward inquiry to Taxpayer to secure correct PIN or ID #
32
Does info Received resove problem
33
Forward to Station
Yes
34
Key in received stamp date and appropriate Return Recording Data
Yes
35
Manually record system generated locator number on return
36
Sorter retrieve return from recorder/data capturer
37
Manually Assemble Returns Station/ Batch/Item #
38
I.T.2C, I.T.2P?
No
39
Batch complete 99 Returns?
Yes
40
Batch complete 50 returns
No
41
Place in holding area until batch complete
42
Is batch complete?
Yes
Yes
43
Image and index returns
44
Forward to screenign
B


B
Does data on return Match supporting Documents and comply with the law
No
Correspond with Taxpayer
Store for 21 days waiting response
Does info received resolve problem
Yes
Capture data and connect printout to return
Store awaiting checking and confirmation
Priority return?
No
Confirm selected cases enmass
Separate confirmed from uncomfirmed
Yes
Data checking and confirmation
NO
confirmed
Yes
Place in central stores
Does the info on printout agree with return and supporting documents
No
Correct info
Yes
Forward to Station for Resolution
Yes
Technical issues
No
Confirm Data correct in the system
C


C
Refund Returns
No
Priority Returns?
No
Store in Central Files
Yes
Manually Record in Transmission Book and Forward to Stations
Separate Returns
≤ 30,000
> 30,000
Manually Record in Transmission Book and forward to Refund Processing

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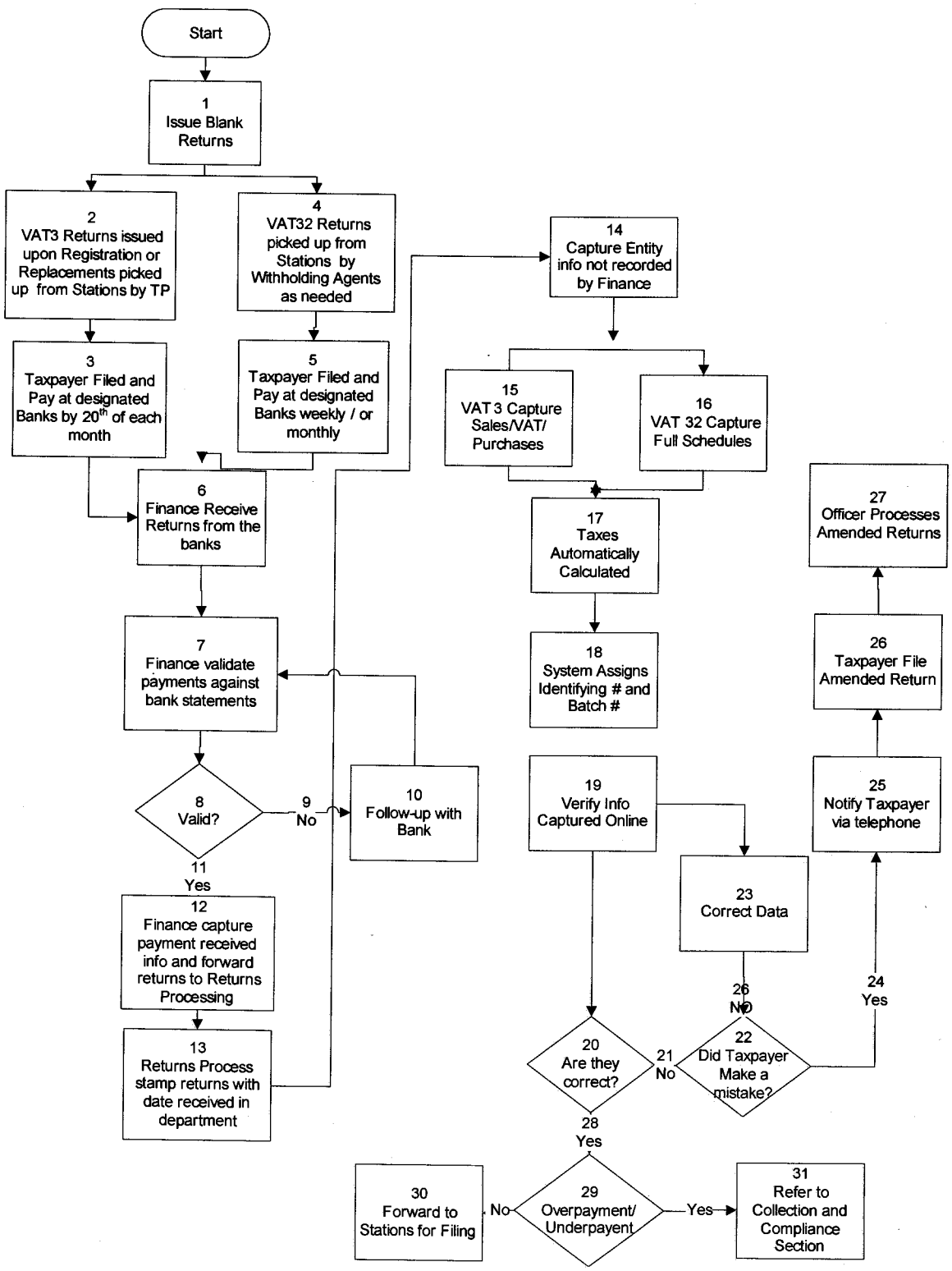
Returns Processing – VAT
Business Process Improvement

1. Issue Blank returns
2. VAT3 Returns issued upon registration or replacements picked up from stations
3. Taxpayer file and pay at designated banks by the 20th of each month
4. VAT 32 returns picked up from stations by withholding agents as needed
5. Taxpayer file and pay at designated banks weekly or monthly
6. Finance receive returns from the banks
7. Finance validate payments against bank statements
8. *Valid?*
9. No
10. Follow-up with bank
11. *Valid? Yes*
12. Finance capture payment received info and forward returns to Returns processing
13. Returns process stamp returns with date received in department
14. Capture appropriate info not captured by Finance
15. VAT 3 Returns – capture Sales/VAT/Purchases
16. VAT 32 Capture Full Schedule
17. Taxes automatically calculated
18. System Assigns Identifying # and Batch #
19. Verify info online
20. *Info Correct*
21. No
22. *Did Taxpayer make a mistake - No*
23. Correct data – Verify data captured online
24. Did Taxpayer make a mistake - Yes
25. Notify taxpayer via telephone / writing
26. Taxpayer file Amended Return
27. Officer Processes amended return
28. Info Correct - Yes
29. *Overpayment/Underpayment*
30. No - Forward to Station for Filing
31. Yes - Refer to Collection and Compliance Section


Start
1 Issue Blank Returns
2 VAT3 Returns issued upon Registration or Replacements picked up from Stations by TP
4 VAT32 Returns picked up from Stations by Withholding Agents as needed
3 Taxpayer Filed and Pay at designated Banks by 20th of each month
5 Taxpayer Filed and Pay at designated Banks weekly / or monthly
6 Finance Receive Returns from the banks
7 Finance validate payments against bank statements
8 Valid?
9 No
10 Follow-up with Bank
11 Yes
12 Finance capture payment received info and forward returns to Returns Processing
13 Returns Process stamp returns with date received in department
14 Capture Entity info not recorded by Finance
15 VAT 3 Capture Sales/VAT/ Purchases
16 VAT 32 Capture Full Schedules
17 Taxes Automatically Calculated
18 System Assigns Identifying # and Batch #
19 Verify Info Captured Online
20 Are they correct?
21 No
22 Did Taxpayer Make a mistake?
23 Correct Data
24 Yes
25 Notify Taxpayer via telephone
26 Taxpayer File Amended Return
27 Officer Processes Amended Returns
28 Yes
29 Overpayment/ Underpayent
30 Forward to Stations for Filing
31 Refer to Collection and Compliance Section

1.1.3 Benefits/Impact

There are many benefits that can be generated from implementing the changes reflected above, including but not limited to:

- More effective use of resources by redirecting staffing to analytical activities as opposed to the handling of substantial amounts of paper;
- Imaging systems would replace ineffective document storage systems established throughout the country;
- Systems would provide all data necessary for a decision at the fingertips of each decision maker;
- Allowing the organization to track every touch of every document;
- Printing cost reduction because of a reduced need to make paper copies of documents, as well as printing worksheets unnecessarily; and
- Improvements in accountability, the ability to prioritize work and the productivity increases due to switching to operating as a more electronically focused organization.

1.1.4 Challenges

It is recognized that there are several challenges that must be over come before the above changes can be implemented:

- The lack of computers within the section is the first challenge that must be overcome. The "dumb" terminals currently being utilized by many employees do not allow them to effectively move from one program to another. For example, the individuals recording returns cannot currently capture the data without closing one screen and opening another to continue the process. In addition, slight ideal time causes the system to shut down and the process must be repeated.
- There will be a substantial investment required in training personnel to utilize the technology effectively. Therefore, time would be diverted from current activities in preparation for future enhancements.

1.1.5 Performance Management

The Returns Processing Section has developed a balanced scorecard that identifies key performance measures. Progress reports are provided on a monthly basis to the office of the Commissioner. In addition, internal reports have been developed to track inventory levels, daily production output, as well as individual production levels. Since many of the reports are produced manually, it is recommended that automated *ad hoc* report capabilities be included in the modernization efforts. However, to minimize information overload, careful consideration should be given to the most important information needed to assess performance.

1.2 Refunds Processing

The Refund section is responsible for validating claims for refunds as a result of excess VAT payments, overpayment of income taxes, or excess taxes deducted at source. The processes established for each type of claim are administered differently.

1.2.1 Current Process

Income Tax – Automatic Refunds

- *Receiving of Claims:* Returns are forwarded from Returns Processing to the Refunds Section for review.

- *Claims ≤ KSh 30,000:* Forwarded to Refund Section
  Claims > KSh 30,000: Forwarded to Stations

- *Assign for Examinations:* Claims are assigned to Revenue Officers for examination and processing. Info is verified against employer/insurance companies returns.

- *Info Match:* Return ≤ 30,000 KSh forwarded back to Returns Processing to complete the processing cycle. If information does not match, contact is made with the taxpayer for clarification.

- *Approval:* Returns > 30,000 KSh and no audit warranted forwarded to station manager for approval

- *Forward to Finance:* Approved claims are manually recorded into a transmittal register and forwarded to Finance.

(*For detailed description and diagram of Current Process, please see Appendix I*)

Income Tax – Overpayment Refunds

- *Application for Refund:* Taxpayers file application for refund of overpayment at one of the district offices.

- *Assigned to Revenue Officer*: Upon receipt of the application, it is assigned to a Revenue Officer for review.

- *Communication with Taxpayer:* The Revenue Officer communicates with the taxpayer to secure original receipts and letters to allow set-off.

- *Forward to Debt Management*: The file is forwarded to Debt Managements to move payments allowing for the payment of the refunds.

- *Return to Revenue Officer:* Revenue Officer prepares overpayment documents including Form C.O. 98, Form I.T. 585, C.O. 222, and Form I.T. 501.

- *Return to Taxpayer:* The above documents are forwarded for the taxpayer's signature.

- *Receive from Taxpayer:* Upon receipt of the overpayment documents from the taxpayer, payment voucher ITR81 is prepared

- *Approval:* Payment voucher approved by officer, reviewer and counter signer.

- *Forward to Refund Section*: Upon approval by the station, claims are forwarded to Refund Section for further verification.

- *Forward to Finance:* Approved claims are manually recorded into a transmittal register and forwarded to Finance.

(For detailed description and diagram of Current Process, please see Appendix I)

VAT Refunds

- *Receiving of Claims:* The refund cycle begins with the filing of a valid claim with the commissioner of DTD.

- *Recording:* The commissioner's office date stamps the claims, assign a control number, and enter in a manual register and forwards to the Refund Section for processing.

- *Forward to Refund Section:* Upon receipt, the claims are checked against the commissioners register, stamped with the section's date stamp, entered in a manual register and keyed into a computer system.

- *Assign for Examinations:* Claims are assigned to Revenue Officers for examination and processing. Assigned claims are manually recorded into an "assigned claims" register. Upon receipt, each officer also manually records claims into their individual registers and forwarded for quality review.

- *Review:* All returns are forwarded to a reviewer who reevaluates the claims to ensure correctness and compliance with legal and administrative requirements. Upon completion, the claims are manually recorded in a "processed claims" register and forwarded for managerial approval.

- *Approval:* Manager reviews claims and approves in a computerize system. Although the system generates a computerized listing of the approved claims, there is a problem with printing. As a result, and officer keys information from the screen into an Excel spreadsheet.

- *Forward to Finance:* Approved claims are manually recorded into a transmittal register and forwarded to Finance.

(For detailed description and diagram of Current Process, please see Appendix I)

1.2.2 Business Process Improvement

One challenge facing the KRA Refunds Processing section is a backlog of refund claims. In many modern tax administrations, the bulk of refunds processing is a function of the Returns Processing function, where there is automatic authorization of refund claims up to a determined maximum. Some refund claims of higher values are selected – on established risk-analysis

systems - for audit verification at the stations by auditors. Of course, a modern ITMS is required and should be considered by the DTD as soon as possible.

- *Excessive Backlog of Income Claims*: The Refund Section also has a backlog of Income tax refund claims. Many taxpayers have been waiting 1 year or more for payment. Unlike the lack of funds budgeted to pay VAT claims, the backlog for the income tax claims are a result of internal deficiencies.

✓ **Solution (*Organizational*)**: There are currently only three (3) employees assigned to process thousands of claims and the inventory increases daily. More officers should be assigned to this process. It also suggested that the reviewing of 100% of automatic and overpayment claims be discontinued and risk assessment criteria be established to test compliance levels.

- *Return Automatic Refunds to Returns Processing*: Currently, Automatic Refunds are transferred from Returns Processing to the Refunds Section. This passing of files is a time-consuming process, and adds greatly to the amount of time it takes to process claims.

✓ **Solution (*Procedural*)**: It is recommended that the current process be re-evaluated and the processing of income tax claims be moved to the Returns Processing section and resources from other cost savings activities within the section be utilized to clear the current backlog. The process established for the refund classified as overpayment refunds should be reevaluated. The excessive passing of the claims between departments and the taxpayer increases the time frame in resolving outstanding issues.

✓ **Solution (*IT*)**: However, in finalizing modernization efforts, consideration should be given to practices adopted by many modern tax administrations where the majority of refund processing is a function of the Returns Processing section. The majority of refund claims are automatically authorized through the processing system. Instead of subjecting 100% of claims to review, risk assessment criteria are programmed into the system and only returns meeting predefined criteria are subjected to upfront review. Post payment reviews are also an option that can be utilized as warranted.

- *Excessive Backlogs of VAT Claims*: The Refunds Section currently has a backlog of VAT refund claims. Many taxpayers have been waiting seven months or more for payment. The delay in processing VAT refunds has been a reoccurring problem over the past 3 years. Fortunately, the backlog was not created as a result of failure within the Refund Section but rather a lack of funds budgeted to pay the claims. The lack of available funds, however, requires the staff to devote an excessive amount of time handling taxpayer complaints. The longer that this issue remains outstanding, the greater the potential for negative public backlash.

✓ **Solution (*Policy*)**: More funds need to be made available to pay VAT refund claims.

- *Monthly Repeat Taxpayers*: Many of the taxpayers applying for VAT refunds are monthly repeat customers involved in exporting. The examination process rarely makes changes to the claims as filed by the taxpayers.

✓ **Solution (*Policy*)**: As a result, consideration should be given to providing exemptions to select taxpayers, thereby eliminating the need to apply for a refund. Although it is recognized that this

may have a negative impact on the government's overall cash flow, this factor must be weighed against the negative public perception being created at a time when tax revenues are increasing.

- *Risk Assessment*: Currently, 100% of VAT refund claims are subjected to review prior to payment.

✓ **Solution (*Procedural*)**: It is recommended that risk assessment criteria be established to identify claims which have the greatest probability of error. A starting point would be to evaluate past audit results to identify the most common audit issues. This approach could be supplemented with a random sampling of claims to periodically test compliance levels. In addition, dollar threshold levels could also be utilized as a criterion for review.

- *Repeated Manual Recording of Information*: The Refunds Section has established excessive manual control points in the form of multiple ledgers. Even though claims are recorded in a computer system upon receipt, it is not utilized to track the inventory assigned to the Section.

✓ **Solution (*IT*)**: Enhancement to the current computer system is currently in test mode and it is recommended that this system be expedited and the multiple manual ledgers be discontinued.

Temporary Recommended Process
Until the modernization efforts are completed, the process shown below is being suggested as an option to streamline the current process of refund claims:

- *Receipt of Claims:* The refund cycle begins with the filing of a valid claim with the commissioner of DTD.

- *Recording:* The commissioner's office date stamps the claims, assign a control number, and enter in a computer terminal and forwards to the Refund Section for processing.

- *Forward to Refund Section:* Upon receipt, the returns are immediately assigned for review.

- *Assign for Examinations:* Claims are assigned to Revenue Officers for examination and processing.

- *Review:* A sample of claims is selected for quality review.

- *Approval:* All approvals are done online by the manager.

- *Forward to Finance:* A computer generated register of approved claims are printed to transmit approved claims and forwarded to Finance.

It also suggested that the reviewing of 100% of claims be discontinued and risk assessment criteria be established to test compliance levels. The multiple manual tracking of claims should be discontinued and replaced by an on-line tracking mechanism. A program capable of accomplishing the above is already in test mode and should be moved to full production as soon as possible.

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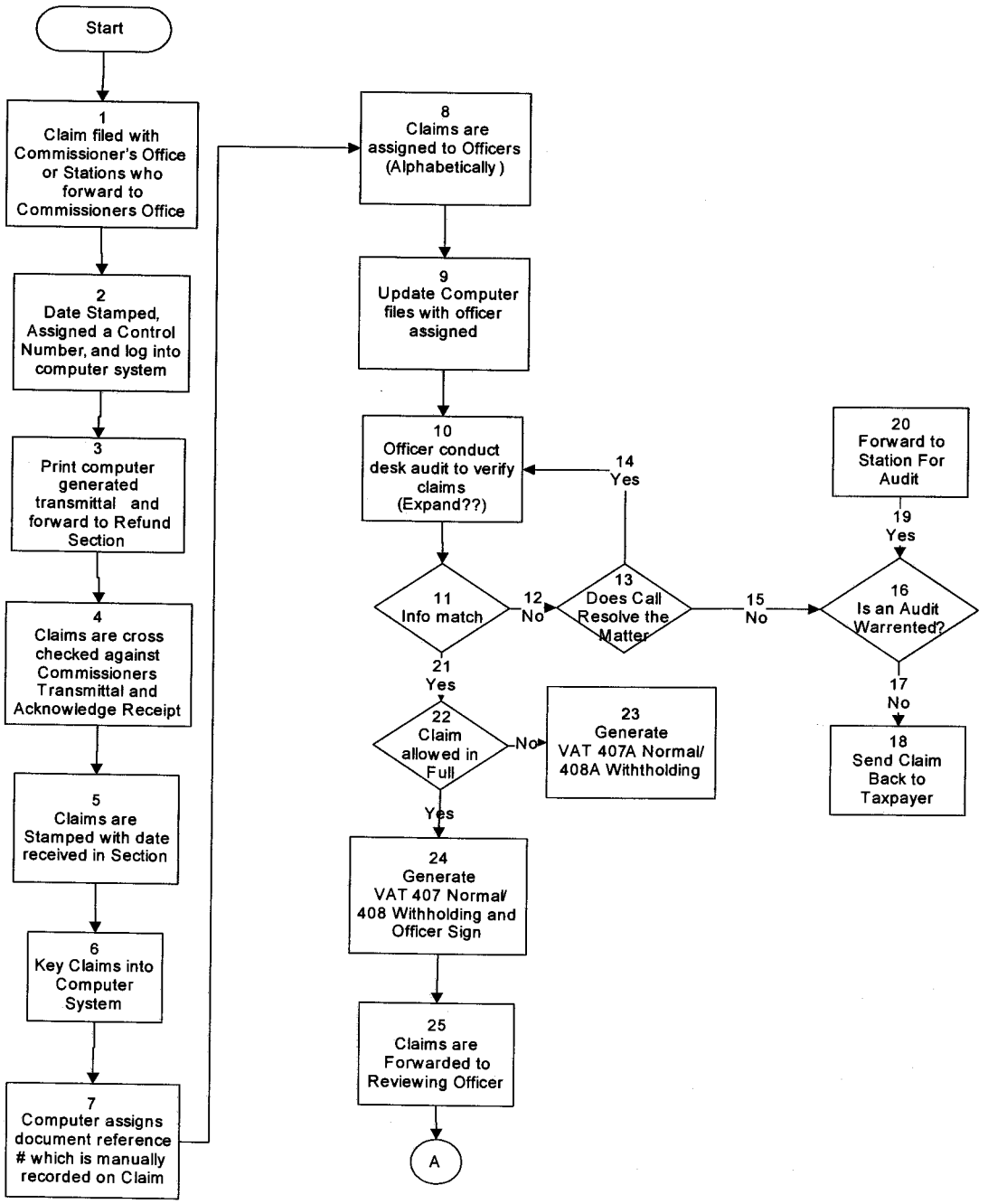
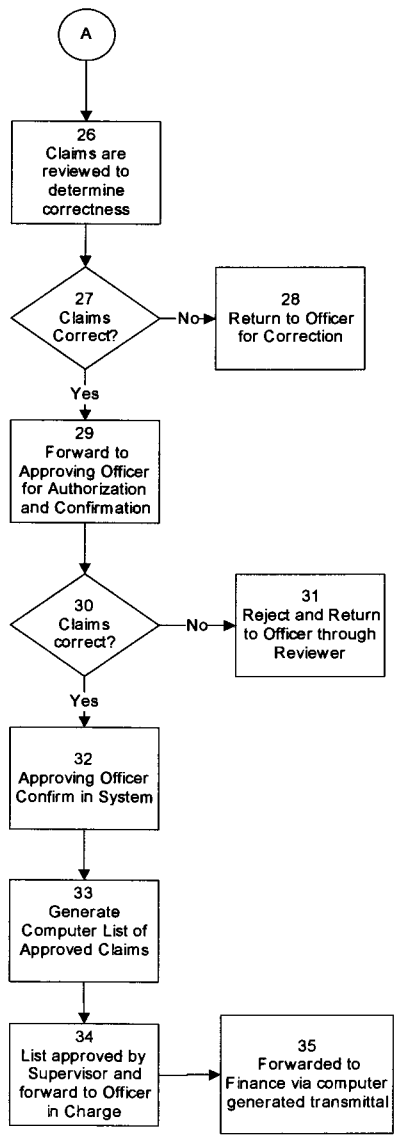
Refund Processing – VAT
Business Process Improvement*

1. Claim filed with Commissioner's Office or Stations who forward to Commissioner's Office
2. Date stamp, assign a control number and log into computer system
3. Print Computer generated transmittal and forward claims to Refund section
4. Claims are cross checked against Commissioner's transmittal and acknowledge receipt
5. Claims are stamped with date received in section
6. Key claims into computer system
7. Computer assigns document reference # which is manually recorded on Claim
8. Claims are assigned to Officers (alphabetically)
9. Update computer files with officer assigned
10. Officer conduct desk audit to verify claims
11. *Does Info Match?*
12. No
13. *Does call resolve the matter*
14. Yes - Officer Conduct desk audit
15. Does call resolve the matter - No
16. *Is an audit warranted*
17. No
18. Send Claim back to taxpayer
19. Is an audit warranted – Yes
20. Forward to station for audit
21. Does Info Match? - Yes
22. *Claim allowed in full*
23. No - Generate VAT 407A Normal / 408A withholding
24. Yes - Generate VAT 407 Normal / 408 Withholding and Officer Sign
25. Claims are forwarded to reviewing Officer
26. Claims are reviewed to determine correctness
27. *Claim correct*
28. No - Return to officer for correction
29. Claim correct – Yes - forward to approving officer for authorization and confirmation
30. *Claims correct*
31. No - Reject and return to officer through reviewer
32. Claims correct – Yes - Approving Officer confirm in system
33. Generate computer list of approved claims (printing problems)
34. List approved by supervisor and forward to officer in charge
35. Forwarded to Finance via computer generated transmittal

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

Refund Processing – VAT
Business Process Improvement




A
26
Claims are reviewed to determine correctness
27
Claims Correct?
No
28
Return to Officer for Correction
Yes
29
Forward to Approving Officer for Authorization and Confirmation
30
Claims correct?
No
31
Reject and Return to Officer through Reviewer
Yes
32
Approving Officer Confirm in System
33
Generate Computer List of Approved Claims
34
List approved by Supervisor and forward to Officer in Charge
35
Forwarded to Finance via computer generated transmittal

Refund Processing – VAT
Alternate Business Process Improvement
Based on unconfirmed changes made since initial review

1. Claim is received at the refunds section – Customer Care Office
2. Claim is vetted (as the taxpayer waits) for completeness and compliance with the law
3. Claim checked against claims receiving checklist
4. *Is Claim complete?*
5. Yes, accept, date stamp.
6. Allocate unique number
7. Attach the ticked checklist to the claim and capture in the system.
8. Is Claim complete – NO. Return the claim to the taxpayer using form VAT 405 manual document. Give reasons for rejection.
9. Allocate captured claim electronically to verifying officers
10. The examining officer receives allocated claims and signs for it against the allocation register
11. Examining officer conducts desk verification/ audit on the claim. Processing checklist used to validate the claim and all the attachments.
12. Claims not acceptable are sent to stations for pre payment audits vide VAT 406 and 405.
13. If the claim information matches, then claim processed and VAT 407, 408 and 407A, 408A are generated for allowed and disallowed respectively.
14. *Claim correct*
15. No - Return to officer for correction
16. Claim correct – Yes - forward to approving officer for authorization and confirmation
17. *Claims correct*
18. No - Reject and return to officer through reviewer
19. Claims correct – Yes - Approving Officer confirm in system
20. Generate computer list of approved claims (printing problems)
21. List approved by supervisor and forward to officer in charge
22. Forwarded to Finance via computer generated transmittal

1.2.3 Benefits/Impact

The benefits of streamlining the process will result in timelier processing of refund claims and therefore eliminating the resources expending on addressing taxpayer complaints. Timelier processing would also impact the public perception of the administration of the organization.

1.2.4 Challenges

As it relates to income tax claims, it is understood that there is the potential for fraudulent claims to be presented. However, this concern does not justify 100% of claims being subjected to the delays currently being experienced. Criteria must be established to determine the claims that pose the greatest probability of error and only those claims should be subjected to upfront reviews.

The major challenge associated with allocating the appropriate resources to cover the payment of VAT claims will be more problematic. Unfortunately, this issue is not under the direct control of the KRA DTD. However, the lack of funding is directly impacting the level of customer service being provided by the agency and as a result resolution of this matter is critical.

At a time where tax revenues are increasing, the payment of refund claims is taking longer. Although impact on the government's cash flow is acknowledged, the issue of providing exemptions to regular exporters should be given serious consideration to help alleviate the need for regular filing of claims.

1.2.5 Performance Management

The Refund Processing Section has developed a balanced scorecard which identifies key performance measures. Progress reports are provided on a monthly basis to the office of the Commissioner. In addition, internal reports have been developed to track the following:

- Claims lodged
- Claims sent to accounts
- Claims paid
- Claims outstanding
- Value of Amount disallowed
- Age Analysis of disallowed claims
- Set-offs
- Large Refunds

Since many of the reports are produced manually, it is recommended that automated *ad hoc* report capabilities be included in the modernization efforts. However, to minimize information overload, careful consideration should be given to the most important information needed to assess performance.

1.3 Taxpayer Education

The Taxpayer Education program is a unit within the Taxpayer Services Division. The program is responsible for disseminating information by conducting, coordinating, and monitoring taxpayer education activities. The main objective of the program is to improve voluntary compliance and broaden the tax base through educating taxpayers on their rights and obligations.

The current process is composed of both Taxpayer Education and Taxpayer Inquiry & Advisory Services.

1.3.1 Current Process

Taxpayer Education

- *Prepare Annual Program*: Prepare Annual Programs based on information received from the taxpayers, stations, and or historical knowledge

- *Annual Target Established*: Based on the information received, annual targets are established along with balance scorecard objectives and measurements.

- *Identify Target Audience*: The targeted audience is established based upon a combination of newly registered taxpayers, industry groups and existing taxpayers concerns, etc.

- *Identify Events*: The specific of the events are finalized including whom, when, where, why, and how much.

- *Approve Funding:* Funds are then solicited and venue booked if appropriate.

- *Conduct Event:* The event is conducted.

- *Secure Feedback*: Feedback received from participants via written surveys.

- *Provide Feedback to Host*: Feedback provided to the presenters involved in the event.

(*For detailed description and diagram of Current Process, please see Appendix I*)

Taxpayer Inquiry and Advisory

- *Secure Inquiry from Taxpayer:* Taxpayer inquiry comes into the unit via telephone, written, e-mail, or walk-in. If receiving officer is able to handle the matter, the inquiry is resolved.

- *Referrals:* If the receiving officer is not able to resolve the matter it is assigned to a Senior Revenue Officer for resolution.

- *Respond to Inquiry*: Generally most inquiries are verbal and responded to on the spot. Those that cannot be responded to on the spot, including written inquiries, are acknowledged and replied within 14 days.

- *Feedback Provided to Forwarding Officer*: Once resolved, feedback back is provided to the initiating office.

- *File Copy of Written Response*: Copies of final responses are filed in a binder within the unit.

1.3.2 Business Process Improvement

- *Inadequate Control of Inquiries*: There is currently not an effective control system or follow-up mechanism to ensure taxpayer's inquiries are resolved in a timely and efficient manner.

✓ **Solution (*Organizational*)**: A central control point for all written inquiries should be established to ensure prompt customer service.

✓ **Solution (*Procedural*)**: In addition, periodic random follow-up with taxpayers to solicit feedback relative to their perception of the services provided should be considered.

- *Coordinate with Functional Areas for Most Common Errors/Problems*: Since taxpayers were not completing returns properly, Returns Processing instituted the process of manually transposing data from the tax returns to a data entry worksheet. Instead of addressing the root cause of the problem, a very labour intensive process was initiated for which 100% of filed returns are subjected to.

✓ **Solution (*Procedural*)**: The taxpayer service staff should coordinate more closely with other functional areas to determine the most common errors/problems being experiences throughout the organization.

- *Effectiveness of Activities*: It is acknowledged that Taxpayer Services have initiated a number of worthy activities, however, there is no way to measure the value added to the organization.

✓ **Solution (*Procedural*)**: Since information on participants at various functions is maintained, it is recommended that this information be tied to the central computer system to assess whether taxpayers' attendance results in a better level of compliance with filing and paying.

1.3.3 Benefits/Impact

By adopting the changes reflected above, the agency would be in a better position to:

- Increase accessibility to information, especially after normal business hours,
- Identify opportunities for improved service delivery to internal and external customers,
- Provide data to implement service delivery standards,
- Provide data to measure and report performance levels.

1.3.4 Challenges

The challenges that would have to be considered are as follows:

- Initial productivity lost in training personnel on the use of new technology;
- The additional cost required to staff a call center (the impact, however, could be mitigated by cost savings from other areas, such as Returns Processing.); and
- The additional cost required to acquire and install a Q-Matic system.

1.3.5 Performance Management

The Taxpayer Education Section has developed a balanced scorecard which identifies key program areas. Progress reports are provided on a monthly basis to the office of the Commissioner.

Since many of the reports are produced manually, it is recommended that automated *ad hoc* report capabilities be included in the modernization efforts. However, to minimize information overload, careful consideration should be given to the most important information needed to assess performance.

It is acknowledged that Taxpayer Services have initiated a number of worthy activities, however, there is no way to measure the value added to the organization. Since information on participants at various functions is maintained, it is recommended that this information be tied to the central computer system to assess whether taxpayers attendance result in a better level of compliance with filing and paying.

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1.4 Registration & Recruitment

The PIN database is administered by the Returns Processing section, is online in Income Tax Operations, and there is a cross link to VAT database. Customs Service Department (CSD) and Road Transport Department (RTD) obtain PIN data to update their individual systems every 14 days.

Registration and Recruitment is under Taxpayer Services. PIN registration is completed in the Stations, except in Nairobi where the PIN registration for the 4 Nairobi Stations is centralized at the KRA Times Tower building. Stations are connected to the HQ computer systems for recording and printing of PIN and VAT registrations. VAT registration locations are similar to PIN registration locations.

PINs are issued by KRA not only for IT purposes, but for the purposes of persons registering a motor vehicle, obtaining electricity service, and a host of other services. The PIN data base has 2,745,699 numbers that have been issued, while the number of Taxpayers filing returns is approximately 850,000. The number of VAT registrants is approximately 62,527. The population of Kenya is approximately 30 million.

1.4.1 Current Process

Registration

- To register for VAT you must have a PIN number, and much of the same information is required for corporations and entities as is required for PIN, such as Company registration, Directors (two for PIN and four for VAT), and other documents. The PIN registration has one Director PIN keyed into the database, and VAT registration has two directors keyed in, albeit there are four positions available.

- Persons registering for PIN must present identification in the form of a National Identity Card or Passport Identification. KRA is not connected to the Registrar of Persons or Immigration data bases to confirm the documents presented. Companies and Organizations registering for PIN or VAT are required to submit a series of documents depending on the type of company or organization. PIN registrations are completed while the customer waits, and VAT registrations are completed within two days. This procedure varies a bit from Station to Station in timing, and a bit in process flow, but substantially it is the same.

  The PIN structure is 11 characters in length, with the first character being alpha to identify personal or corporate/organizations, and the last number being a check digit. The VAT registration number is made up of numbers specially assigned by the system.

The PIN database is reported as needing cleaning-up as there are reportedly a lot of discrepancies and multiple numbers for one individual. A committee has been formed to address the irregularities in the PIN database. It is known that there have been PIN numbers issued, and persons leaving Kenya many years ago, with the persons, usually expatriate, that are still active in the database.

Recruitment

- Recruitment is carried out in the Stations, with functional intelligence information provided by the HQ Registration and Recruitment division. A target is set of recruiting new Taxpayers for PIN and or VAT registration. Recruitment is undertaken from a number of initiatives and external sources.

- Information is gathered from suppliers to hospitals, doctors, universities and hotels, and information is also gathered from organizations such as Kenya Manufacturers Association, Law Society of Kenya, and the Registrar of Companies. Visits to Landlords of commercial buildings have also proved very useful.

- From the information gathered, lists are prepared and sent to the Stations for action. Due to a shortage of staff, the intelligence activity is very low at the moment. The Compliance and Collection section also recruits Taxpayers that have been identified through their activities.

De-registration

- De-registrations takes place when a request is received, usually from a company or organization that has ceased to do business, by way of a letter to the Commissioner.

- Requests are sent to the Collections and Compliance section of DTD to determine if an audit is required. PIN and VAT registration remains valid if there are outstanding amounts of revenue to be paid or if an audit is going to be preformed. PIN and VAT numbers are place in a dormant stage if the conditions are correct.

(*For detailed description and diagram of Current Process, please see Appendix I*)

1.4.2 Business Process Improvement

The KRA currently uses a registration process for IT and for VAT. While some tax administrations continue to use the two registration numbers, many modern tax administrations have moved to one registration number (IT) for identification of all Taxpayer interactions. In the case of Kenya, the CSD is using only the IT PIN number, having eliminated importer and exporter numbers several years ago. It is recommended that the KRA make a business decision if this is the appropriate time to eliminate the VAT registration number. This decision would be best made in view of the consolidation of VAT and IT databases into one. The benefits of making this change are included in Section 1.4.3.

Registration

- *PIN Numbers:* Currently, the KRA has a different PIN number for Income Tax and VAT. This makes it difficult to track individuals who would be required to pay both income tax and VAT.

✓ **Solution (*IT*):** As the PIN and VAT registration numbers have been in place in Kenya for many years, the BPI process does not recommend replacing the current PIN structure, as it would be administratively challenging and likely politically arduous. The recommendation would be to merge the VAT and PIN databases into one, making the Directors PIN into one field structure and expanding it to accommodate up to 12 directors.

> The best practice used in many countries is to use one PIN for both IT and VAT registration. The PIN numbers for a non-individual include in their make-up a link that lets Companies be linked between parent and subsidiary, thus providing a total few of a corporation. PIN corporation registration usually contains the Personal PIN of all the company directors.

✓ **Solution (*Procedural*):** A procedure of entering all the directors' PINs into the registration database should be implemented as soon as this new feature is available. An exercise to retrieve current registered Taxpayer files and enter the PINs of all directors would be a helpful addition. With new registrations, and when entering information from old files, letters should be sent to the address on file for the Directors PIN informing them

that KRA records indicate that they are a Director of said company, and to contact KRA if this is not correct.

✓ **Solution (*IT*):** As Kenya has been using both a PIN and a VAT number for non-individuals, we recommend that this practice continue at this time. We do recommend that that registration process be consolidated into one process so that non-individual completes one form, presents one set of documents (many of which are currently required for both PIN and VAT registration), thus reducing the burden on the Taxpayer. This would require a design of one form that contains the information currently sought on the PIN and VAT registrations forms. This can be a quick win implementation, even if the databases are not consolidated into one registration screen, as the form and documents can pass from PIN to VAT registration. In the current process, duplicate documents are placed into the Taxpayers file, which is attached to the VAT and PIN registration forms and certificates.

In the individual PIN registrations, it is recommended that a connection be made to the Registrar of Persons databases, and if possible the Immigration Department passport records, to verify the identification documents presented by Kenyan Nationals. It is not expected that this type of verification for foreigners residing in Kenya will be possible.

In both individual and non-individual registrations for PIN/VAT, the documents used to register should be scanned and attached to the PIN/VAT registration record. This will make the records viewable online, and then the original documents can be sent to archives for retrieval at some point in the future if ever required.[2]

The PIN/VAT registration data base should be available to RTD and CSD as a connected on-line service, rather than a service that would be updated fortnightly. In other words, the RTD and CSD computer systems should reference the DTD PIN database, and not their own database of information transferred by DTD. This will ensure that the PINs are valid for new Taxpayers doing business with RTD and CSD.

Recruitment

- *Low Recruitment:* KRA's current recruiting efforts are not reaching enough of the taxpayer population.

✓ **Solution (*IT*):** DTD can use data from within KRA departments, in addition to external information, to complete recruiting initiatives. An appropriate level of staff should be assigned to this function in regards to intelligence and analysis at headquarters to support Station officer's recruitment efforts. Having access to RTD and CSD databases and transactions is a useful tool to identify potential Taxpayers not already in the KRA tax net[3]

✓ **Solution (*Organizational*):** There is a requirement to establish a unit within the Recruitment function that has specific skills in working with computer databases within KRA, and external data that may be obtained from organizations such as the Company Registrar, Law Society of Kenya, and from electronic data that might be received from Taxpayers during an Audit. This unit would look for target recruitments by PIN number, name, multiple companies and same address, and other indicators that might be developed.

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[2] See section on document scanning and file storage

[3] This data access is outlined in another section of this report. See Section on "Data Access DTD"

The skills required for this unit would one of staff with good analytical and innovative skills, with a good knowledge of tax, and superior computer skills. Professional ICT employees will not likely be required, but training in the use of databases and reporting software will be a requirement. The skills required for this intelligence and analytical function are the same skills that will be required for verifying returns in the compliance function. A previous recommendation from the 1a Report was to combine the recruitment and compliance functions into one group due to this requirement in today's world of electronic information.

De-Registration

- *De-Registration Process Passive*: It is currently a passive process, and only occurs when a formal request is received. This leaves a large number of active PINs for individuals who are no longer paying taxes.

✓ **Solution (*Procedural*):** A more active approach to de-registration, particularly in individual PINs would be helpful in having an accurate database, and reduce costs of mailing out returns for which a taxpayer is not available. PINs and VAT numbers that have not had, or returns have stopped, should be investigated for non-filers, close of businesses, and persons that are not subject to IT but require a PIN for other reasons. PIN and VAT numbers of inactive filers should be put into a dormant stage.

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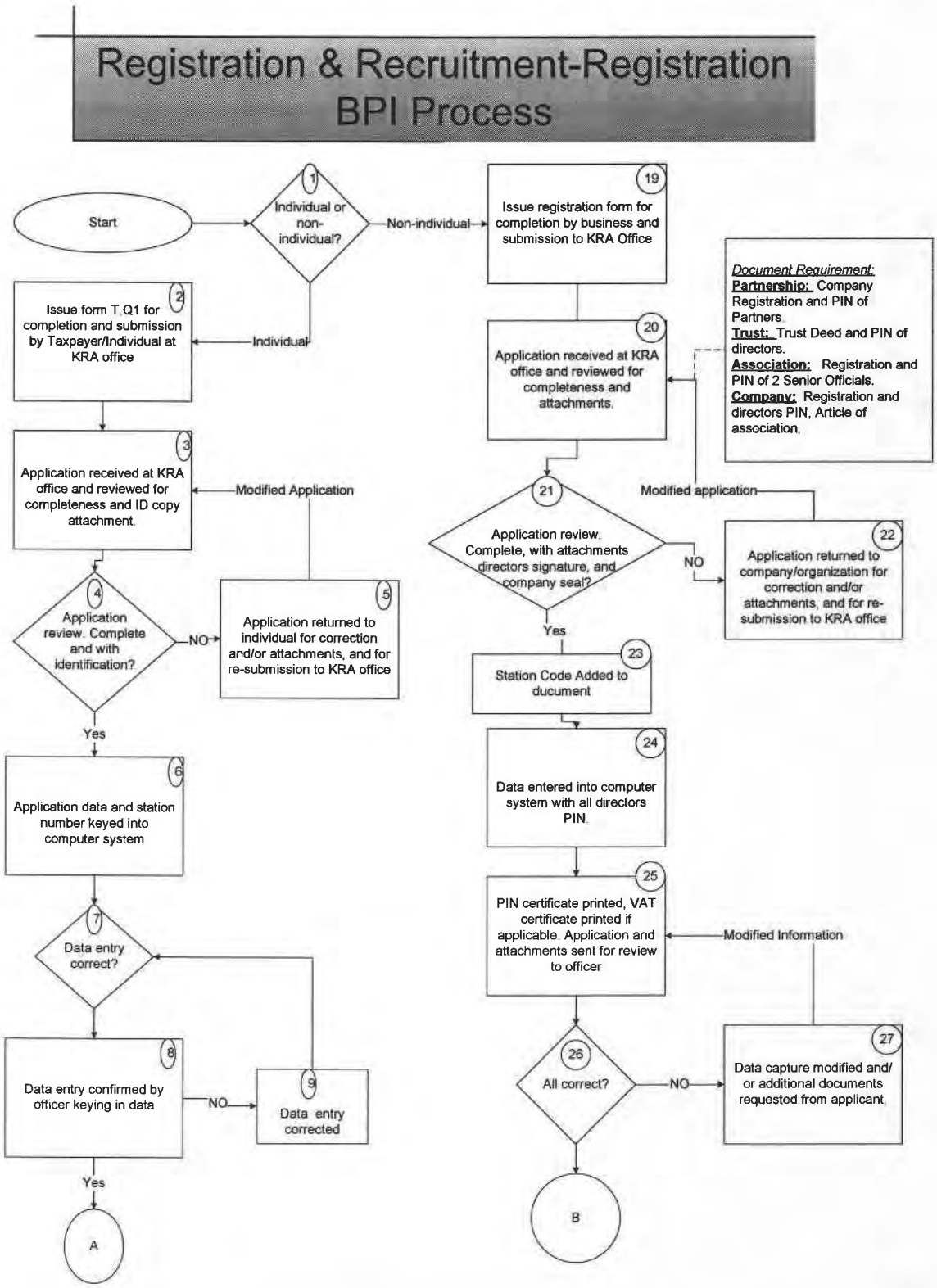
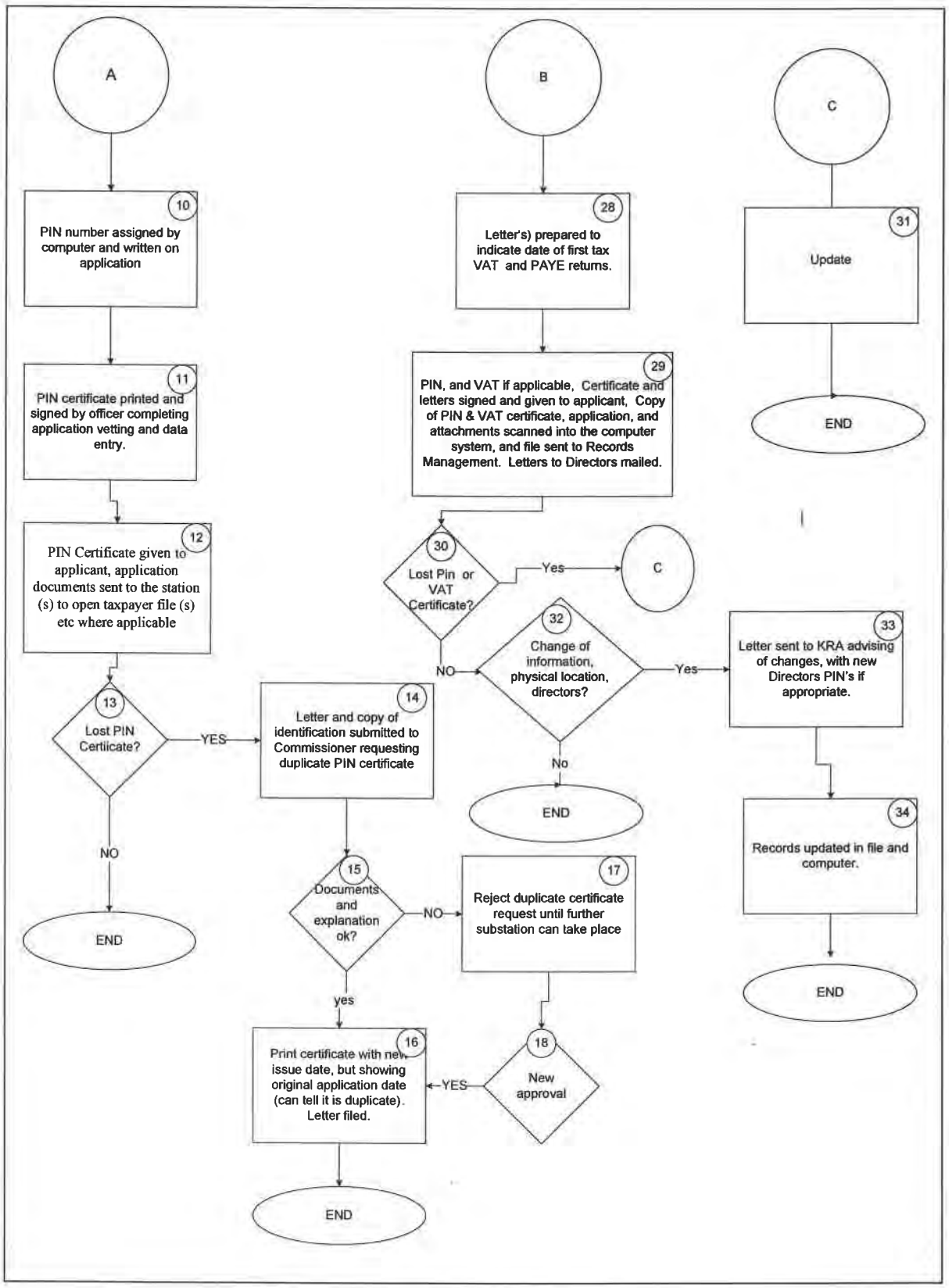
Registration
Business Process Improvement

1. *Individual or Non Individual?*
2. If Individual, Issue form T.Q1 for completion and submission by Taxpayer/Individual at KRA office
3. Application received at KRA office and reviewed for completeness and ID copy attachment.
4. *Application review. Complete and with identification?*
5. No? Application returned to individual for correction and/or attachments, and for re-submission to KRA office
6. Yes? Application data and station number keyed into computer system
7. *Data entry correct?*
8. Data entry confirmed by officer keying in data
9. No? Data entry corrected
10. Yes PIN number assigned by computer and written on application
11. PIN certificate printed and signed by officer completing application vetting and data entry.
12. PIN certificate given to applicant, Registration documents sent to the Station to open taxpayer file.
13. *Lost PIN Certificate?*
14. Yes? Letter and copy of identification submitted to Commissioner requesting duplicate PIN certificate
15. *Documents and explanation ok?*
16. Yes? Print certificate with new issue date, but showing original application date (can tell it is duplicate). Letter filed.
17. No? Reject duplicate certificate request until further substation can take place
18. *New approval?* Print certificate with new issue date, but showing original application date (can tell it is duplicate). Letter filed
19. *Non Individual*? Issue registration forms (eg TQ2C, VAT 1 for completion by business and submission to KRA Office
20. Application received at KRA office and reviewed for completeness and attachments.
21. *Application review*. Complete, with attachments directors signature, and company seal?
22. No? Application returned to company/organization for correction and/or attachments, and for re-submission to KRA office
23. Yes? Station Code Added to document
24. Data entered into computer system with all directors PIN.
25. PIN certificate printed, VAT certificate printed if applicable. Application and attachments sent for review to officer
26. *All correct?*
27. Data capture modified and/or additional documents requested from applicant.
28. Letter's prepared to indicate date of first tax VAT and PAYE returns.
29. PIN, and VAT if applicable, Certificate and letters signed and given to applicant, Copy of PIN & VAT certificate, application, and attachments scanned into the computer system, and file sent to Records Management. Letters to Directors mailed.
30. *Lost Pin or VAT Certificate?*
31. *Update?*
32. Yes? Duplicate PIN and/or VAT Certificate printed as dispatched to requested
33. No? Change of information, physical location, directors?
34. Letter sent to KRA advising of changes, with new Directors' PINs if appropriate.
35. Records updated in file and computer.


Registration & Recruitment-Registration BPI Process
Start
1
Individual or non-individual?
Non-individual
Individual
19
Issue registration form for completion by business and submission to KRA Office
2
Issue form T.Q1 for completion and submission by Taxpayer/Individual at KRA office
20
Application received at KRA office and reviewed for completeness and attachments.
Document Requirement:
Partnership: Company Registration and PIN of Partners.
Trust: Trust Deed and PIN of directors.
Association: Registration and PIN of 2 Senior Officials.
Company: Registration and directors PIN, Article of association.
3
Application received at KRA office and reviewed for completeness and ID copy attachment.
Modified Application
21
Application review. Complete, with attachments directors signature, and company seal?
Modified application
NO
22
Application returned to company/organization for correction and/or attachments, and for re-submission to KRA office
4
Application review. Complete and with identification?
NO
5
Application returned to individual for correction and/or attachments, and for re-submission to KRA office
Yes
23
Station Code Added to ducument
Yes
6
Application data and station number keyed into computer system
24
Data entered into computer system with all directors PIN.
7
Data entry correct?
25
PIN certificate printed, VAT certificate printed if applicable. Application and attachments sent for review to officer
Modified Information
8
Data entry confirmed by officer keying in data
NO
9
Data entry corrected
26
All correct?
NO
27
Data capture modified and/ or additional documents requested from applicant.
Yes
A
B


A
B
C
10
PIN number assigned by computer and written on application
11
PIN certificate printed and signed by officer completing application vetting and data entry.
12
PIN Certificate given to applicant, application documents sent to the station (s) to open taxpayer file (s) etc where applicable
13
Lost PIN Certiicate?
YES
NO
END
14
Letter and copy of identification submitted to Commissioner requesting duplicate PIN certificate
15
Documents and explanation ok?
NO
yes
16
Print certificate with new issue date, but showing original application date (can tell it is duplicate). Letter filed.
END
17
Reject duplicate certificate request until further substation can take place
18
New approval
YES
28
Letter's) prepared to indicate date of first tax VAT and PAYE returns.
29
PIN, and VAT if applicable, Certificate and letters signed and given to applicant, Copy of PIN & VAT certificate, application, and attachments scanned into the computer system, and file sent to Records Management. Letters to Directors mailed.
30
Lost Pin or VAT Certificate?
Yes
C
NO
32
Change of information, physical location, directors?
Yes
No
END
33
Letter sent to KRA advising of changes, with new Directors PIN's if appropriate.
34
Records updated in file and computer.
END
31
Update
END

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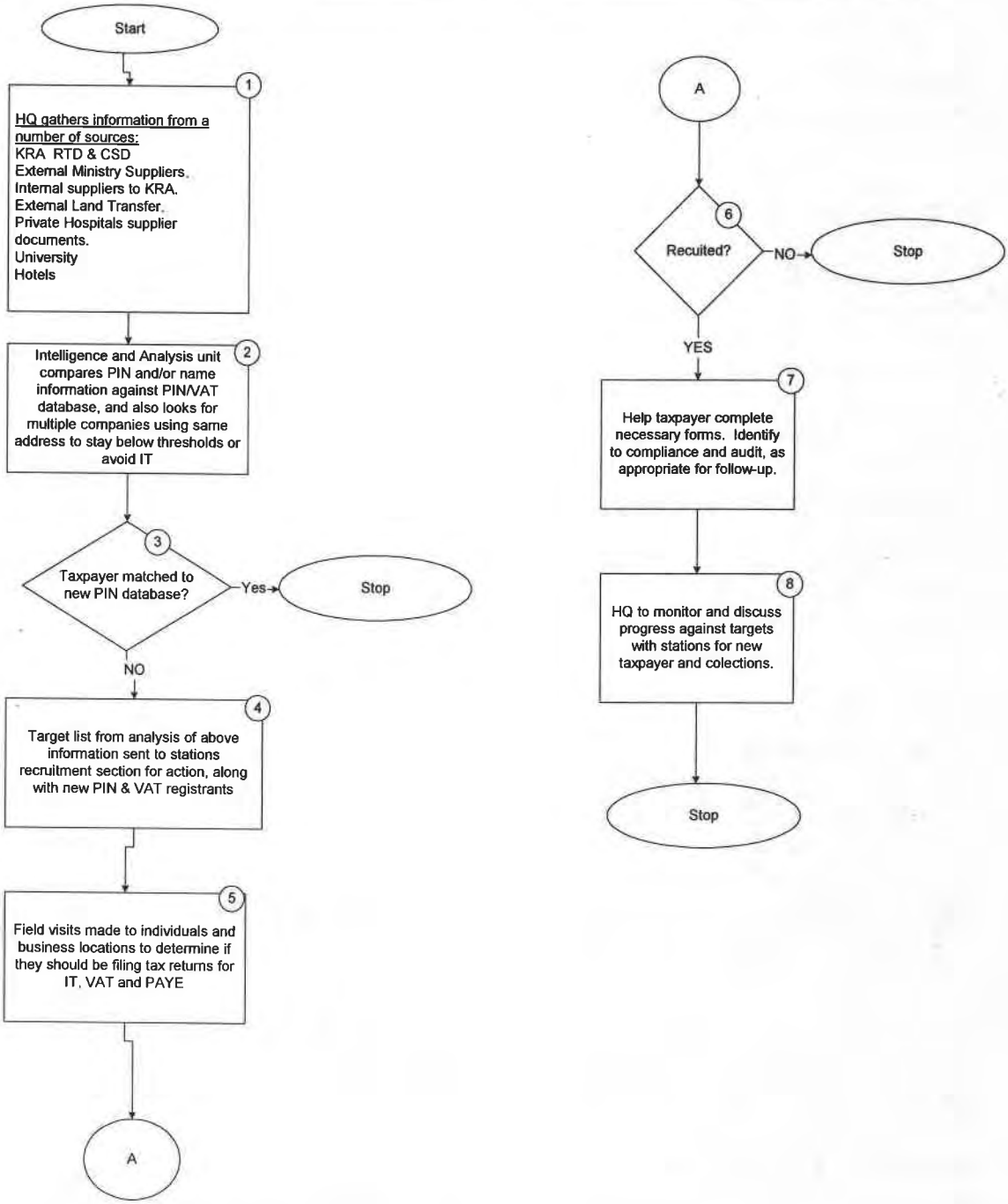
Taxpayer Recruitment
Business Process Improvement

1. HQ gathers information from a number of sources:
    a. KRA RTD & CSD
    b. External Ministry Suppliers.
    c. Internal suppliers to KRA.
    d. External Land Transfer.
    e. Private Hospitals' supplier documents.
    f. University
    g. Hotels
2. Intelligence and Analysis unit compares PIN and/or name information against PIN/VAT database, and also looks for multiple companies using same address to stay below thresholds or avoid IT
3. *Taxpayer matched to new PIN database?*
4. Target list from analysis of above information sent to stations recruitment section for action, along with new PIN & VAT registrants
5. Field visits made to individuals and business locations to determine if they should be filing tax returns for IT, VAT and PAYE
6. *Is taxpayer recruited?*
7. Help taxpayer complete necessary forms. Identify to compliance and audit, as appropriate for follow-up.
8. HQ to monitor and discuss progress against targets with stations for new taxpayer and collections.

Registration & Recruitment-Recruitment BPI Process



1.4.3 Benefits/Impact

Benefits that can be generated from implementing the changes include but are not limited to:

Registration

- Combining the PIN and VAT registration into one process will save time on review of application and subsequent data capture.

- A one-stop process will expedite the registration for non-individual and eliminate having to fill in multiple forms with much of the same information, and eliminate multiple copies of supporting documents.

- Connection to the Registrar of Persons, and possibly Immigration databases, will ensure that the documents presented to DTD are authentic.

- The entering of all Directors' PINs allows DTD to view all the companies that a Director is associated with now, and in the past. This serves to help identify persons that open and close companies, leaving DTD with large outstanding tax obligations, therefore ensuring current and future businesses are monitored effectively.

- Providing a field that allows the association or parent companies to subsidiaries, and vice versa, allows for a one window view of a corporation. This has advantages for planning and conducting audits, and in debt management.

- The notification to Directors that they are being associated with a said company ensures that there is not false registration, will serve to have Directors update their status when there is a change in their association.

- The scanning and attachment of registration documents will make information available from any location without having to retrieve the physical hard copy file. This will also have a beneficial affect on records management.

- Online connection from RTD and CSD to the registration database will ensure accuracy of data in those systems.

- Active de-registration working of non-active PINs and VAT numbers will reduce the number of mailings of returns and forms from DTD, thus have a cost saving.

Recruitment

- The establishment of a HQ intelligence and analysis unit with database and reporting skills, along with tax administration skills will effectively target new recruitments for field operations to investigate.

- Using available database sources within the KRA DTD and RTD computer systems will be an effective tool in identifying recruitment targets for both PIN and VAT registration.

1.4.4 Challenges

The challenges that would have to be considered are as follows:

- The preparation and cleaning of the current PIN database is an important and arduous task that must be completed before the start of a new computer system.
- The design of the field for the association of parent to subsidiary will require careful planning and decision.
- The change to one registration process for both PIN and VAT will require a change in the current processes and paper flows, along with the design of a new registration form.
- The selection and training of staff for the intelligence and analysis unit for recruitment will require careful selection to obtain the most effective start-up staff.

1.4.5 Performance Management

While this list is not all-inclusive, it represents the basic information required. The new DTD systems must be flexible to include additional reports as required, and must include features that will capture information as indicated below. Reporting must be available on a daily, weekly, monthly or and other time period in programmed and ad-hoc reports.

- A number of performance and reporting indicators are required for the registration and recruitment functions.
- Actual against targets for new compliant registrations.
- Actual against targets for recruited registrations.
- Registrations by type of individual and corporation/organization PIN and registrations for VAT.
- Number of registrations in PIN database by corporation type, partnerships, organizations, individuals, etc.
- Report of number of recruitments by type source, computer databases, informants, field visits etc.

1.5 Customer Care Overview

The Customer Care Center is a unit within the Taxpayer Services Division. It is the first point of contact for taxpayers seeking services on a "walk-in" basis. It contains the functionalities of taxpayer registration, acceptance of filed returns, forms distributions, and all other taxpayer inquiries.

1.5.1 Current Process

The current Customer Care Center consists of a series of workstations dedicated to a specific service. Taxpayers generally stand in line awaiting the availability of an officer to assist them. This can often result in an extended period of time for a service as simple as securing a tax form.

1.5.2 Business Process Improvement

Taxpayers who comply voluntarily with their tax obligations need to be treated as valued customers. In addition to regular taxpayer services, the DTD should establish special service programs to encourage taxpayers to comply voluntarily. In many countries, for example, special Problem Resolution Programs have been established to deal with complaints from taxpayers disadvantaged through failure of the normal tax Administration systems. It is an avenue for taxpayers whose problems are not resolved quickly through normal channels or who believe they have not been treated fairly.

The purpose of the Problem Resolution service is twofold:

- It provides ultimate resolution of hard-to-solve taxpayer problems. Taxpayers will be encouraged to view the country's Tax Administration as trying to be fully responsive to their problems and concerns.
- The Management Information System components will provide the Commissioner with valuable information to use to improve the efficiency and effectiveness of the Tax Administration's systems, procedures, and personnel performance.

- *Customer Care:* The KRA does not currently have modernized capabilities to provide high quality customer care.

✓ **Solution (*Procedural/IT*):** In line with the agency's desire to become a state-of-the-art organization, a correspondence tracking system (CTS), a telephone call center and a Q-Matic line management system may enhance its taxpayers' service operations.

Correspondence Tracking System (CTS)
A CTS is a tracking system that can be utilized to track all correspondence received within the agency. Each document can be scanned, given a sequential control number and an appropriate due date. The control numbers are tied to the date of entry into the system. The system can also be capable of producing customized reports. On a weekly basis, a report can be generated for each office, showing every document assigned to an office and which ones are past due. An image of paper documents would also be accessible by anyone authorized user.

Telephone Call Center
In an effort to increase efficiency and accessibility for taxpayers, telephone call centers are becoming an increasingly significant element of the service delivery strategy of many revenue authorities. When live operators are not available, account information is available by telephone

24 hours a day, 7 days a week by utilizing a taxpayer's PIN. Another option that can be provided is recorded online help on a variety of subject matters.

Q-Matic Line Management System
To assist with the management of the walk-in center, consideration should be given to the use of a Q-Matic line management system. Q-Matic gives an estimated wait time and a number to gauge line placement. A typical Q-Matic operates as follows:

- Taxpayers arrive at a branch office and are directed to a main workstation, self-serve kiosk or greeted by an attendant.
- The taxpayer would choose the services desired, be issued a ticket, and be directed to sit in a waiting area.
- When an attendant is available, a message is sent via a LED display, TV monitor and/or audio announcement in the waiting area directing the taxpayer to the appropriate workstation(s).
- Many organizations have utilized the airing of local and national news, as well as public service announcements to serve as a distraction to time spent awaiting services.

Stand alone Form Distribution
To eliminate the need for taxpayers to stand in line only to secure blank tax forms, consideration should be given to establishing forms display units in the lobby area.

1.5.3 Benefits/Impact

By adopting the changes reflected above, the agency would be in a better position to:

- Increase accessibility to information, especially after normal business hours;
- Identify opportunities for improved service delivery to internal and external customers;
- Provide data to implement service delivery standards; and
- Provide data to measure and report performance levels.

1.5.4 Challenges

The challenges that would have to be considered are as follows:

- Initial productivity lost in training personnel on the use of new technology;
- The additional cost required to staff a call center (the impact, however, could be mitigated by cost savings from other areas, such as Returns Processing.); and
- The additional cost required to acquire and install a Q-Matic system.

1.5.5 Performance Management

The key performance measurement that the Customer Care Center must take into consideration is the amount of time it takes to service taxpayers as well as the quality of the information provided. The current process does not provide a means to assess either factor.

1.6 Tax Agents

In October 2003, a requirement was established for government organizations to withhold VAT at the time of payment for all taxable supplies. This requirement was subsequently expanded to banks and financial institutions, cooperative societies, insurance companies and hospitals to withhold VAT due on the purchases and remit the applicable amounts directly to KRA DTD.

1.6.1 Current Process

The application for appointment as an agent is done through the filing of form VAT 30. Upon review and acceptance by KRA DTD, the organization is issued a certificate in the form of VAT 31 which contains a unique identifying number.

The original certificate is provided to the appointed organization and a copy is sent to the appropriate station servicing the organization. The appointed organization is also provided with a booklet containing VAT 32 withholding tax returns and a booklet containing VAT 32 withholding VAT certificates.

Appointed agents are required to withhold VAT at the time of payment for all taxable supplies. Amounts withheld are then declared by the agent on the VAT 32 return and paid to the appointed banks (KCB, NBK, Co-op, Bank). Three copies of the VAT 32 are completed by the agent. The bank takes 2 copies from the booklet and leaves one copy in the booklet.

1.6.2 Business Process Improvement

With the new ITMS system banking module, payments of withholding on VAT 32 forms will be seen immediately after the payment is made[4]. Compliance will be able to monitor the submission of VAT 32 through the ITMS e-filing, thus allowing for timely follow-up of non-filers.

1.6.3 Benefits/Impact

By adopting the changes reflected above, the agency would be in a better position to:

- Improved control of non-filers;
- Electronic reconciliation of returns reduces manual work; and
- Improved timeliness of revenue reports.

1.6.4 Challenges

The challenges that would have to be considered are as follows:

- Training of taxpayers in the use of e-filing systems;
- Training staff in the use of e-file data versus hard copy; and
- Ensuring banking data is correct formats.

1.6.5 Performance Management

- Collections against targets;
- Change in increase or decrease of Tax Agents; and
- Number VAT 32 reviews completed per staff member.

[4] See Finance section for full outline of banking module

2. Audit

The basic process for auditing a taxpayer classified as small, medium, or large is the same. Therefore, the discussion that follows applies to all categories of taxpayers.

The main purpose of the audit program is to help ensure a high degree of voluntary compliance with the tax laws. In attempting to accomplish this, tax returns of all types are subjected to periodic audits. Due to limited audit resources, however, only a small percentage of returns are examined annually. As a result, the effectiveness and productivity of an audit enforcement program is dependent upon the integration of three components.

- *Audit selection* – The capacity to select audit candidates consistent with program objectives is critical. No matter how automated and efficient the audit process, audit effectiveness will not be realized if the returns selected are not appropriate audit candidates.
- *Audit procedures* – Audit procedures directly impact the effectiveness of an audit program. Unnecessary audit steps or excessive audit scope, waste both the taxpayer and auditor's time.
- *Utilization of auditor time* – This is directly related to the appropriateness of audit policy and procedures. Thoughtful audit policy and procedures are consistent with optimum use of auditor time. In addition, it is also directly related to what work auditors perform and how they perform it.

2.1 Current Process

- *Returns Processing:* Once the returns processing cycle is completed, I.T.1 returns with account, I.T.2C, and I.T.2P returns are forwarded to the appropriate stations to review for potential audit.

- *Selection of Cases*: The Audit Manager selects returns for potential audit utilizing a series of predetermined risk assessment criteria, including but not limited to the following:
    1. The size and complexity of the enterprise
    2. A history of poor compliance / late and missing returns / late payment of tax
    3. Previous history of poor record keeping
    4. Fluctuations in results over a series of returns
    5. Large unusual or questionable items on the returns, etc.

- *Registration of Cases:* Upon selection, the returns are recorded into a computerized Audit Module to ensure multiple contacts are not made with the taxpayer.

- *Preparation and Planning*: Upon assignment, the auditor utilizes the guidelines contained in the Audit Handbook to outline potential issues, records required, etc.

- *Taxpayer Contact:* Contact is made with the taxpayer, to notify them of the audit, documents required, and to arrange a mutually agree upon time to conduct the audit.

- *Conduct Audit:* The audit is conducted at the taxpayer's place of business and 2-4 auditors may be involved.

- *Concluding Audit:* At the conclusion of the audit, the audit findings are presented to the Audit and Station Managers prior to presenting it as a final determination to the taxpayer.

- *Additional Assessment*: If additional assessments are made, a settlement report is issued to the taxpayer for agreement.

- *Payment of Taxes:* Payment of additional taxes is solicited from the taxpayer. If payment of the total liability cannot be made, an arrangement to pay in 4 installments can be offered.

2.2 Business Process Improvement

The Audit Division has developed a comprehensive audit handbook which was introduced to all employees via a formal training setting. The handbook has established an excellent guideline for consistency in audit processes throughout the country. As a result, no change in the overall audit process is being recommended[5]. However, the manner in which returns are selected should be re-evaluated.

- *Audit Selection Process*: The selection of cases for audit is manually conducted by individual Audit Managers throughout the country. This process becomes a subjective management decision inherent with operational biases since selection criteria are not based upon concrete data. Although it has been acknowledged that selections should be based upon risk assessments, there is currently insufficient data in which to make this assessment. Unfortunately, returns are not being processed in a timely manner, only limited data is being captured once returns are processed, and no data is being captured on audit findings and results. Each of these factors is critical elements in helping to establish automated selection or risk assessment criteria.

✓ **Solutions:** Since it is likely that the accumulation of sufficient data may take 1-2 years to compile, it is recommended that actions be taken to begin capturing data which could help assess future audit case potential. The audit function should assess the information needed from filed returns and coordinate with Returns Processing to ensure the appropriate information is being captured. The current focus on industry segmentation audits should be formalized to ensure key audit finding and results are captured in an automated format. Consideration should be given to

- Assigning senior auditors to serve as the technical point of contact for each industry;
- Assigning auditors to cover particular industry;
- Brainstorming the type of information (as well as sources of information) critical in examining their assigned industry;
- Sharing of audit techniques and audit results among auditor;
- Developing industry expertise and best practices; and
- Developing an automated mechanism to capture audit finding, results and resources.

An inference (though not necessarily in the strict statistical sense) can be gained as to the overall revenue risk associated with each industry segment. If this process reveals a risk to the revenue that needs addressing relative to other priorities then, based on the nature, extent and causes of non-compliance, an appropriate mix of service, enforcement and/or administrative changes can be initiated. The results of these activities should be evaluated after a period of time to ascertain whether a relatively high risk still exists and which strategies were most successful and cost effective in addressing it.

Tax Administrations often find that where taxpayer irregularities occur in one tax regime, they occur in all tax regimes. While IT, VAT, and Excise verifications have similarities, often Customs audits

[5] The detailed sequence and Flow Diagram for the current Audit Process can be found in Annex I.

are related to classification and valuation, distinctly different than other taxes. However, DTD audits can compare the payments for goods to the declarations at CSD. As a principal, where any KRA Department finds any irregularity in the form of smuggling, false declarations, or other blatant deceitful taxpayer behavior, a comprehensive audit involving all KRA Departments should be undertaken.

Random audits are another means to choose which returns to audit. Random selection means every tax return has an equal probability of being audited. Since KRA DTD does not currently have sufficient data in an automated format in which to measure compliance, the random audits could be utilized to:

- Validate current risk assessment methodology;
- Secure information for future workload selections;
- Identify emerging issues;
- Profiling Taxpayers; and
- Evaluating programs and resource justification

Again the process should be formalized to ensure key audit finding and results are captured in an automated format.

The design of effective fraud detection and referral programs can greatly assist in compliance and enforcement operations. Staff of the Audit and the Collection functions should be trained to recognize so-called "badges of fraud" in audits and in collection of tax arrears cases they are handling, and refer such cases to the fraud investigation unit for further development. Classroom and on-the-job training courses need to be designed for auditors and collectors to recognize "badges of fraud". Such training focuses on use of "indirect methods", i.e. wealth, high value of assets, business transactions observed or uncovered during routine audits/collection activities not reflected on tax declarations etc. which may represent possible "badges of fraud". Internal policies and procedures need to be developed for referral and control of such cases by the Tax Programs function.

2.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- Accumulation of specific data in which to base future audit selections
- Data collected to better understand the taxpayer base throughout the country
- Development of industry expertise
- More effective utilization of resources

2.4 Challenges

The challenges that would have to be considered are as follows:

- Accumulation of data can take anywhere from 1-2 years or more, as a result, the overall process will be long and tedious.
- Extra effort will have to be applied to ensure that all pertinent data are identified and captured in an electronic format.
- The sharing of data and the capturing of the data from various segments throughout the country would be essential.
- Initial productivity may go down as a result of the additional administrative time required to adequately capture audit findings and results.

2.5 Performance Management

The Audit Division has developed a balanced scorecard outlining key performance measures for which progress reports are provided on a monthly basis to the office of the Commissioner. To assess progress on established targets, weekly reports are also prepared at the group/team levels. These reports are somewhat detailed and most are manually prepared. They include but are not limited to:

- Initiative
- Number of cases completed
- Number of cases targeted
- Percent completed
- Yield
- Banking
- Banking Target
- Percent Collected

As a result, it is recommended that automated *ad hoc* report capabilities be included in the modernization efforts. However, to minimize information overload, careful consideration should be given to the most important information needed to assess performance.

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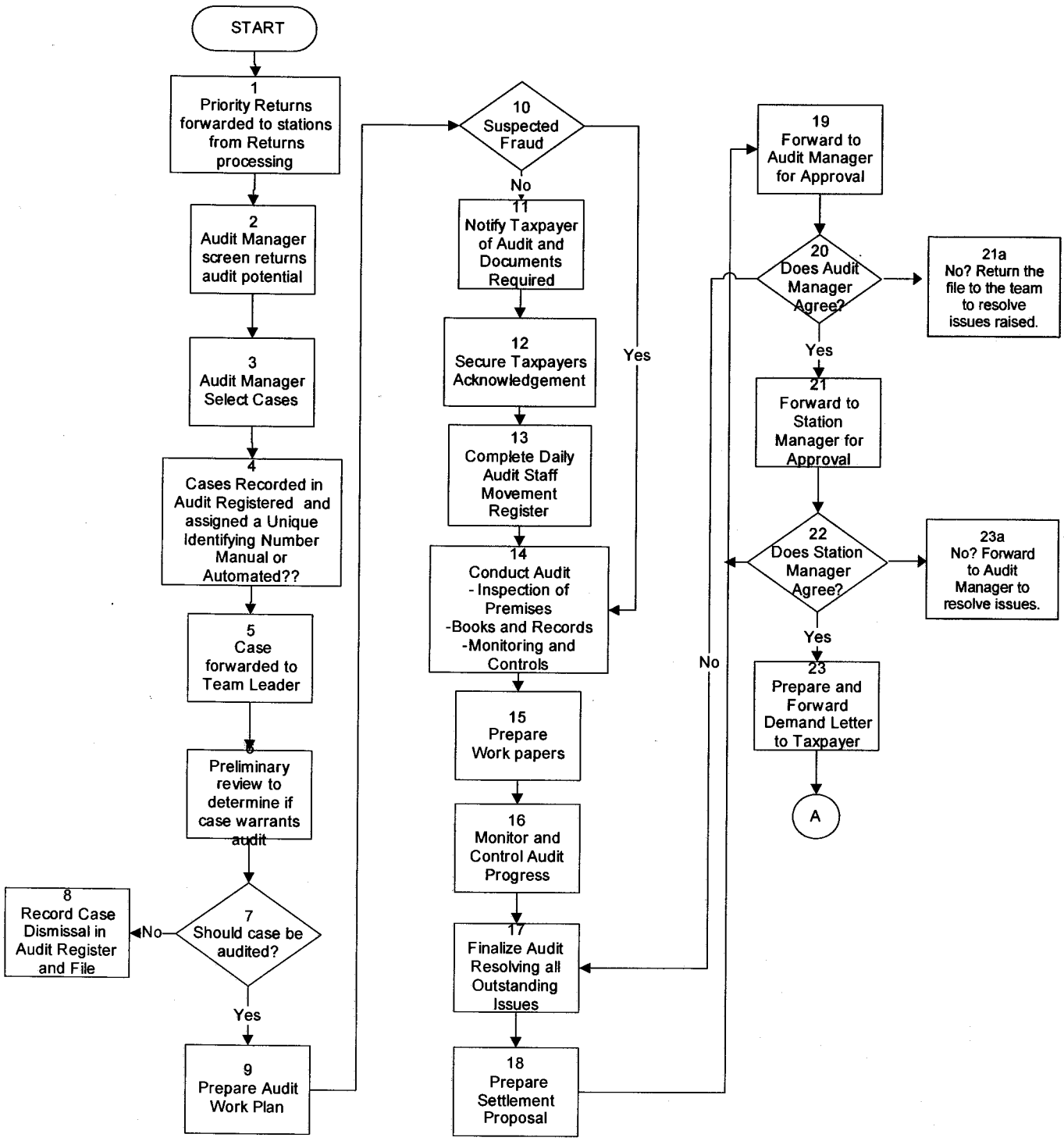
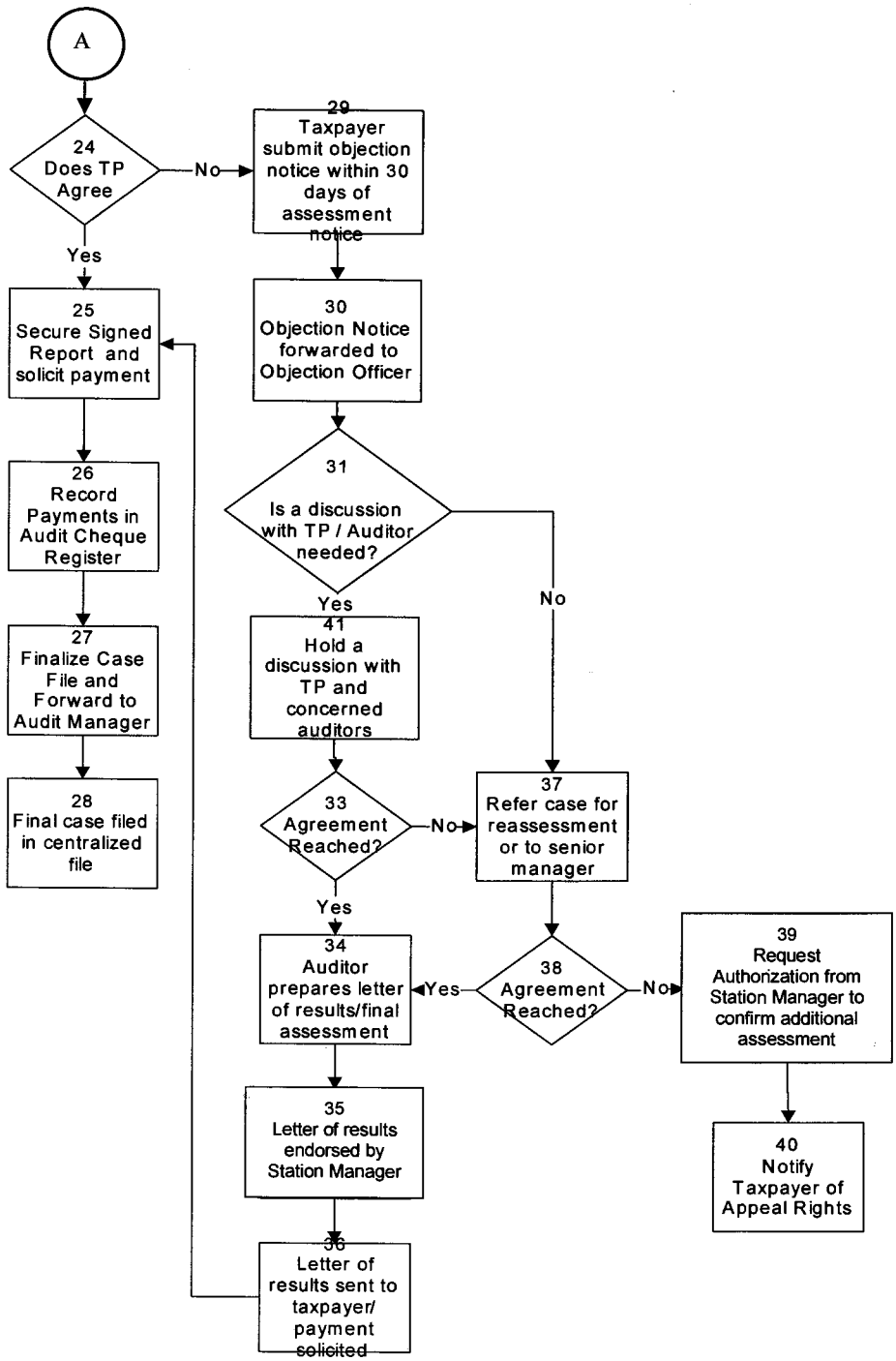
Audit
Current Process*

1. Priority returns are forwarded to respective stations after processing cycle completed
2. Audit Manager screens returns for Audit potential
3. Audit Manager select cases
4. Cases recorded in Audit register and assigned a unique identifying number
5. Case forwarded to Team leader
6. Preliminary review to determine if case warrants audit
7. *Should case be audited?*
8. No - Record case dismissal in Audit Register and file
9. Should case be audited? Yes - Prepare Audit work plan
10. *Suspected fraud*
11. No - Notify taxpayer of audit and documents required
12. Secure taxpayers acknowledgement
13. Complete daily audit staff movement register
14. Conduct audit: Inspection of premises, books and records, monitoring and controls
15. Prepare work papers
16. Monitor and control audit progress
17. Finalize audit resolving all outstanding issues
18. Prepare settlement proposal
19. Forward to Audit Manager for approval
20. *Does Audit Manager agree?*
21. Yes - Forward to Station Manager Agree
    a. No? Return the file to team to resolve issues raised
22. *Does Station Manager Agree*
23. Yes - Prepare and forward demand letter/assessment notice to taxpayer
    a. No? forward to Audit manager to resolve arising issues
24. *Does taxpayer agree?*
25. Yes - Secure Signed report and solicit payment
26. Record payments in Audit Check Register
27. Finalize case file and forward to audit manager
28. File completed returns in centralized file
29. Does Taxpayer Agree? No – Taxpayer submit objection notice within 30 days of assessment notice
30. Objection notice forwarded to Objection Officer
31. *Is a discussion with TP / Auditor Required?*
32. Hold discussion with TP and all concerned auditors
33. *Agreement reached?*
34. Auditor prepares letter of results/final assessment
35. Letter of results endorsed by Station Manager
36. Letter of results sent to taxpayer / payment solicited
37. Agreement Reached? No – refer case for reassessment or to senior manager
38. *Agreement Reached?*
39. No – Request Authorization from station manager to confirm the additional assessment
40. Notify taxpayer of Appeal Rights

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

Audit - Current Process




A
24
Does TP Agree
No
Yes
29
Taxpayer submit objection notice within 30 days of assessment notice
25
Secure Signed Report and solicit payment
30
Objection Notice forwarded to Objection Officer
26
Record Payments in Audit Cheque Register
31
Is a discussion with TP / Auditor needed?
Yes
No
27
Finalize Case File and Forward to Audit Manager
41
Hold a discussion with TP and concerned auditors
28
Final case filed in centralized file
33
Agreement Reached?
No
37
Refer case for reassessment or to senior manager
Yes
34
Auditor prepares letter of results/final assessment
Yes
38
Agreement Reached?
No
39
Request Authorization from Station Manager to confirm additional assessment
35
Letter of results endorsed by Station Manager
40
Notify Taxpayer of Appeal Rights
36
Letter of results sent to taxpayer/ payment solicited

3. Collections and Compliance

The primary goal of KRA DTD is to collect the taxes and duties payable in accordance with the law, and to do so in a manner that will sustain confidence in the tax system and the administration. The actions of taxpayers, whether due to ignorance, carelessness, recklessness, or deliberate evasion – as well as weaknesses in the tax administration – means that instances of failure to comply with the law are inevitable. Therefore, it is essential to have strategies and structures in place to ensure that non-compliance with tax law is kept to a minimum.

The broad categories of taxpayer's obligations include:

- Registration (*See Section 1.4)*;
- Timely filing or lodgment ;
- Reporting of complete and accurate information; and
- Timely payment of tax obligations on.

3.1 Current Process

The Collections and Compliance section is composed of a series of processes with the overall objective of resolving outstanding account receivables and pursuing non-filers. Specifically, it included the following responsibilities:

- Compliance Verification – Involves validating the compliance status of registered and non registered taxpayers.
- Non-Filers and Estimates Management - Identifying and pursuing taxpayers who should have filed a return but have not. Estimated assessments are utilized as a means to force a taxpayer to submit returns and pay arrears. This overall objective, however, is similar to the roles and responsibility of the Taxpayer Education Recruitment Section and the Debt Management Section.
- Monitoring the Withholding VAT Business Processes – Select agencies withhold VAT taxes from vendors and then remit those payments to the KRA-DTD.
- Monitoring the Pay as You Earn (PAYE) Processes – Employers are required to make PAYE remittances through their commercial banks or accepting banks by the ninth of every month.
- Information gathering and dissemination
- Analysing and monitoring nil and credit filers
- Conducting mock purchase and compounding offences
- Monitoring of withholding tax
- Monitoring of installment tax
- Analysing VAT returns
- Reconciliation of PAYE and Withholding tax Returns
- Issuing compliance and clearance certificates
- Facilitating deregistration of taxpayers
- Updating of the Taxpayers Payment ledger

The overall objective in each of the above areas may be similar to the roles and responsibilities of the Taxpayer Education Recruitment Section and the Debt Management Section.

3.2 Business Process Improvement

- *Effective Use of Resources:* It appears that the Taxpayer Education Recruitment program in Registration, the Collections and Compliance account receivable and non-filer programs, and the Debt Management programs may be duplicating efforts and resulting in multiple taxpayer contacts by agency personnel.

✓ **Solution (*Organizational*):** Consideration should be given to re-evaluating the current roles and responsibilities of each of these sections. The recent consolidation of Debt Management and Collection and Compliance is an effective solution to reducing the duplication of efforts.

- *Backlogs Impact Quality of Data Available*: The backlog of processing filed returns is negatively impacting the Collections and Compliance programs. Although attempts are made to timely follow-up on outstanding account receivable and non-filers, the lack of accurate account data is generating unnecessary taxpayer contacts that may be negatively impacting taxpayer relations.

✓ **Solution (*Procedural*):** Improvements in Returns Processing should help alleviate this issue.

- *Strategies to deal with non-filers*: It appears that most of the Collections and Compliance resources are dedicated to known taxpayers who have not filed a return or paid outstanding tax liabilities.

✓ **Solution (*Procedural*):** However, it appears that other techniques should be employed to identify taxpayers who have not registered and have never filed a return. *Annex III* to this report is a template to identify potential sources of information that can be used in Tax Compliance Programs.

The agency's statistical data indicate this may be an area for which resources should be applied. For example:

- The country has a population of over 30 million people.
- If the youth population accounts for 60% of the populations, this leaves a base of 12 million people.
- If 50% of this segment is unemployed, a potential base of 6 million taxpayers remains.
- If 50% of this segment is below the poverty level, a potential taxpayer base of 3 million remains. (Note: there are approximately 2.5 million taxpayers registered with the agency)
- However, the agency only processes approximately 850,000 returns annually.

As a result of the above, the Collections and Compliance function should evaluate opportunities to assess the overall level of compliance level.

- ***General Best Practices***

✓ **Additional Collections Solutions**

A large percentage of tax arrears of many countries represent bad debts which cannot be collected from taxpayers. Tax officials at all levels, and other government officials at the Ministry of Finance and elsewhere, are forced to spend time continually dealing with these unproductive cases. To prevent waste in futile attempts to collect bad-debt tax arrears, and to avoid the continual reporting of tax sums in the active tax-arrears inventory which really cannot be collected, designated high-level DTD management officials could be given the authority to abate the assessment or to declare such

tax arrears cases "Currently Not Collectible" (RNCA – Requiring no Current Action); cease collection activity on such RNCA cases; and place such tax arrears cases in a "Suspended Status".

In some countries, the Minister of Finance or Commissioner General has been asked to consider issuing a Decree to authorize certain high officials at high management levels to approve or disapprove recommendations made to them by lower level officials to write-off certain cases of tax arrears which fall within specific guidelines. Tax officials involved provide documentation as a permanent record with most cases placed in bad-debt categories - to support and give transparency to their determination that each tax arrears case submitted actually represents a bad debt.

In addition to the system for write-off of certain tax arrears cases, establishing separate office and field organization units for collection of tax arrears and for handling of non filers and stop filers have worked well in functional organizations and make the Collection staff more effective and efficient. Among the practices are:

- Establishing an Accounts Receivable Officer to focus and coordinate management portfolios on tax arrears among stations, e.g. largest value; by industry groups; by geographic areas; etc;
- Establish a central locator service/research center to locate non-filer/stop-filer taxpayers and assets of taxpayers with tax arrears;
- Establish a central telephone site with a laser letter system to conduct Collection function activities at less costly expense than field efforts; and
- Establish an economical, fast and centralized Collection mail processing center to respond to Collection letters.

✓ **Additional Compliance Solutions**

There are several tools and best practices currently being utilized in other tax administrations worldwide that could be adapted to the situation in Kenya. One tool used very successfully is to design and implement computerized recruitment systems and procedures to detect those who are wholly outside the tax net and take steps to bring them under control. These activities are classified either as "Non-filer" or as "Stop Filer" Programs. Non-filers are taxpayers who have never registered with the tax authority and consequently have escaped paying their tax obligations. Stop-filers are taxpayers who have registered at some time in the past, but have stopped filing declarations.

Generally, compliance efforts to broaden the tax base should focus on those taxpayers with potentially significant tax liabilities. Activities can include scanning of information in industry and trade registrations; from electric company lists of high wattage users; lists of passport holders; cross-checking of lists of membership in professional associations (doctors, lawyers, etc.); scanning publications for new business announcements; cross-checking of import/export documents; and other sources. Even aerial photography to locate large houses [with swimming pools and air-conditioning] and unregistered non-individuals can be explored. Publicizing such steps can also help compliance.

Another program which can be designed to broaden the tax base focuses on the practice of conducting periodic sweeps of carefully selected areas to net unregistered taxpayers and those who might be under-reporting. An example of a "task force" approach to initially launch this type of program would be to have a task force appointed to begin in one major Nairobi district, e.g. by conducting periodic sweeps in business and upper income residential areas, checking major businesses and large houses to find taxpayers, both business and residential, without tax numbers or who are clearly underpaying their taxes. The aim is not just to improve income tax collection but also that of VAT. The "task force approach" should follow the following or similar steps:

- Set up a fully transparent Case Control and Case Tracking system which assures that each step is documented and justified, with the responsible person identified. This makes it much more difficult for private deals to be made.
- Put in charge of the Team responsible for the sweeps an energetic, efficient and honest official. Leadership of the pioneering effort is obviously a key to its success and to the possibility of duplicating it.
- Begin with a high profile and well publicized effort with the Commissioner for DTD and KRA Commissioner General participating to indicate that it has the highest level backing. Publicity will frighten some delinquent taxpayers outside the sweep area into filing.
- Quickly close small-liability, unpromising cases and concentrate on those that promise the highest return.
- After the first sweep, follow up and prepare for future sweeps.

Another tool used extensively in many countries is to develop a "substitute for return" system or presumptive assessment system and procedures (in cases where the tax authority is authorized by law to carry out this action) to address cases where taxpayers refuse to file their own tax declarations voluntarily.

Laws which provide substantial penalties for non-compliance and the enforcement of such laws support broadening the tax base. The laws which best support on-going broadening of the tax base are those which permit the tax authorities to obtain and match third party financial data with taxpayer master file activities.

3.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- Accumulation of specific data in which to base compliance activities
- Data to better understand the taxpayer base throughout the country
- Redirect energy to pursue taxpayers not currently in the KRA DTD data base
- More effective utilization of resources

3.4 Challenges

The challenges that would have to be considered are as follows:

- The pursuit of taxpayers not currently within KRA DTD databases will take more time than identifying taxpayers who have not filed or have not paid.
- Initial productivity may go down as a result of the additional administrative time required to adequately capture audit findings and results.
- Extra effort will have to be applied to ensure that all pertinent data are identified and captured in an electronic format.
- The sharing of data and the capturing of the data from various segments throughout the country would be essential.

3.5 Performance Management

The Collections and Compliance Division has developed a balanced scorecard outlining key performance measures for which progress reports are provided on a monthly basis to the office of the Commissioner. To assess progress on established targets, daily and weekly reports are also prepared

at the group/team levels. These reports are somewhat detailed and most are manually prepared. They include but are not limited to

- Tax Type
- Cumulative Balances
- Today's Banking
- Cumulative Collections to date
- Checks due for Banking (such as Installment Agreements)
- Expected Collections for the balance of the month
- Target collections for the Month
- Performance to Date

As a result, it is recommended that automated *ad hoc* report capabilities be included in the modernization efforts. However, to minimize information overload, careful consideration should be given to the most important information needed to assess performance.

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4. Finance

Headquarters DTD Finance has the responsibility for the monitoring and reconciliation of revenue collection, refund of revenue against budgets, and budget expenditure payments. The only exception had been the Kenya Bureau of Standards Levy, for which all reconciliation was completed in the Compliance Unit. This has been changed, and currently this reconciliation does take place in the Finance department. The flow charting in this document demonstrates what was in place at the time of the review, at which time the reconciliation still was done in the Compliance Unit.

4.1 Current Process

Cash Office

- Finance collects cash and checks through one of three cash offices, Nairobi, Eldoret, and Mombasa. Checks that are collected at other Stations are sent to one of the cash offices by overnight courier with listing for signature and return to Stations, and payment is reflected for day received at Stations. Collection is for Income Tax, personal, corporate, withholding and advance tax.

- Checks are received and entered into the IT DTD computer system. At end of day, the Cashier prints reports with PIN, tax type, amount and bank code. A Supervisor validates payment in computer system, and the lodgment statement by bank is produced, with check numbers, amount and cash in three copies (CBK, CBK acknowledgement copy, and KRA.)

- The cash office also collects revenue from the sale of Stamp Duty Stamps by cash or bankers check. Checks are also accepted for those organizations that are allowed to pay Stamp Duty after the fact, such as grocery stores.

Income Tax and VAT Revenue Accounting

- IT revenue is paid in at the cash offices mentioned above, except for Pay As You Earn (PAYE) which is paid through the Taxpayer's Commercial Bank. VAT revenue is paid only at the appointed Agent banks or by Electronic Funds Transfer (EFT) at the taxpayer's own bank.

- Each day the KRA picks up the Agent Bank Statement and the corresponding returns left at the bank by the Taxpayer. Those returns that are paid by EFT have the returns sent to the KRA or alternatively left at the Central Bank of Kenya (CBK.) The Agent banks transfer from their KRA accounts to the KRA accounts in CBK each day, although they have a three day period after collection to do so.

- Finance completes a reconciliation of the returns to the Agent bank statement. A hard and soft copy of the EFT transfers to KRA accounts is received from CBK every day. A manual reconciliation is completed against the Agent Bank Statements.

Excise-Domestic

This is a fairly new section to DTD which was recently transferred from Customs Service Department. Therefore, this small unit is still being integrated into DTD processes and procedures. Excise is collected on a variety of goods, such as manufactured alcohol, cigarettes, jewelry, mobile phone airtime (two companies), bottled water and other drinks. A variety of forms are used for the monthly returns. Payments are made at Agent banks and by EFT from any bank. Agent bank

Statements are retrieved every day. Returns left at the bank are retrieved by KRA, or delivered by the bank to KRA or CBK. Commercial Bank Transfer by EFT daily to KRA CBK account. Reconciliation takes place between returns and bank statement, and bank statement and EFT statements.

Agency Revenue Accounting
Sugar Development Levy payments are done at the Agent Commercial Banks or through EFT from the taxpayer's bank. Stamp duty is paid at the designated commercial banks. These returns are brought to KRA by the banks for confirmation of payments and stamping.

Reporting & Monitoring
Daily and monthly reports are prepared for all revenue collected as per CBK statements. Cash books are maintained per Agent bank for each tax head collected. This enhances monitoring of revenue in transit.

Refunds of Revenue
Finance processes the following main types of refunds: IT, VAT, Stamp Duty and Excise (normal and withholding types).

- Income Tax (above KSh30,000) and VAT Refunds-approved refund claims are received in batches for payments from the Refunds Processing section. All IT vouchers go through a three stage process, except for non-individuals (for which Audit's sign-off is required regardless of the amount involved).

- In the case of VAT, an audit is not required where the taxpayer has attached an Auditors certificate. Vouchers received are entered into register with name, PIN, station, amount and date. The approved vouchers are vetted for accuracy and checked for any outstanding tax owing for other tax heads. Vouchers are then keyed into the EFT system for payments through the CBK. VAT refunds are checked against owing IT and any other tax set offs.

- After processing and sending EFT to CBK in hard and soft copy, along with an authorizing letter, a return hard and soft copy is returned to KRA showing payments that have been made approximately two days. Reconciliation takes place to confirm refund vouchers have been paid as requested in the EFT instruction to CBK.

- Ministry of Finance has set a monthly budget limit for refund payments. Currently backlogs of refunds exist as the amounts exceed the budget allocation. MOF has on occasion given special one-time funding to try and reduce the refund backlog, or for special high value refunds.

Expenditures
DTD receives a budget input from the KRA HQ Finance section in soft and hard copy for budget preparation. The input forms are distributed to Station and DTD HQ managers, who complete their budget request for the upcoming year. Finance subsequently assembles the budget requests from the Stations and DTD HQ Managers into Departmental request to KRA HQ Finance.

When budgets are received from HQ Finance, they are entered into a stand alone desktop computer spreadsheet for budget control. Subsequently, 40% of budget allocations are received by DTD Finance who distributes amounts to imprest accounts for Stations and DTD Managers, as their

authority to spend. Purchase and Service orders are entered into the spreadsheet for DTD Finance as commitments, thus providing budget control.

When invoices or claims payment vouchers arrive for payment, de-commitments are made in the spreadsheet control, and the payment vouchers are coded and entered into the financial accounting system (Scala) as actual expenditures. Vouchers for vendors or employee expenses are paid in cash from the expenditure cash office if amount is under KSh10,000, while vouchers in excess of KSh10,000 are paid by check. Stations outside of Nairobi pay vendors and employees from imprest account. Paid vouchers are sent to HQ Finance for re-imbursement, and re-imbursement is keyed into Scala Accounting system.

Monthly budget reports are produced from Scala. Quarterly trial balance reports are completed from the Scala systems.

4.2 Business Process Improvement

The concept of a "One Window" Taxpayer account/ledger is used by many Tax Administrations in the world. Such a system consolidates and simplifies a Taxpayer's interaction with a tax administration in regards to payments and refunds, as a single window allows these two transactions to offset each other. Implementation in KRA will eliminate the verification of refund payments to Taxpayers in one Department while monies are owed in another. A "One Window" accounting for debt collection allows KRA transactions to be easily frozen for identification and protection of movable assets that could/would be subject to a distraint order. The payment of refunds of revenue can also be managed by offsetting against expected payments of VAT, Agency Revenue, PAYE, and other transactions, that would normally occur in the immediate upcoming months, thus eliminating the issuing of refund EFT or checks.

Cash Office

- *Minor Delays*: Cash offices are fairly efficient as they operate today. There are some delays in the writing-up of registers at the Stations and unavailability of check information for cash office supervisory confirmation in the system.

✓ **Solution (*IT*):** One improvement would be to have the Stations key the check information into the IT computer system, print out the listing in two copies, attach the checks and send to the nearest cash office for validation in the system by a supervisor.

Reconciliation of Revenue

✓ **Solution (*IT*):** Accounting and reconciliation of revenue is the same process under the ITMS design. Commercial banks log into the KRA DTD system using a Taxpayer's PIN, see available returns ready for payment, VAT, Excise, Agency Revenue, etc. that have been e-filed. The bank accepts payment against returns, printing a receipt from the DTD system. Taxpayers with manual returns deliver the return to the bank as is currently done, and the bank calls up a new return screen from the DTD system and enters the basic information selecting type of return for payment and the return date. The receipts are printed with a unique transaction code, which is issued by the DTD or bank system, and associated with the taxpayers account. This unique transaction number should include bank identification.

The commercial bank transfers by EFT to the CBK KRA account. The EFT format is standardized and includes the unique transaction code. When the electronic EFT information is

received from CBK, an electronic reconciliation is completed against the Taxpayers account by transaction number. If the reconciliation is successful, that specific transaction is updated in status as being confirmed in the taxpayers account, and against the soft copy of the EFT.

Reports of transaction that are not reconciled are produced for follow-up, and transactions that are in Taxpayer accounts with an unconfirmed payment are reported for follow-up.

The Taxpayer returns are electronically reconciled against either the Taxpayer account or EFT when they are available.

Refunds

- *Refunds Process Susceptible to Delays:* The Refunds Process in Finance currently is unwieldy and susceptible to delays.

✓ **Solution (*IT*):** The refund process will change significantly with the new ITMS One window accounting system. Automatic payment of refunds, without request, can be made from the system for small amounts (personal IT returns for example), while non-individual Taxpayers will be able to apply credit balances from approved refund claims to future taxes owing on next return.

As all taxes within KRA will be in one window, one can offset an IT refund against a VAT return, in a reverse off-set manner. Taxes of any type owing in the One Window Accounting system will be offset against an approved refund claim. The number of payments made by Finance for refund vouchers will be reduced by the ITMS system.

Finance will have an electronic approval process of approved refund vouchers before they are posted to the One Window Accounting system. The e-filing of refund claims will also have an electronic review and approval process in the Finance section.

Expenditures

✓ **Solution (*IT*):** Expenditure accounting could be improved throughout the KRA by the use of a comprehensive financial accounting system for expenditures. A comprehensive financial accounting system across the KRA would require a separate study by financial business and systems experts, and would need to connect to the DTD, RTD and CSD systems, and human resources systems for reporting on cost and performance of staff.

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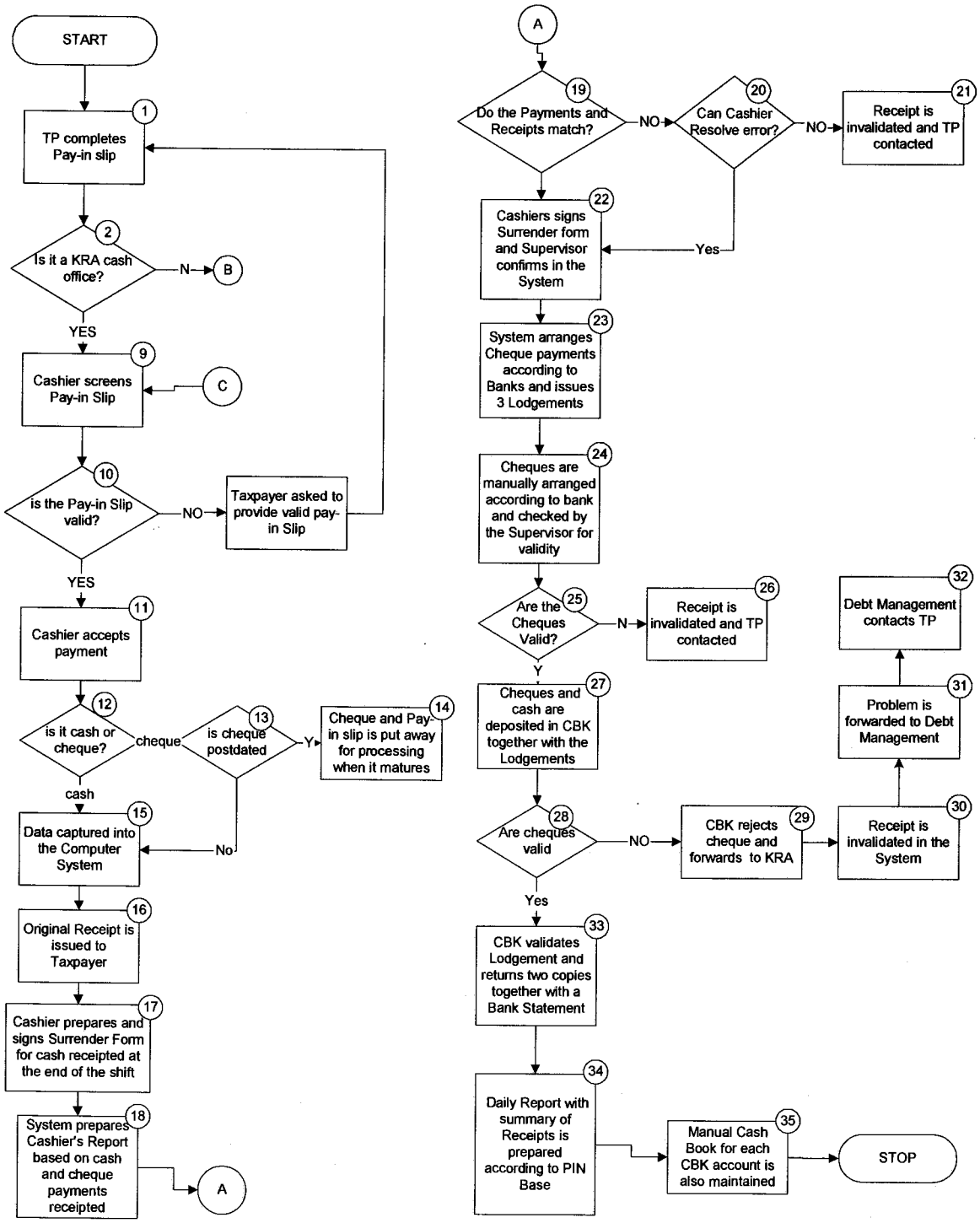
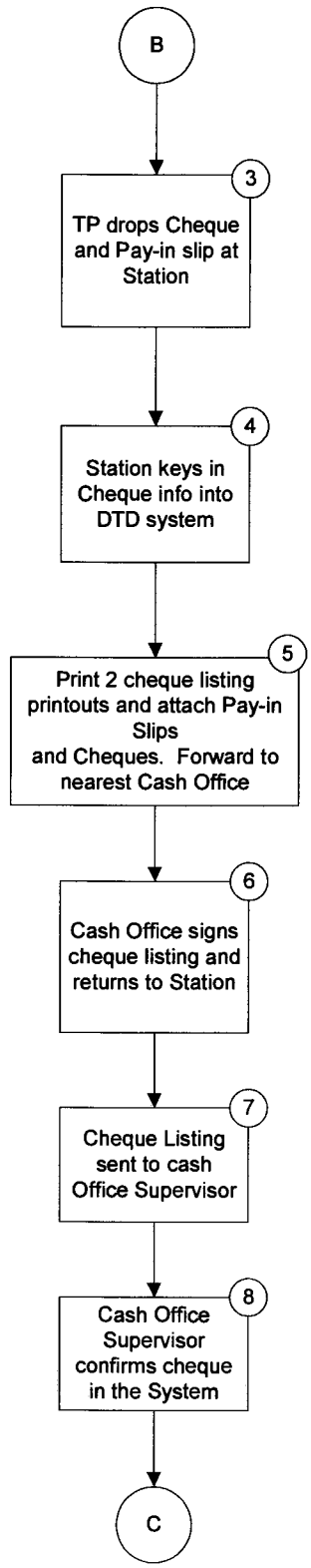
Cash Office Receipts
Business Process Improvement*

1. TP completes Pay-in slip
2. *Is it a KRA cash office?*
3. TP drops Check and Pay-in slip at Station
4. Station keys in Check info into DTD system
5. Print 2 check listing printouts and attach Pay-in Slips and Checks. Forward to nearest Cash Office
6. Cash Office signs check listing and returns to Station
7. Cash Office Supervisor confirms check in the System
8. Cashier screens Pay-in Slip
9. *Is the Pay-in Slip valid?*
10. Taxpayer asked to provide valid pay-in Slip
11. Cashier accepts payment
12. *Is it cash or check?*
13. *Is check postdated?*
14. Check and Pay-in slip is put away for processing when it matures
15. Data captured into the Computer System
16. Original Receipt is issued to Taxpayer
17. Cashier prepares and signs Surrender Form for cash receipted at the end of the shift
18. System prepares Cashier's Report based on cash and check payments receipted
19. *Do the Payments and Receipts match?*
20. *Can Cashier Resolve error?*
21. Receipt is invalidated and TP contacted
22. Cashiers signs Surrender form and Supervisor confirms in the System
23. System arranges Check payments according to Banks and issues 3 Lodgements
24. Checks are manually arranged according to bank and checked by the Supervisor for validity
25. *Are the Checks Valid?*
26. Receipt is invalidated and TP contacted
27. Checks and cash are deposited in CBK together with the Lodgements
28. *Are checks valid?*
29. CBK rejects check and forwards to KRA
30. Receipt is invalidated in the System
31. Problem is forwarded to Debt Management
32. Debt Management contacts TP
33. CBK validates Lodgement and returns two copies together with a Bank Statement
34. Daily Report with summary of Receipts is prepared according to PIN Base
35. Manual Cash Book for each CBK account is also maintained

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

FINANCE - CASH OFFICE RECEIPTS BPI PROCESS




B
3
TP drops Cheque and Pay-in slip at Station
4
Station keys in Cheque info into DTD system
5
Print 2 cheque listing printouts and attach Pay-in Slips and Cheques. Forward to nearest Cash Office
6
Cash Office signs cheque listing and returns to Station
7
Cheque Listing sent to cash Office Supervisor
8
Cash Office Supervisor confirms cheque in the System
C

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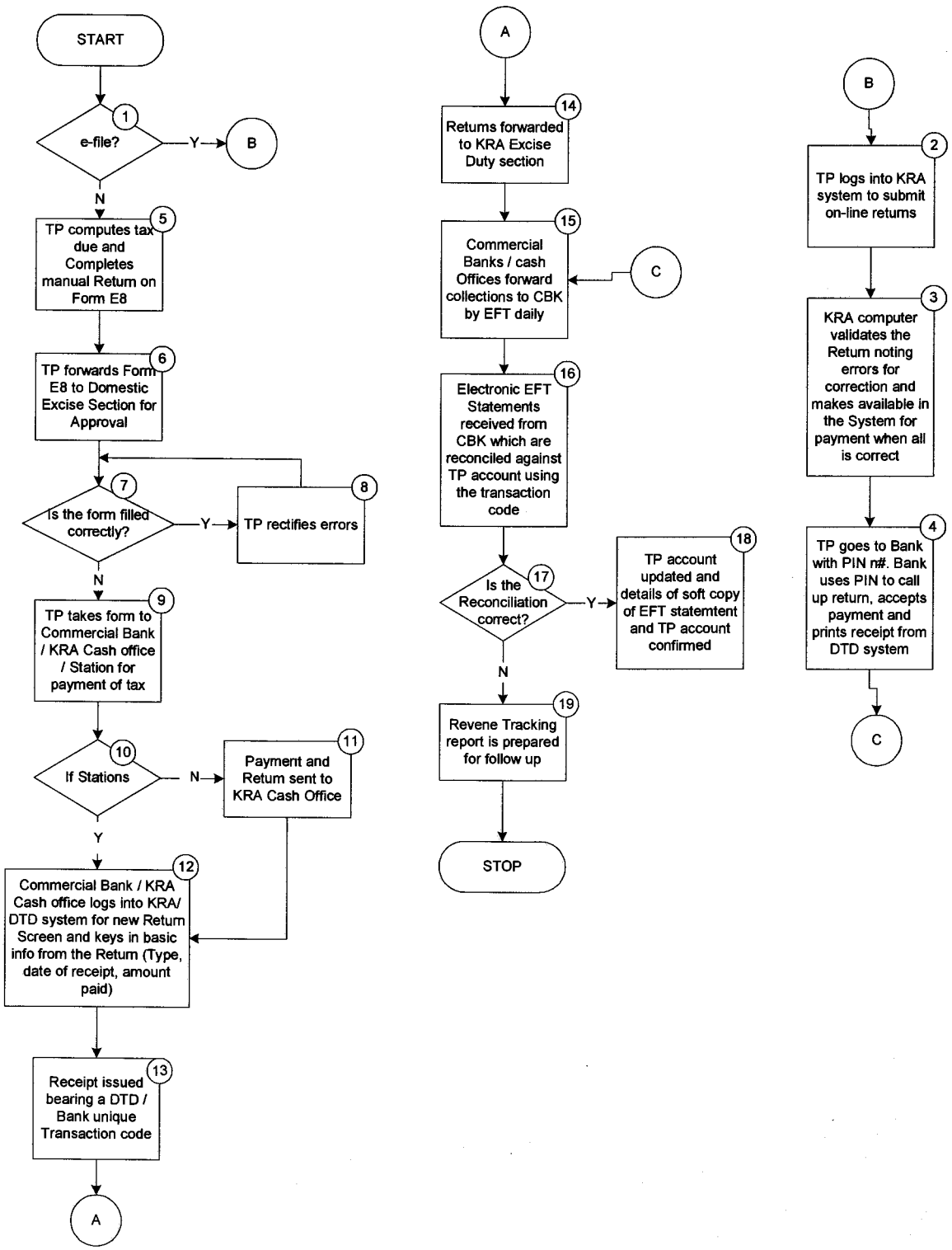
Excise Duty Domestic Collections
Business Process Improvement

1. *E-file?*
2. TP logs into KRA system to submit on-line returns
3. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
4. TP goes to Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
5. TP computes tax due and Completes manual Return on Form E8
6. TP forwards Form E8 to Domestic Excise Section for Approval
7. *Is the form filled correctly?*
8. TP rectifies errors
9. TP takes form to Commercial Bank / KRA Cash office / Station for payment of tax
10. *If Stations?*
11. Payment and Return sent to KRA Cash Office
12. Commercial Bank / KRA Cash office logs into KRA/DTD system for new Return Screen and keys in basic info from the Return (Type, date of receipt, amount paid)
13. Receipt issued bearing a DTD / Bank unique Transaction code
14. Returns forwarded to KRA Excise Duty section
15. Commercial Banks / cash Offices forward collections to CBK by EFT daily
16. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
17. *Is the Reconciliation correct?*
18. TP account updated and details of soft copy of EFT statement and TP account confirmed
19. Revenue Tracking report is prepared for follow up

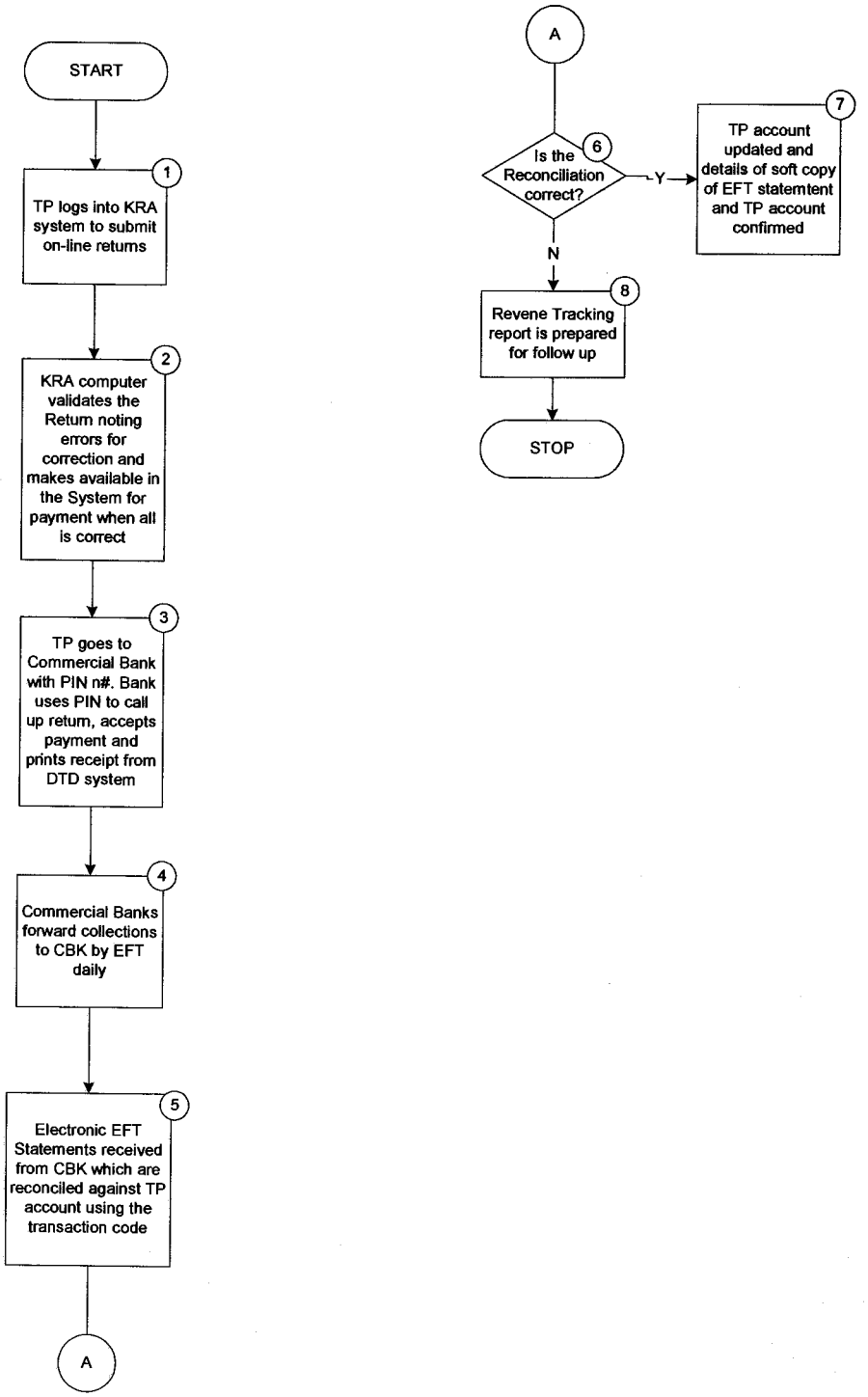
FINANCE - EXCISE DUTY DOMESTIC COLLECTIONS BPI PROCESS



Excise Duty on Mobile Cellular Phone Service Collections
Business Process Improvement

1. TP logs into KRA system to submit on-line returns
2. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
3. TP goes to Commercial Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
4. Commercial Banks forward collections to CBK by EFT daily
5. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
6. *Is the Reconciliation correct?*
7. TP account updated and details of soft copy of EFT statement and TP account confirmed
8. Revenue Tracking report is prepared for follow up

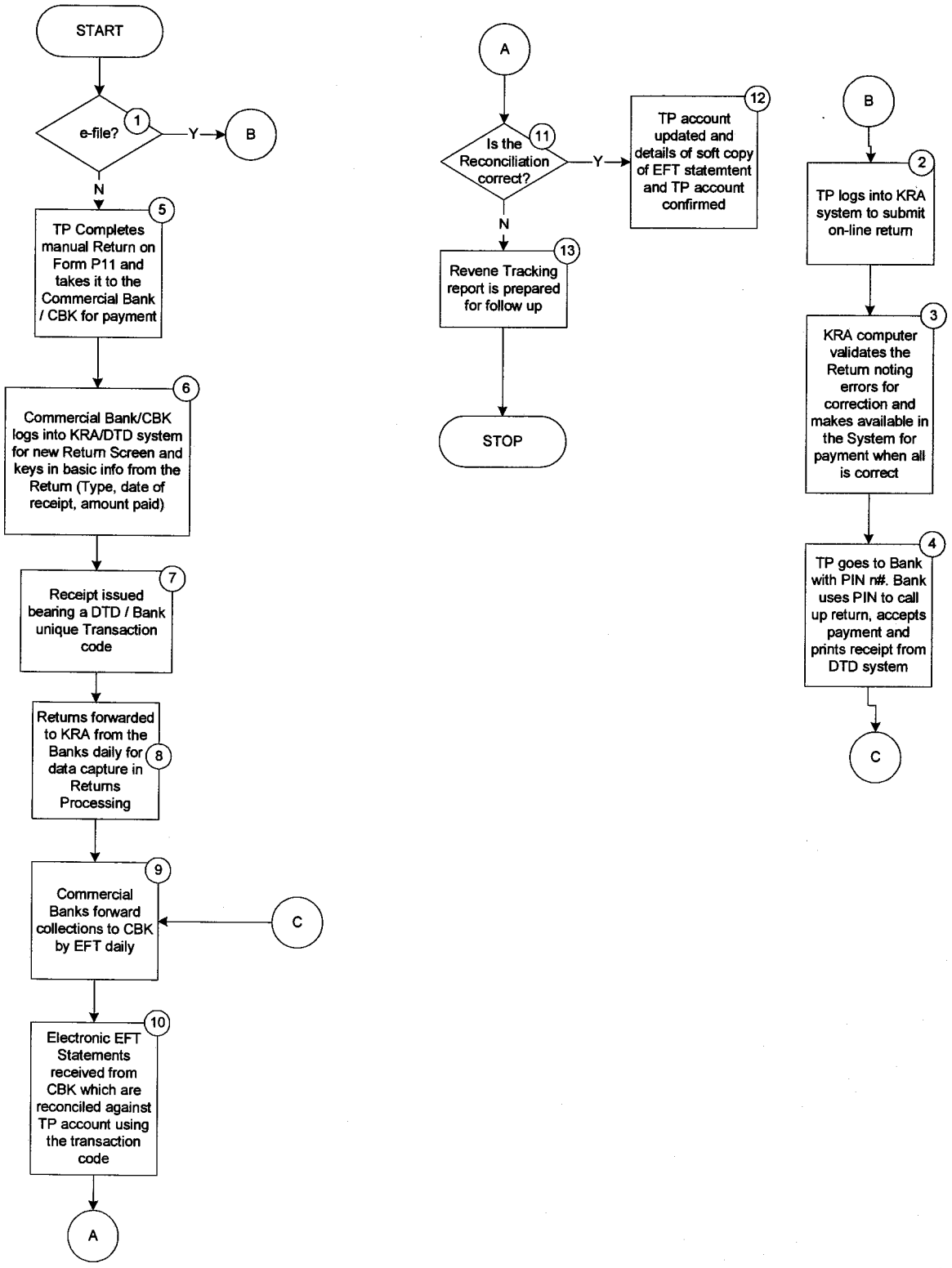
FINANCE - EXCISE DUTY ON MOBILE CELLULAR PHONE SERVICE
BPI PROCESS



Pay as You Earn Collections
Business Process Improvement

1. *E-file?*
2. TP logs into KRA system to submit on-line return
3. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
4. TP goes to Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
5. TP Completes manual Return on Form P11 and takes it to the Commercial Bank / CBK for payment
6. Commercial Bank/CBK logs into KRA/DTD system for new Return Screen and keys in basic info from the Return (Type, date of receipt, amount paid)
7. Receipt issued bearing a DTD / Bank unique Transaction code
8. Returns forwarded to KRA from the Banks daily for data capture in Returns Processing
9. Commercial Banks forward collections to CBK by EFT daily
10. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
11. *Is the Reconciliation correct?*
12. TP account updated and details of soft copy of EFT statement and TP account confirmed
13. Revenue Tracking report is prepared for follow up

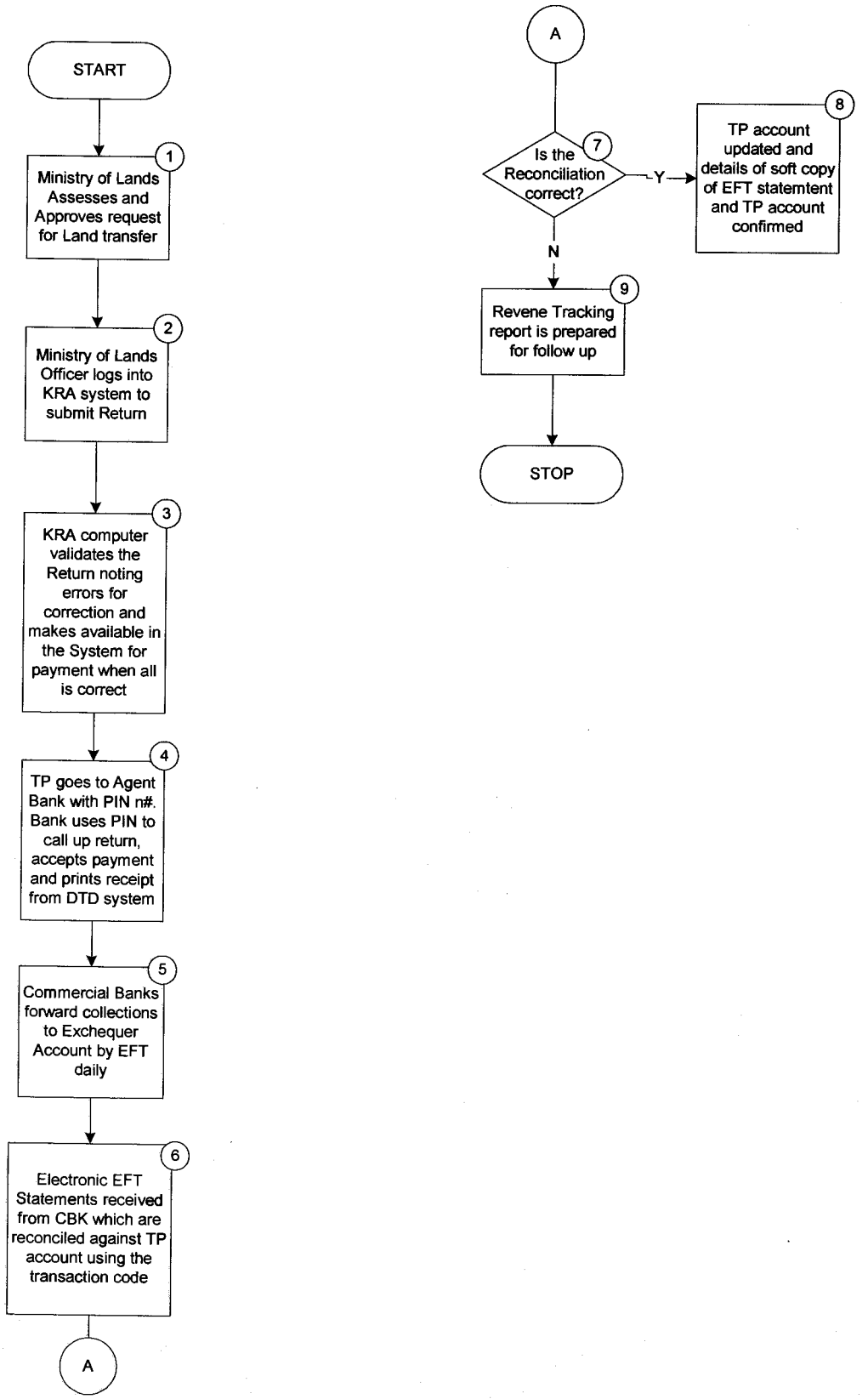
FINANCE - PAY As YOU EARN
BPI PROCESS



Stamp Duty Collections
Business Process Improvement

1. Ministry of Lands Assesses and Approves request for Land transfer
2. Ministry of Lands Officer logs into KRA system to submit Return
3. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
4. TP goes to Agent Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
5. Commercial Banks forward collections to Exchequer Account by EFT daily
6. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
7. *Is the Reconciliation correct?*
8. TP account updated and details of soft copy of EFT statement and TP account confirmed
9. Revenue Tracking report is prepared for follow up

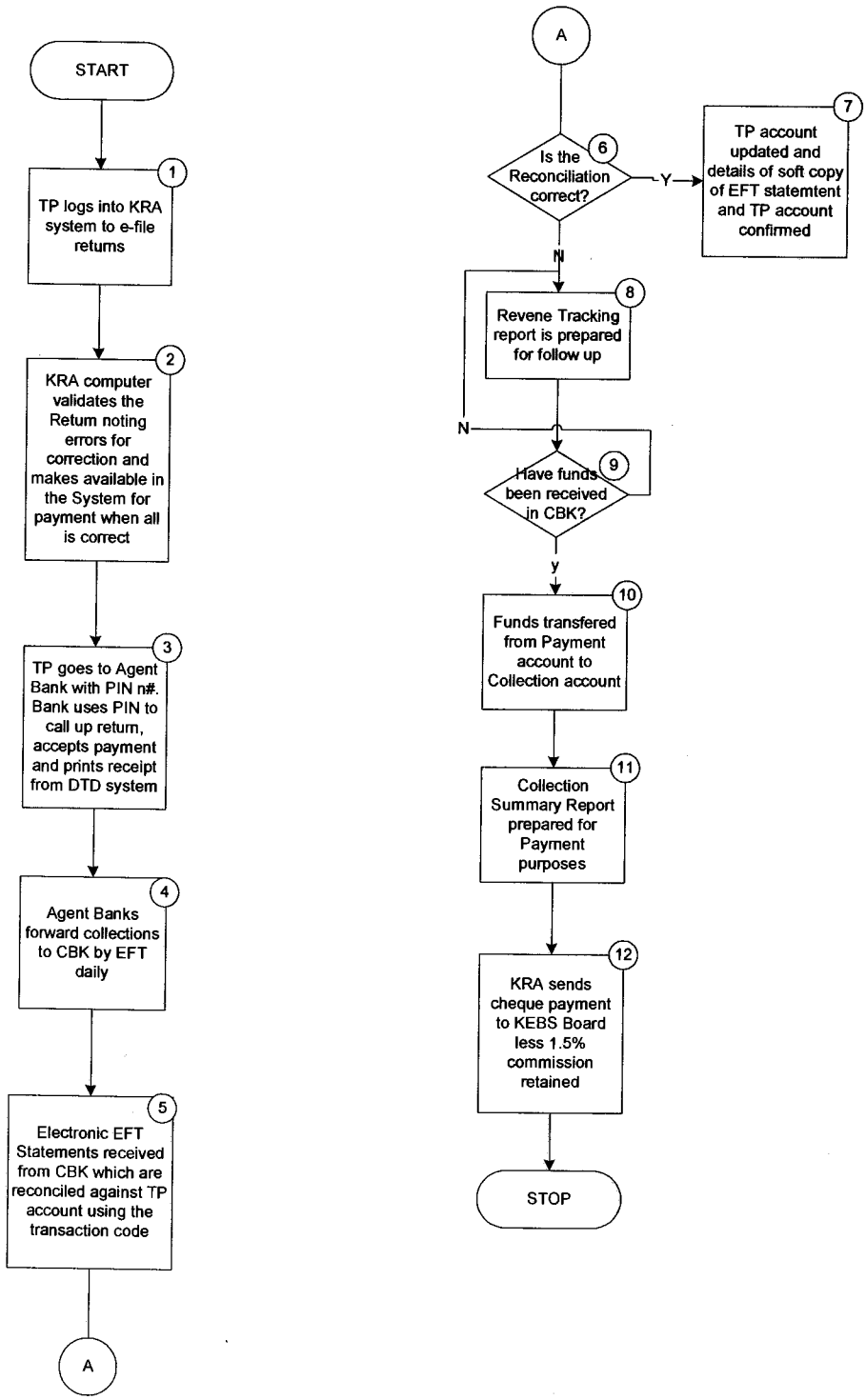
FINANCE - STAMP DUTY COLLECTIONS
BPI PROCESS



Standards Levy Collections
Business Process Improvement

1. TP logs into KRA system to e-file returns
2. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
3. TP goes to Agent Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
4. Agent Banks forward collections to CBK by EFT daily
5. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
6. *Is the Reconciliation correct?*
7. TP account updated and details of soft copy of EFT statement and TP account confirmed
8. Revenue Tracking report is prepared for follow up
9. *Have funds been received in CBK?*
10. Funds transferred from Payment account to Collection account
11. Collection Summary Report prepared for Payment purposes
12. KRA sends check payment to KEBS Board less 1.5% commission retained

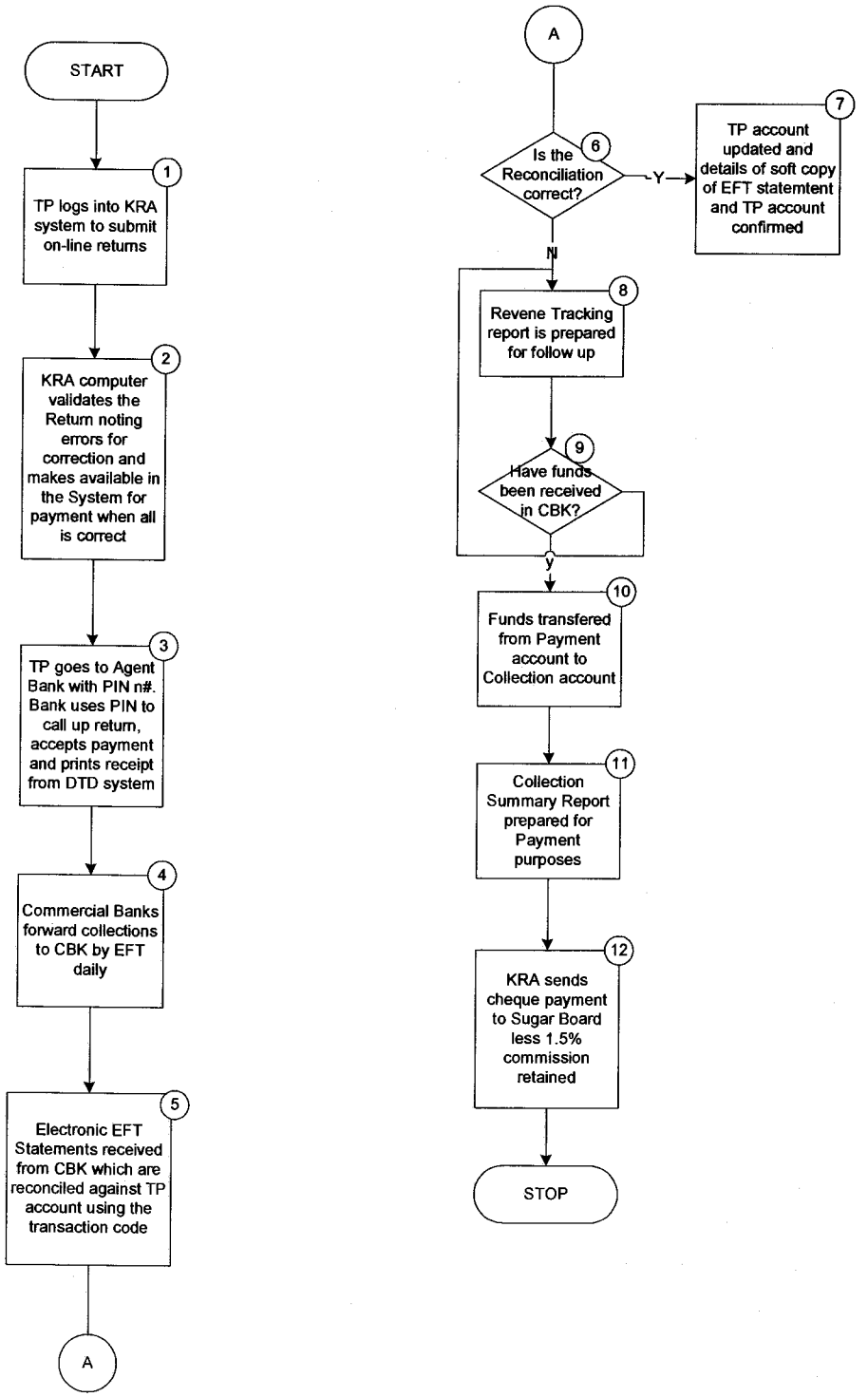
FINANCE - STANDARDS LEVY COLLECTIONS
BPI PROCESS



Sugar Development Levy Collections
Business Process Improvement

1. TP logs into KRA system to submit on-line returns
2. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
3. TP goes to Agent Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
4. Commercial Banks forward collections to CBK by EFT daily
5. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
6. *Is the Reconciliation correct?*
7. TP account updated and details of soft copy of EFT statement and TP account confirmed
8. Revenue Tracking report is prepared for follow up
9. *Have funds been received in CBK?*
10. Funds transferred from Payment account to Collection account
11. Collection Summary Report prepared for Payment purposes
12. KRA sends check payment to Sugar Board less 1.5% commission retained

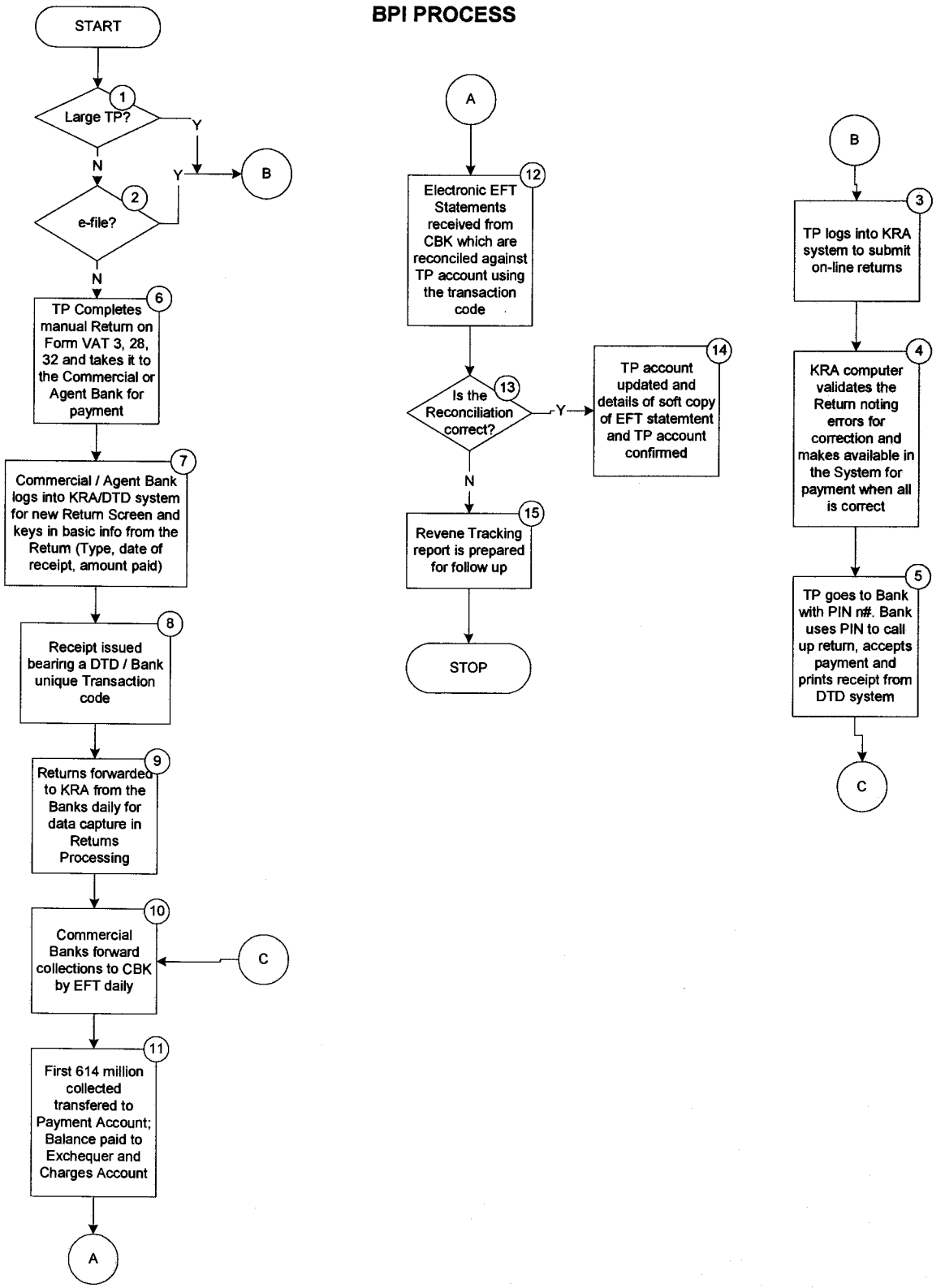
FINANCE - SUGAR DEVELOPMENT LEVY COLLECTIONS
BPI PROCESS



Finance - VAT Collections
Business Process Improvement

1. *Large TP?*
2. *E-file?*
3. TP logs into KRA system to submit on-line returns
4. KRA computer validates the Return noting errors for correction and makes available in the System for payment when all is correct
5. TP goes to Bank with PIN n#. Bank uses PIN to call up return, accepts payment and prints receipt from DTD system
6. TP Completes manual Return on Form VAT 3, 28, 32 and takes it to the Commercial or Agent Bank for payment
7. Commercial / Agent Bank logs into KRA/DTD system for new Return Screen and keys in basic info from the Return (Type, date of receipt, amount paid)
8. Receipt issued bearing a DTD / Bank unique Transaction code
9. Returns forwarded to KRA from the Banks daily for data capture in Returns Processing
10. Commercial Banks forward collections to CBK by EFT daily
11. First 614 million collected transferred to Payment Account; Balance paid to Exchequer and Charges Account
12. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
13. *Is the Reconciliation correct?*
14. TP account updated and details of soft copy of EFT statement and TP account confirmed
15. Revenue Tracking report is prepared for follow up

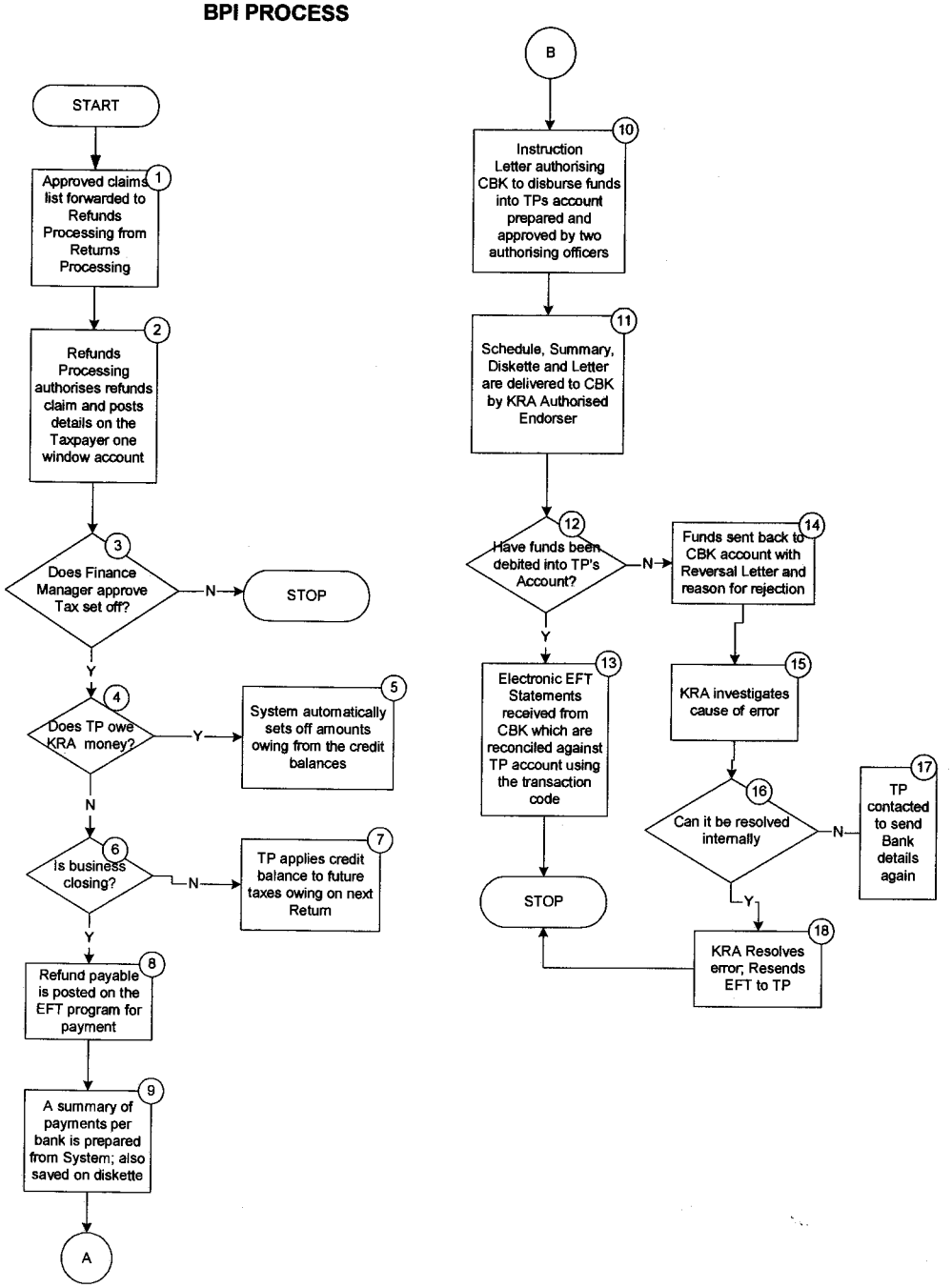
FINANCE - VAT COLLECTIONS
BPI PROCESS

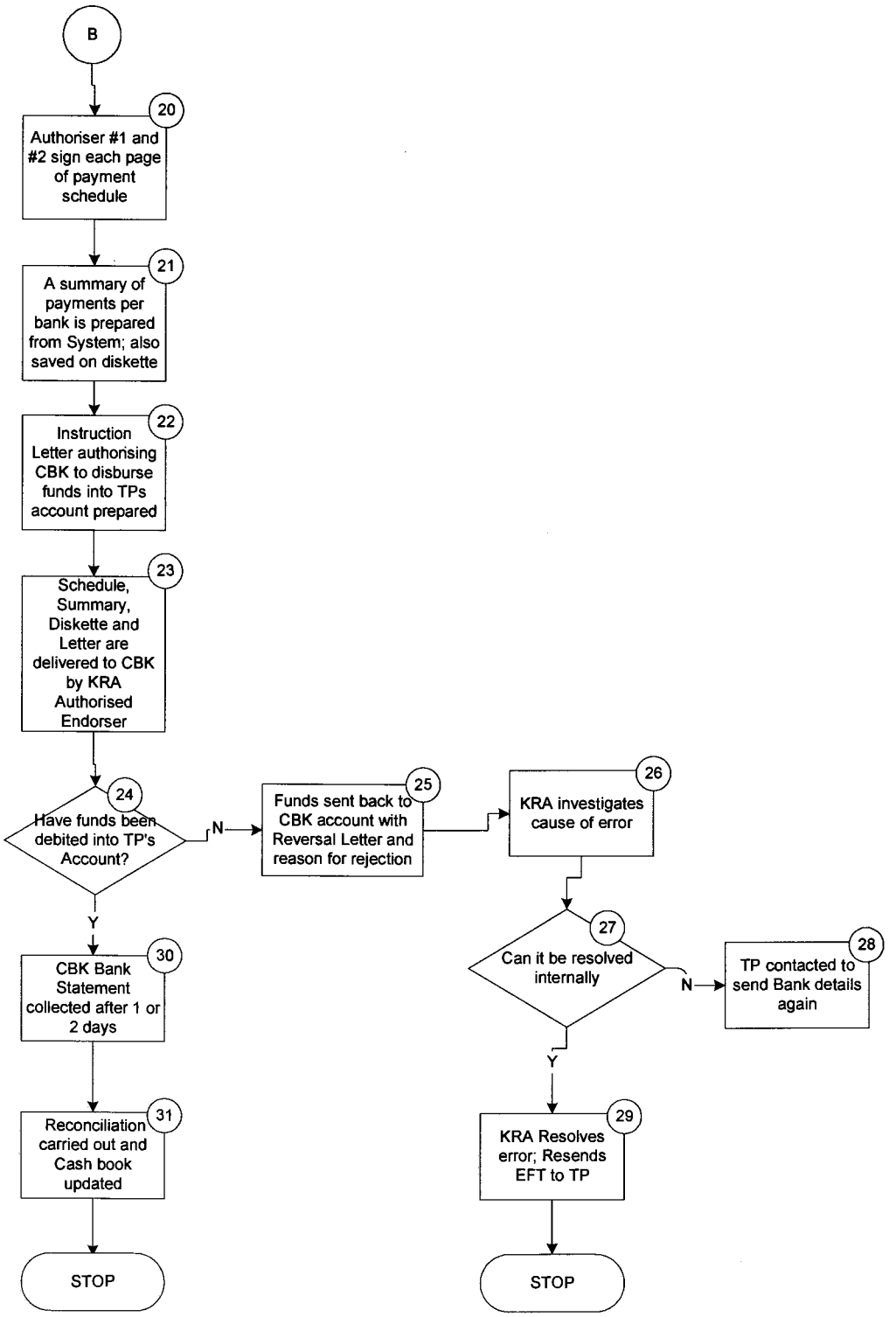


Finance - VAT Refunds
Business Process Improvement

1. Approved claims list forwarded to Refunds Processing from Returns Processing
2. Refunds Processing authorizes refunds claim and posts details on the Taxpayer one window account
3. *Does Finance Manager approve Tax set off?*
4. *Does TP owe KRA money?*
5. System automatically sets off amounts owing from the credit balances
6. *Is business closing?*
7. TP applies credit balance to future taxes owing on next Return
8. Refund payable is posted on the EFT program for payment
9. A summary of payments per bank is prepared from System; also saved on diskette
10. Instruction Letter authorizing CBK to disburse funds into TPs account prepared and approved by two authorizing officers
11. Schedule, Summary, Diskette and Letter are delivered to CBK by KRA Authorized Endorser
12. *Have funds been debited into TP's Account?*
13. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
14. Funds sent back to CBK account with Reversal Letter and reason for rejection
15. KRA investigates cause of error
16. *Can it be resolved internally*
17. TP contacted to send Bank details again
18. KRA Resolves error; Resends EFT to TP

FINANCE - VAT REFUNDS
BPI PROCESS





FINANCE - VAT REFUNDS CONT

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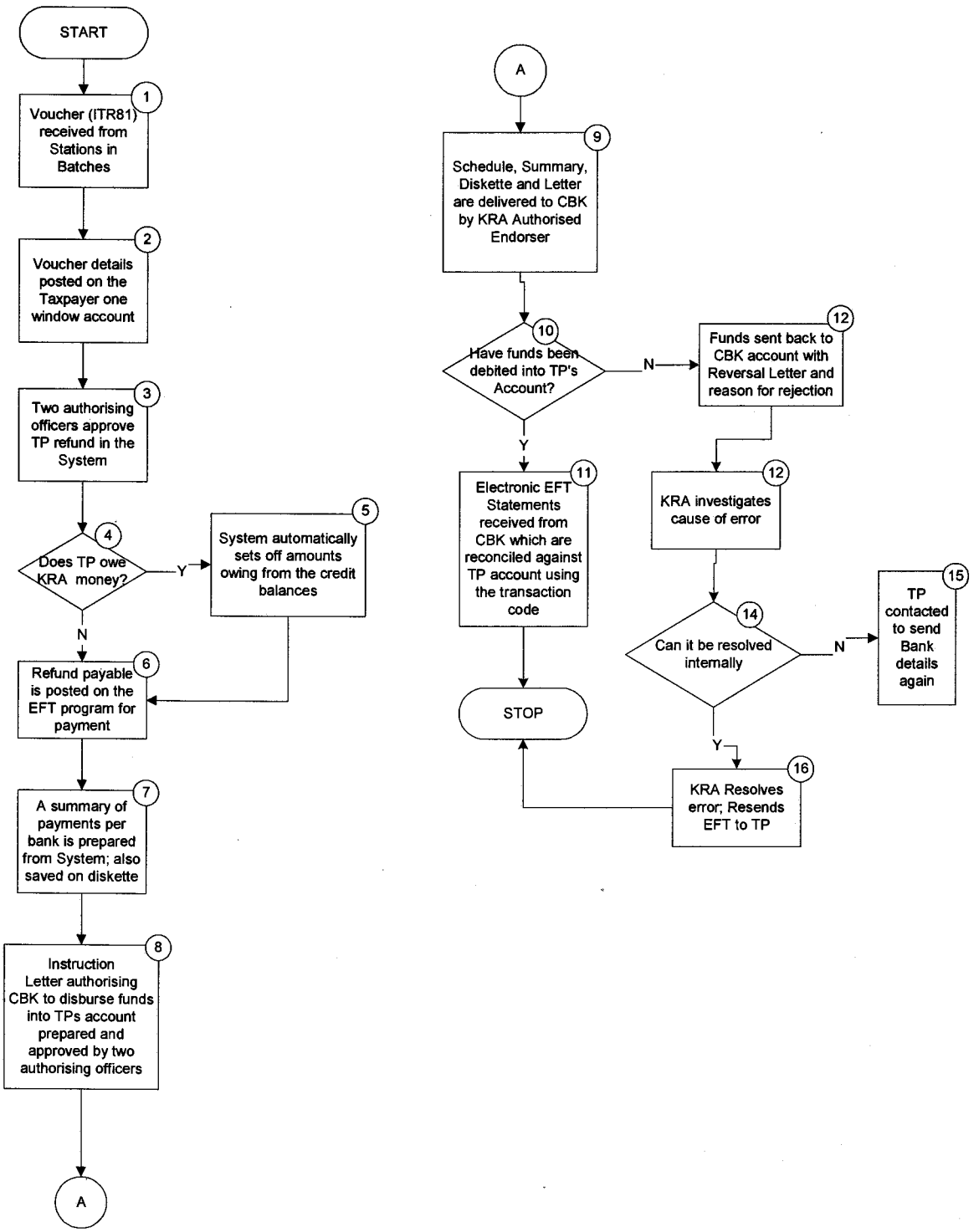
Income Tax Automatic Large Refunds
Business Process Improvement

1. Voucher (ITR81) received from Stations in Batches
2. Voucher details posted on the Taxpayer one window account
3. Two authorizing officers approve TP refund in the System
4. *Does TP owe KRA money?*
5. System automatically sets off amounts owing from the credit balances
6. Refund payable is posted on the EFT program for payment
7. A summary of payments per bank is prepared from System; also saved on diskette
8. Instruction Letter authorizing CBK to disburse funds into TPs account prepared and approved by two authorizing officers
9. Schedule, Summary, Diskette and Letter are delivered to CBK by KRA Authorized Endorser
10. *Have funds been debited into TP's Account?*
11. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
12. Funds sent back to CBK account with Reversal Letter and reason for rejection
13. KRA investigates cause of error
14. *Can it be resolved internally?*
15. TP contacted to send Bank details again
16. KRA Resolves error; Resends EFT to TP

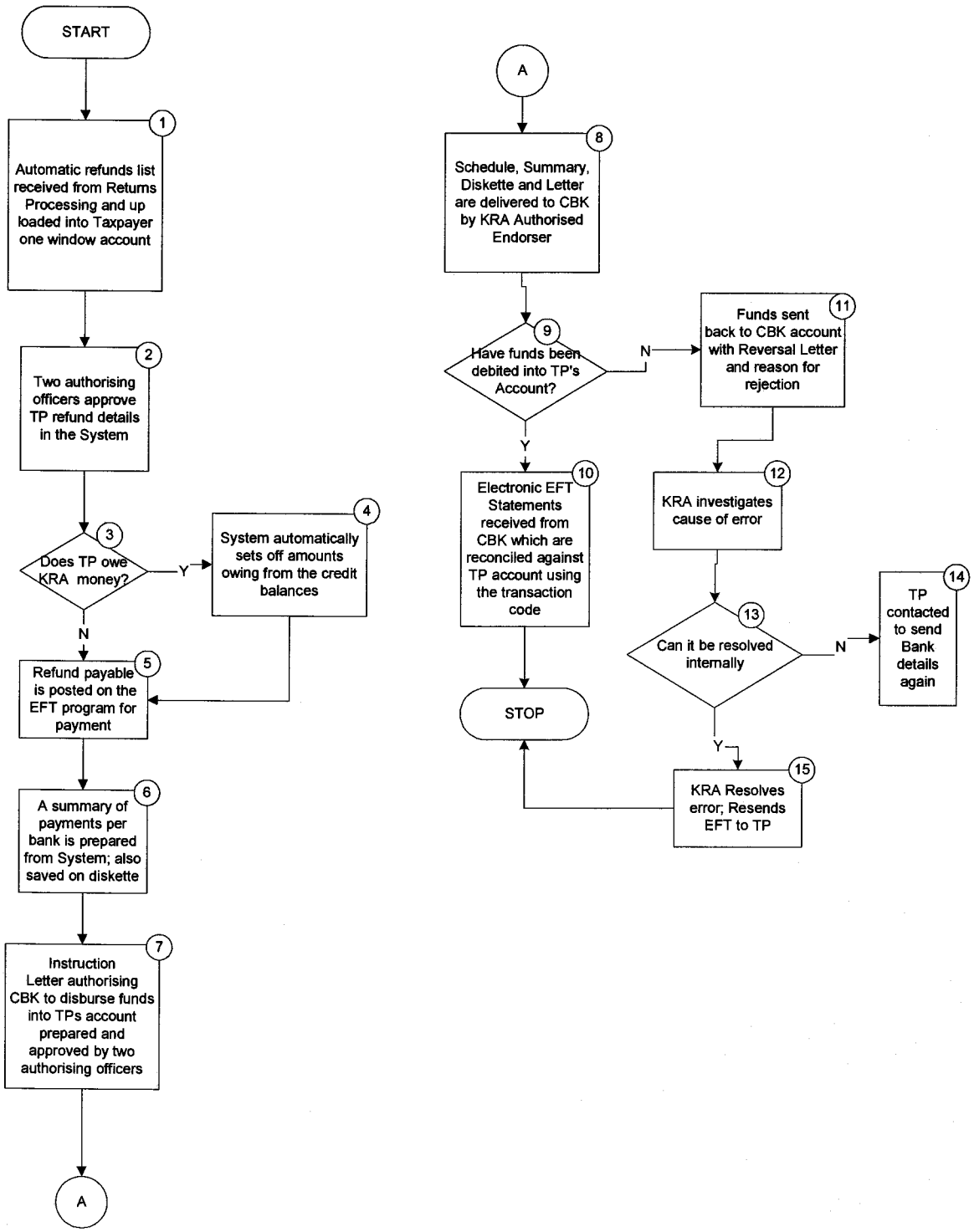
FINANCE - INCOME TAX AUTOMATIC LARGE REFUNDS
BPI PROCESS



Income Tax Small Refunds
Business Process Improvement

1. Automatic refunds list received from Returns Processing and up loaded into Taxpayer one window account
2. Two authorizing officers approve TP refund details in the System
3. *Does TP owe KRA money?*
4. System automatically sets off amounts owing from the credit balances
5. Refund payable is posted on the EFT program for payment
6. A summary of payments per bank is prepared from System; also saved on diskette
7. Instruction Letter authorizing CBK to disburse funds into TPs account prepared and approved by two authorizing officers
8. Schedule, Summary, Diskette and Letter are delivered to CBK by KRA Authorized Endorser
9. *Have funds been debited into TP's Account?*
10. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
11. Funds sent back to CBK account with Reversal Letter and reason for rejection
12. KRA investigates cause of error
13. *Can it be resolved internally?*
14. TP contacted to send Bank details again
15. KRA Resolves error; Resends EFT to TP

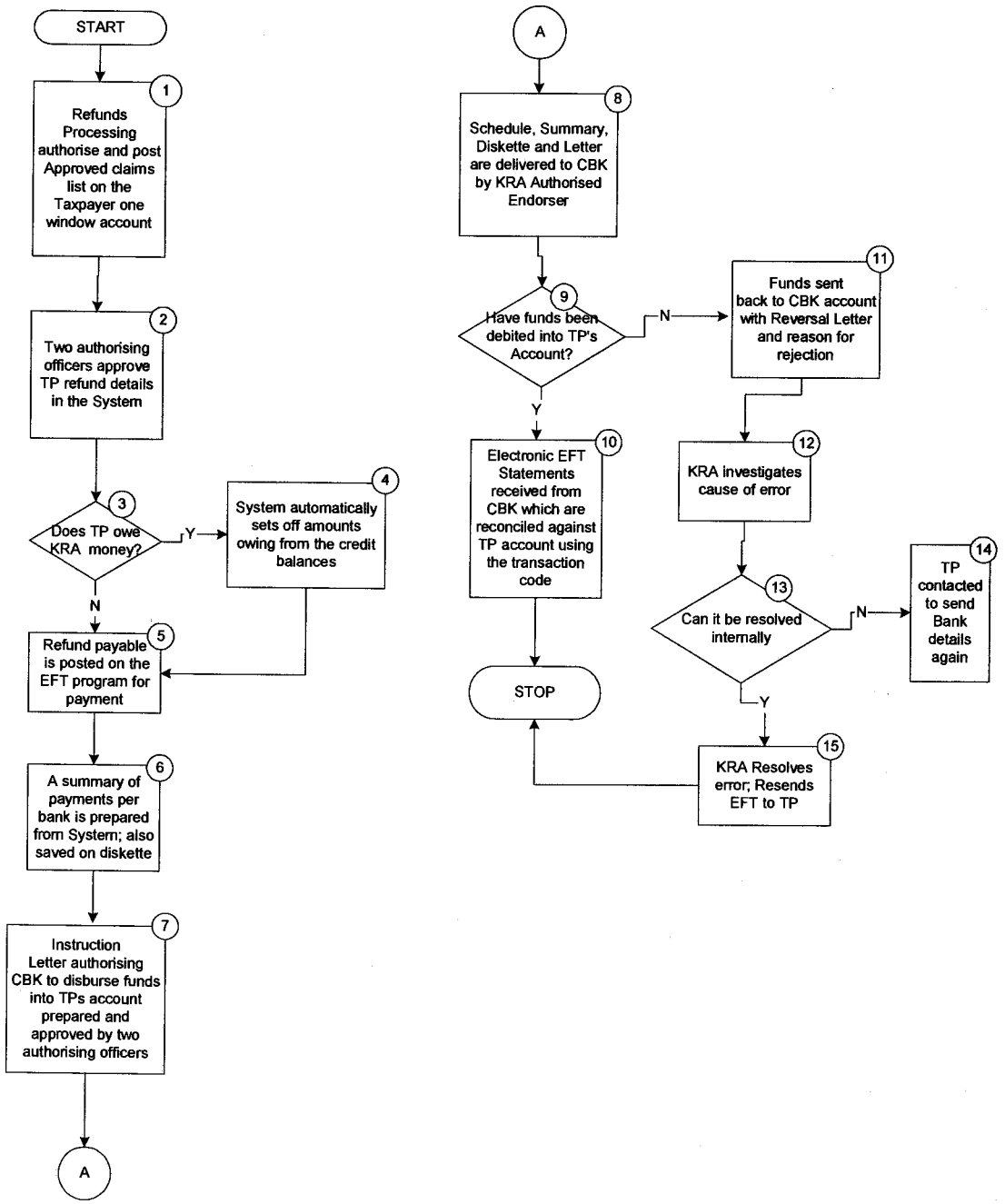
FINANCE - INCOME TAX AUTOMATIC SMALL REFUNDS
BPI PROCESS



Excise Duty Domestic and Stamp Duty Refunds
Business Process Improvement

1. Refunds Processing authorize and post Approved claims list on the Taxpayer one window account
2. Two authorizing officers approve TP refund details in the System
3. *Does TP owe KRA money?*
4. System automatically sets off amounts owing from the credit balances
5. Refund payable is posted on the EFT program for payment
6. A summary of payments per bank is prepared from System; also saved on diskette
7. Instruction Letter authorizing CBK to disburse funds into TPs account prepared and approved by two authorizing officers
8. Schedule, Summary, Diskette and Letter are delivered to CBK by KRA Authorized Endorser
9. *Have funds been debited into TP's Account?*
10. Electronic EFT Statements received from CBK which are reconciled against TP account using the transaction code
11. Funds sent back to CBK account with Reversal Letter and reason for rejection
12. KRA investigates cause of error
13. *Can it be resolved internally?*
14. TP contacted to send Bank details again
15. KRA Resolves error; Resends EFT to TP

FINANCE - EXCISE DOMESTIC AND STAMP DUTY REPAYMENTS
BPI PROCESS



4.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- The reconciliation of Taxpayers payments will be greatly improved with the use of a unique transaction code and accurate EFT data. This will significantly reduce the manual processes used the current reconciliation processes for payments and returns.
- Daily revenue reports will be easy to produce from the ITMS as all payments/collections will be available either from cash office or bank collections. Manual reports will not have to be printed for senior management as they will be available online, and printable.
- Refund payments will be streamlined with offsets against future returns for large Taxpayers, thus eliminating the payment by EFT. The payment processing of refunds will be timelier.
- Refund payment for EFT processing will have extractable data to the EFT system to eliminate keying into the EFT system.
- The reconciliation process will be standardized within Finance rather than spread between various sections of DTD.
- Refunds will be paid on a FIFO bases, will a manual override where large payments might unjustly stop other refunds due to budget restrictions.

4.4 Challenges

The challenges that would have to be considered are as follows:

- The obtaining of the EFT data in a standardize format from Commercial Banks will require significant work and negotiation.
- Switching from the current accounting to the new one window accounts will be an onerous and detailed task to ensure transfer of data and the reconciliation process are correct.
- Establishing the unique transaction code to be used by commercial banks and KRA will require significant planning and agreement to ensure that the code is used in all systems.
- The agreement with MOF must be reached regarding the setoff of refunds against future revenue payments in regards to the refund budget. A determination of revenue collection being reduced by refund payment, versus payment against budget must be negotiated.

4.5 Performance Management

- Refund payment processing against DTD standards of time.
- Number of refunds processed by officer.
- Number of expenditure processed against DTD standards.
- Expenditures processed against DTD standards for payments.
- Reporting of payments not electronically reconciled correctly by commercial bank.
- Reporting on timeliness of resolving discrepancies in non-reconciled payments.

5. Debt Management

Debt management is operated from the Stations to collect overdue debt. This function is monitored from a small Headquarters unit that also issues policy and gives functional direction.

5.1 Current Process

The current process is for the Stations to receive a print of debt every quarter[6]. HQ receives a print out every month of the top 100 debts for distribution to Stations and follow-up. Depending on the timing of the report, a debtor could just miss the cut off, and go almost 119 days before serious collection action is started, or 59 days for large debts. Best practices show that the sooner action is taken on debts, the greater the chance of collecting them.

When a debtor's payment is not received, they are contacted by letter requesting payment. Based on their opinion of the taxpayer, Station Managers have the discretion to allow 7, 10, or 21 days for payment based on the Station Managers opinion of the taxpayer, when their payments are not received. Follow up phone calls and visits are made to try and convince the debtor to pay the whole amount or to pay over time with a negotiated payment scheme.[7]

If the debtor is unresponsive in paying, then there are three enforcement actions available to DTD Debt Management to collect the debt:

1) Agency Notice: Issued on bank accounts, on debtor's customers who owe money to the debtor, or other monies that can be located;
2) Distress Notice: Issued on movable assets, such as motor vehicles, inventories, etc., when the Agency Notice was not successful;
3) Caveat: Issued against property, after the Distress Notice is issued or simultaneously, which stops the transfer of land, but does not force the sale of those assets.

Court action is also available to KRA to attempt to liquidate any permanent assets. However, this action appears to be seldom used.

There is a clear write-off procedure for uncollectible debts. The Minister for Finance is the only authority for debt write-off., but the MOF has never agreed to sign any write-off recommended by the Commissioner of DTD. Therefore, the debt reported by DTD is not real collectable debt, as would normally be reported under best practices in other countries. Some debts have been outstanding for more than a decade, and the interest accumulated is more than the actual original debt.

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[6] albeit they can produce a statement at any time in an *ad hoc* mode

[7] five payments standard practice, but exceptions approved by the Commissioner can be made

The Total Outstanding Debt as at 31st March 2006 was[8]:

Arrears Categories	**KSh**
1992 Nov – Dec and prior years	4,911,230,082
Self Assessment	12,403,267,972
Additional Assessment	6,256,206,154
Estimated Assessment	4,122,388,268
Pay as You Earn	641,943,005
Value Added Tax	9,468,161,622
Penalties (all)	9,421,554,146
Interest (All)	56,585,000,884
Total Outstanding Debt	**103,1809,752,133**

5.2 Business Process Improvement

The BPI for Debt Management recommends the same procedures that are currently in place, with some modifications of timing of overdue debt reports, enforcement actions within KRA, the automation of computer-generated notices, and a change in the reporting structure.

A key factor in debt collection is the early interaction with Taxpayers to collection success and for quick and effective e enforcement actions where interaction has failed. The ITMS system will provide a timelier reporting and automated enforcement activity to assist in debt management. The current reporting of debt does not met best practices noted in other tax administrations, but the ITMS addresses this area by distinctly reporting active principal, interest and penalties from those debts that have been submitted for write-off. Debts that cannot be collected by KRA should be contracted to a Collection Agency as noted in other Tax Administrations, even though the debt may have been identified for write-off at the MOF level. Either MOF or KRA should contract the collection agency. It has been noted in a number of other countries such as Canada and United States that private sector agencies often succeed where the Tax Administration has failed.

Best practices indicate that the sooner collection action is started the more likely one is to collect the debt. Therefore, the current quarterly reports are not timely enough, and should be produced at least every 60 days listing activity.

- ✓ **Solutions (*IT/Procedural*):** A standard time frame should be set for debtors to pay, removing the Station Managers' discretion at this stage. In fourteen-day increments, from the due date, computer generated notices showing principal, interest and any penalties should be dispatched. These notices can move to every 30 days when the date exceeds 90 days. The intention of frequent notices is to clearly advise the debtor of increasing balance due to interest and penalty accumulation. These could be suspended if an objection or appeal is launched.

DTD should utilize the enforcement tools available to them within KRA Departments. Accounts that are in the Agency Notice mode should have actions initiated within KRA. In RTD, motor vehicle transfers should be suspended (stop the transfer of movable assets) for companies, and the suspension of driver's license renewal for individuals. In CSD, enforcement can take the form of holding of imports and exports shipments at location (after duty and taxes have been paid,) while Distraint

[8] Figures taken from Debt Management Program Senior Management Meeting Report for April 2006

Notice is prepared. The intention of the internal KRA Department enforcement actions is to hopefully have the debtor pay, negotiate payment terms, or to seize movable assets. [9]

Debt should be computer generated, reported in an aged receivable fashion for active, under objection or appeal, and non-active (those debts recommended for write-off,) by tax type. For example:

- Active Aged Reports can be divided as follows: 0-30 days; 30-60 days,; 60-90 days; 90-365 days; and greater than 365 days.
- Inactive Aged Reports: 0-364 days; 1-2 years; 2-5 years; and 5+ years

Sample format:

Tax Type	**Number**	**Principal**	**Interest**	**Penalties**	**Total**
VAT					
IT					
Agency					
Other					
Total					

Reporting options for debt is likely available now from the current tax systems, and could likely be implemented as a quick win. **Current reporting opportunities need to be confirmed with ICT.**

The new DTD Integrated computer system is envisioned that the One Window account will be updated with field that indicates the active or inactive status, along with a link to the electronic record of all communication with the debtor. **ICT will confirm exactly how this business requirement will be met at a later time.**

The use of a collection agency for hard core KRA uncollectible debts should be considered. Many revenue authorities let private sector agencies collect their hard core and small amount debts debt for them. This possibly may lead to the reduction of debts that are awaiting MOF write off for many years, but are still on the DTD books building interest and penalties. Debt collection training for special unit for debt collection should also be considered.

> *N.B.: Not addressed in this project is the possibility to attach Agency Notices on Kenya Government Departments for money being paid out from those Departments, and if DTD computers can be connected, obtain that information. This is a future business decision that DTD may want to consider.*

The reporting on the success of the enforcement tools used versus number of times the tools used will outline the success of that tool. The use of Agency Notice would be one example, the suspension of imports and exports would be another example. This should bear in mind that if a stoppage is used in KRA and that the debtor does not try to transfer his vehicles or import or export, that the total number cannot be used as a valid performance indicator. The discontinuation of an attempted transaction, and the success of that action, could be an indicator. Another performance indicator could be the number of debts collected versus the number outstanding at any one time. As with all performance and reporting requirements, the information must be displayed in hard and soft copy.

[9] The issuing of drivers license renewals requires careful administration as it could remove the future income of a debtor if his/her job depends on being able to drive, thus also eliminating an avenue to collect the outstanding debt

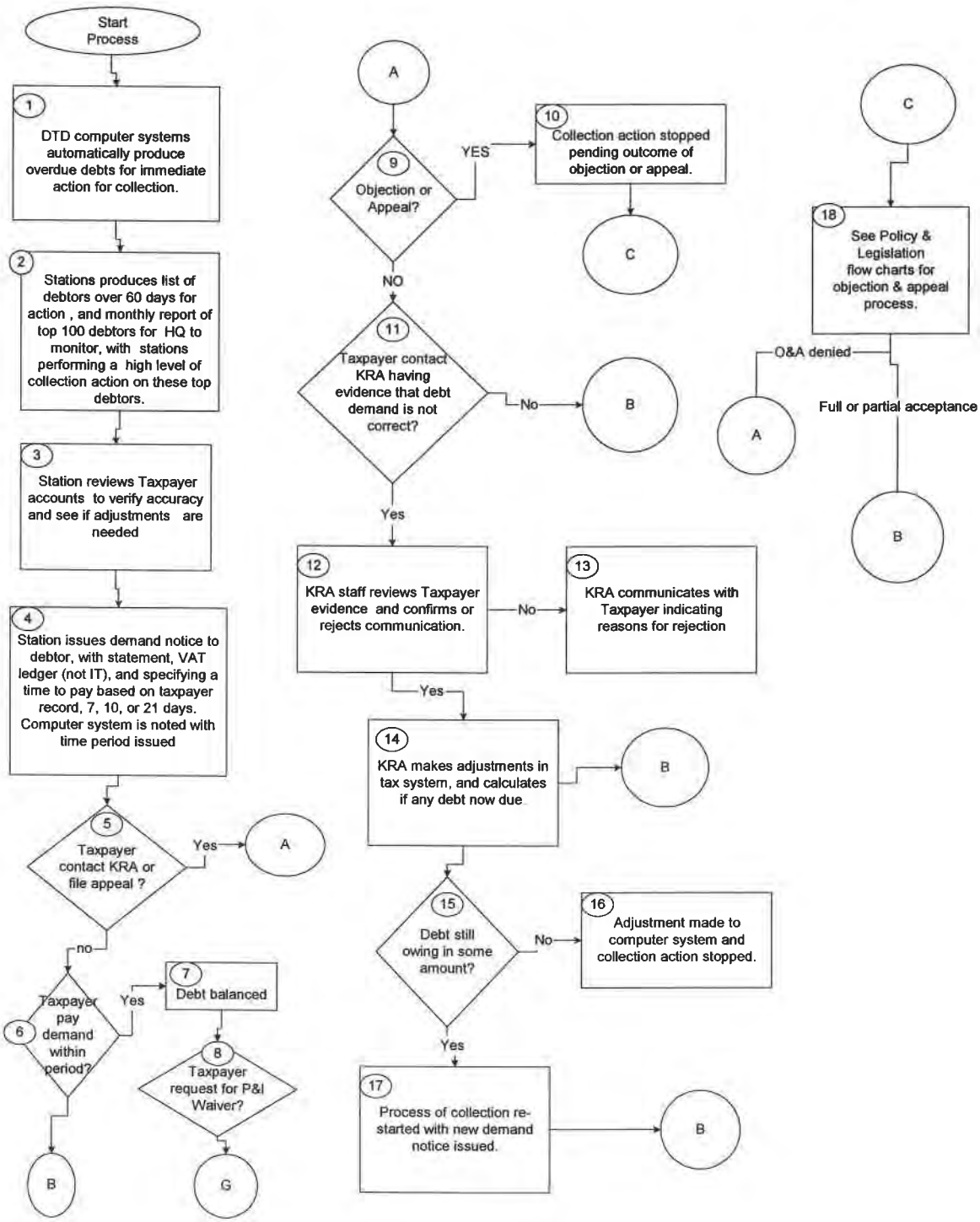
Debt Management
Business Process Improvement*

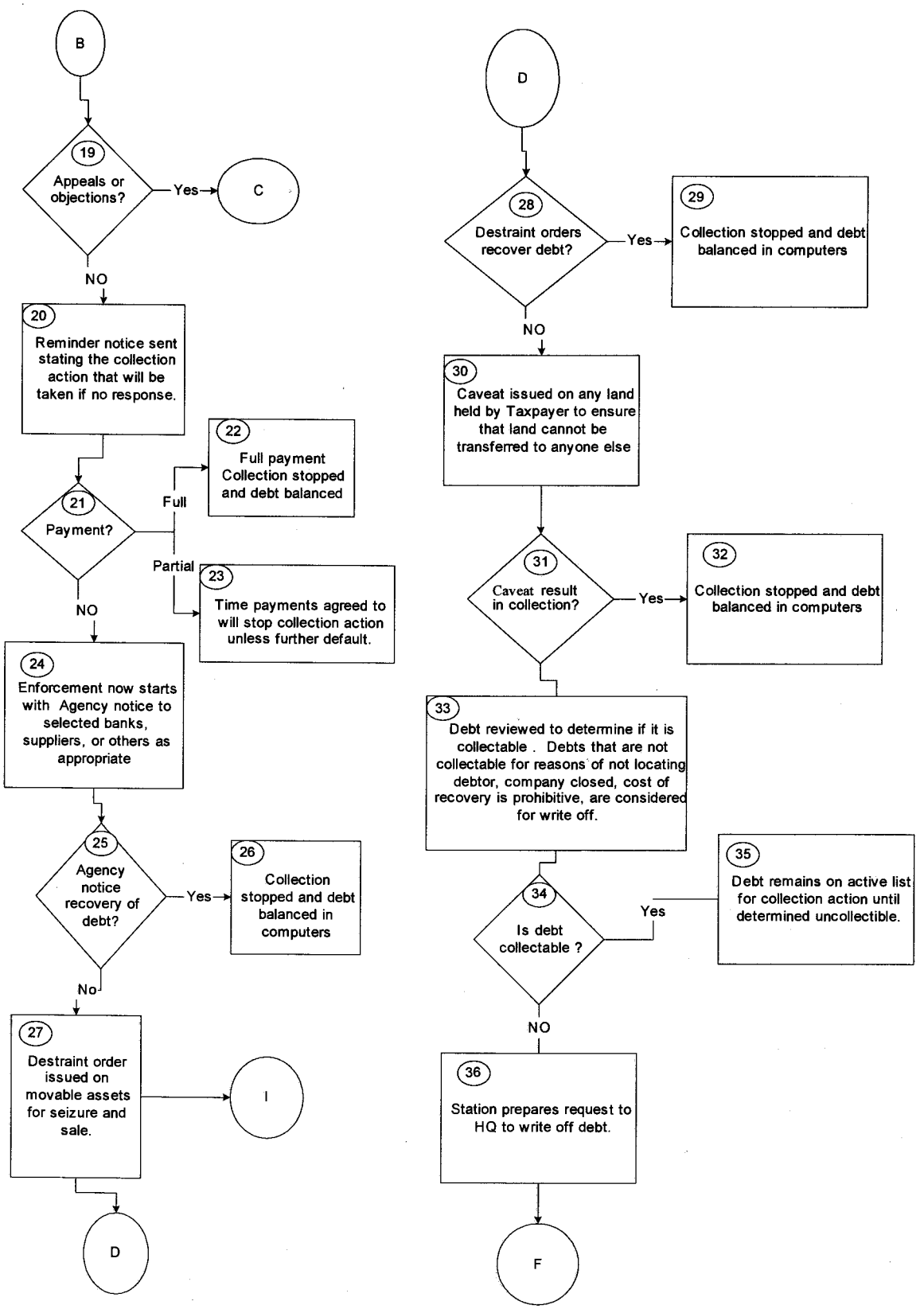
1. DTD computer systems automatically produce overdue debts for immediate action for collection.
2. Stations produces list of debtors over 60 days for action , and monthly report of top 100 debtors for HQ to monitor, with Stations performing a high level of collection action on these top debtors.
3. Station reviews Taxpayer accounts to verify accuracy and see if adjustments are needed.
4. Station issues demand notice to debtor, with statement, VAT ledger (not IT), and specifying a time to pay based on taxpayer record, 7, 10, or 21 days.
5. *Taxpayer contact KRA or file appeal ?*
6. *Taxpayer pay demand within period?*
7. Debt cancelled if paid
8. *Taxpayer request for P&L Waiver?*
9. *Appeal?*
10. Collection action stopped pending outcome of appeal.
11. *Taxpayer contact KRA having evidence that debt demand is not correct?*
12. KRA staff reviews Taxpayer evidence and confirms or rejects communication.
13. KRA communicates with Taxpayer indicating reasons for rejection
14. RA makes adjustments in tax system, and calculates if any debt now due.
15. *Debt still owing in some amount?*
16. Adjustment made to computer system and collection action stopped.
17. Process of collection re-started with new demand notice issued.
18. See Policy & Legislation flow charts for objection & appeal process.
19. *Appeals or objections?*
20. Reminder notice sent stating the collection action that will be taken if no response.
21. *Payment?*
22. Full payment Collection stopped and debt balanced
23. Time payments agreed to will stop collection action unless further default.
24. Enforcement now starts with Agency notice to selected banks, suppliers, or others as appropriate
25. *Agency notice recovery of debt?*
26. Collection stopped and debt balanced in computers if debt amount recovered.
27. Destraint order issued on movable assets for seizure and sale.
28. *Destraint orders recover debt?*
29. Collection stopped and debt balanced in computers
30. Caveat issued on any land held by Taxpayer to ensure that land cannot be transferred to anyone else
31. *Caveat result in collection?*
32. Collection stopped and debt balanced in computers
33. Debt reviewed to determine if it is collectable . Debts that are not collectable for reasons of not locating debtor, company closed, cost of recovery is prohibitive, are considered for write off.
34. *Is debt collectable ?*
35. Debt remains on active list for collection action until determined uncollectible.

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

36. Station prepares request to HQ to write off debt.
37. HQ receives Stations recommendation for debt write-off.
38. HQ committee of DTD Debt staff reviews station requests
39. *Recommended for write-off?*
40. Station instructed to resume collection activities
41. HQ recommends write-offs to Commissioner to send to MOF for write-offs.
42. If MOF continues to not write off any debts, the debt remains in limbo with interest continuing to accumulate in the computer systems.
43. Written request received from taxpayer after Principal debt paid requesting waiver of Interests and Penalties.
44. Station approves or rejects request under KSh 100,000, and rejects or recommends to HQ for decision.
45. *P&L Waiver over Kshs100,000 and recommended?*
46. Taxpayer notified of approval or rejection of request. If approved, computer system updated, and if rejected collection action resumes
47. HQ Debt Management reviews request from Taxpayer for waiver.
48. *Approved?*
49. Denial sent to Station and Taxpayer
50. Over 500,000?
51. Notify Taxpayer and Station of approval. Computers accounts updated as required
52. Submission from Commissioner to MOF sent with recommendation for Waiver.
53. *Approved?*
54. On Notification from MOF, Taxpayer, HQ, and Station notified. Collection action resumed for P&L
55. On notification from MOF, Taxpayer, HQ, and Station notified. Computer systems updated and balanced
56. Taxpayer Account is flagged so that movable assets cannot be transferred, drivers license cannot be issued, and imports and exports are seized (after duty and Tax payment.)
57. *Collect?*
58. Debt Balanced and restrictions removed from Taxpayer account.

Debt Management BPI Process




B
19
Appeals or objections?
Yes
C
NO
20
Reminder notice sent stating the collection action that will be taken if no response.
21
Payment?
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22
Full payment Collection stopped and debt balanced
Partial
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Time payments agreed to will stop collection action unless further default.
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24
Enforcement now starts with Agency notice to selected banks, suppliers, or others as appropriate
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Collection stopped and debt balanced in computers
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Debt reviewed to determine if it is collectable . Debts that are not collectable for reasons of not locating debtor, company closed, cost of recovery is prohibitive, are considered for write off.
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Debt remains on active list for collection action until determined uncollectible.
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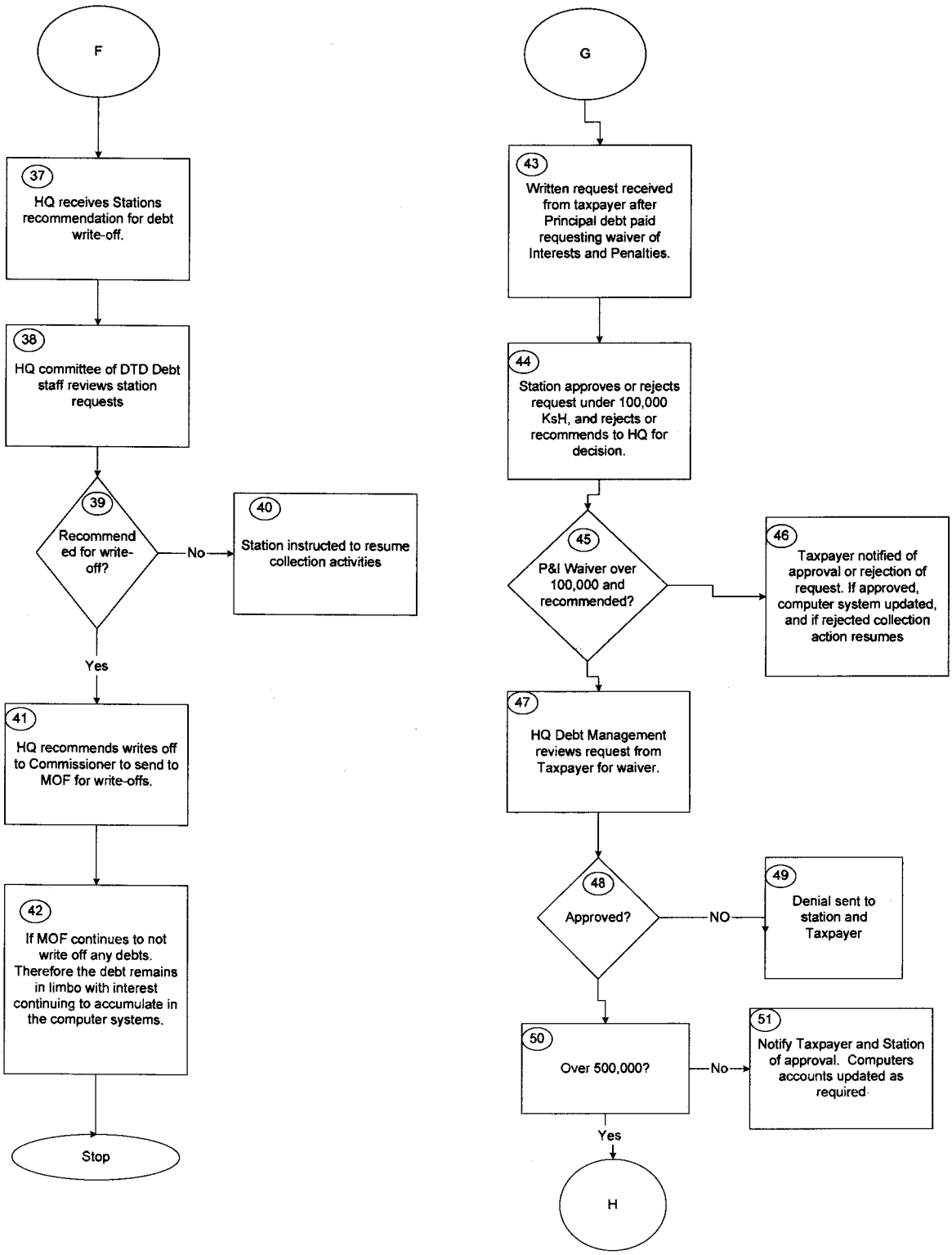
F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Recommended for write-off?
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If MOF continues to not write off any debts. Therefore the debt remains in limbo with interest continuing to accumulate in the computer systems.
Stop
G
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Written request received from taxpayer after Principal debt paid requesting waiver of Interests and Penalties.
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Station approves or rejects request under 100,000 KsH, and rejects or recommends to HQ for decision.
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Over 500,000?
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Notify Taxpayer and Station of approval. Computers accounts updated as required
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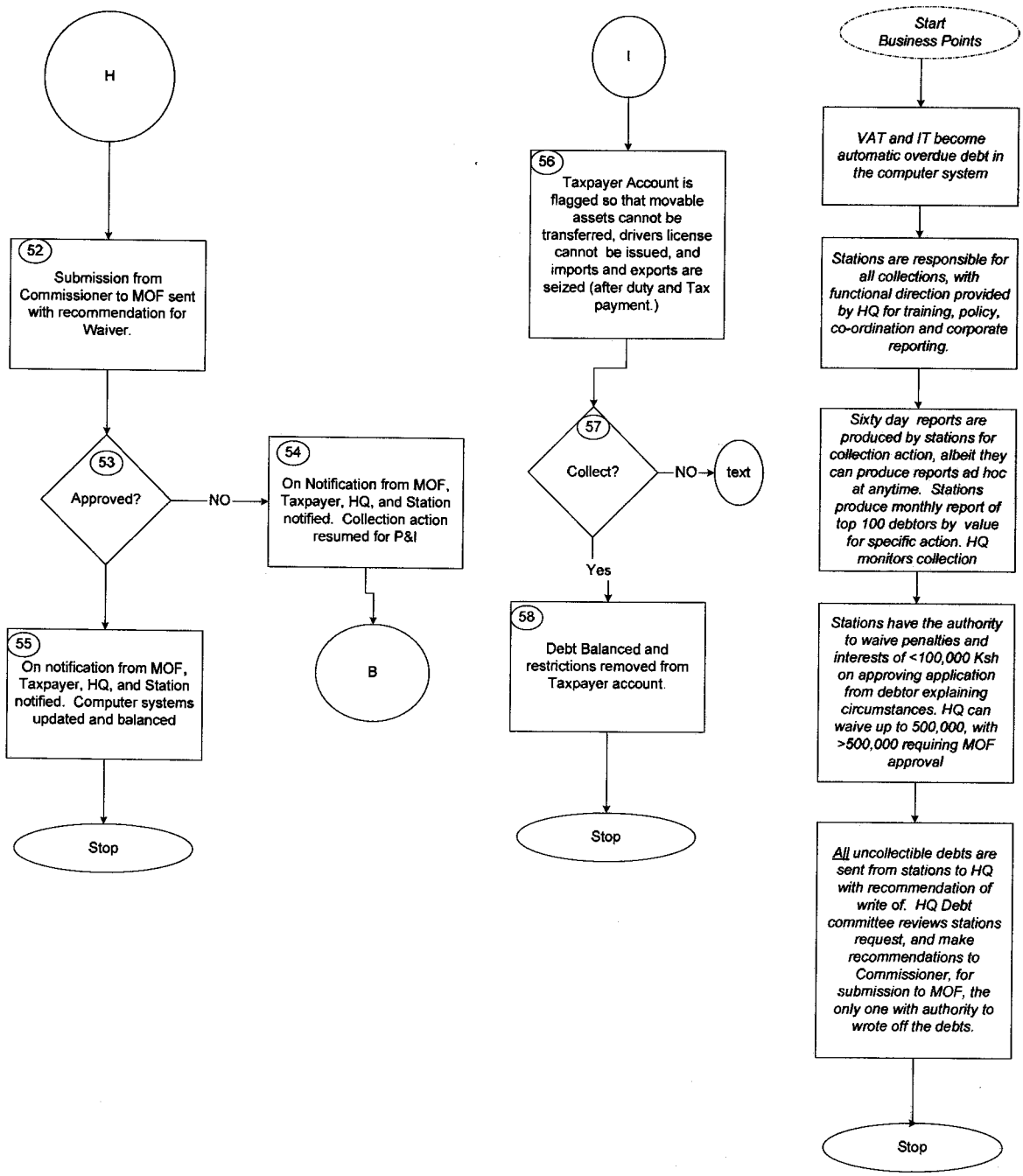
H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Taxpayer Account is flagged so that movable assets cannot be transferred, drivers license cannot be issued, and imports and exports are seized (after duty and Tax payment.)
57
Collect?
NO
text
Yes
58
Debt Balanced and restrictions removed from Taxpayer account.
Stop
Start
Business Points
VAT and IT become automatic overdue debt in the computer system
Stations are responsible for all collections, with functional direction provided by HQ for training, policy, co-ordination and corporate reporting.
Sixty day reports are produced by stations for collection action, albeit they can produce reports ad hoc at anytime. Stations produce monthly report of top 100 debtors by value for specific action. HQ monitors collection
Stations have the authority to waive penalties and interests of <100,000 Ksh on approving application from debtor explaining circumstances. HQ can waive up to 500,000, with >500,000 requiring MOF approval
All uncollectible debts are sent from stations to HQ with recommendation of write of. HQ Debt committee reviews stations request, and make recommendations to Commissioner, for submission to MOF, the only one with authority to wrote off the debts.
Stop

5.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- Interacting sooner with Taxpayers with outstanding debt should result in increased collection based on best practice experience.
- Dispatching computer generated notices at a standard time frame will eliminate some manual work for DTD employees, standardize Debt Management within stations, and prepare for ISO certification in this area.
- Enacting enforcement actions within KRA departments is another tool to collect outstanding debt. It will also demonstrate to Taxpayers that the DTD is reactive in debt collection which will have a spin-off across the board on debt management.
- Changing the reporting format will clearly outline the true picture of the debt make-up in view of the no write-off policy from MOF.

5.4 Challenges

Collecting on debt can be a very sensitive matter. Too firm an action could force the closure of business, or eliminate employment for an individual. Untimely action without effective enforcement will see debts not collected as they should be. The challenge is finding the right balance, being compassionate to circumstances, but firm with strong action when required. Taxpayers that ignore negotiation for payment of debt must be dealt with in a firm and steady unbiased manner, always leaving opportunity for discussion and payment terms.

5.5 Performance Management

The performance standards for Debt Management should see reporting as outlined in the BPI portion of this section, and well as the success of employees in collecting.

The performance should be set to show success for DTD by the actual against a targeted number of collections for the Department, Station, and employee.

6. Policy and Legislation

The Headquarters Policy and Legislation (P&L) section provides support for Stations field operations. This section has two main activities, tax relief provisions, and legislation support and interpretations of acts and regulations in DTD. Tax relief is administered under three sections within P&L: Exemptions, Remissions, and Pensions, with Objections and Appeals section supporting this activity within DTD. P&L is the liaison and control point in DTD for legal changes requested by Station Managers, or proposed changes to laws by Ministry of Finance (MOF.)

6.1 Current Process

Exemptions

Exemptions are provided for under the Income Tax Act for non-profit registered organizations such as Non Governmental Organizations (NGOs), Religious Organizations, and other organizations or entities involved with education, health and humanitarian services.

- Applications for exemption are received in KRA or MOF depending on the type of exemption requested.
- Headquarters receives exemption requests from Stations and directly from MOF.
- If approved, certificate and file are sent to the applicable Station for issuing to applicant. Rejected applications are sent to applicable Station for notification to applicant.

There is no computer module to support and administer exemptions. The headquarters exemptions unit of P&L receives approximately 5-10 applications per month.

Remissions

The Remissions unit processes applications for remission and exemptions of tax for specific individual purchases approved by Ministry of Foreign Affairs (MOFA), or from Ministry of Finance (MOF.) Ongoing services such as electricity and internet are received from Ministry of Foreign Affairs for Diplomatic missions and individuals. Ongoing exemptions for diplomats are received from MOFA in letter format. Once vetted, DTD sends a letter to the service supplier with a copy to the Diplomat.

- Specific purchases exemption and remissions are received from MOFA and MOF on prescribed forms.
- KRA retrieves forms from MOF each day, while diplomatic couriers deliver forms direct to KRA after MOFA approval.
- All approved exemptions and remissions are retrieved directly from DTD by applicant, as are rejected applications.
- Receipt and dispatch of forms and letters are controlled by manual registers.

None of the above processes are computerized.

Pensions

The Pensions section administers the establishment of a number of schemes of IT Tax Relief, Pension Plans of various types, Home Ownership Plans, Collective Investment and Venture capital.

- Company Pension, Personal Pension, or Provident Plan applications are received in the HQ P&L Pension division from the Commissioner. HQ Pension examines the Trust deed and

rules to ensure compliance to the Income Tax Act, along with other documents, liaising with the applicant to make adjustments where required.

- Approved plans have an exemption certificate prepared, with details entered into a desktop computer program. Scheme details are sent to Stations for Audit monitoring. Annual scheme financials are reviewed by Pension section for Collections and Compliance to approved pension scheme.

- Registered home ownership programs operate in a process of application, approval and review in a similar fashion to pensions. Trust Deeds and rules are reviewed, certificates are issued, details are entered into a desktop computer program, and annual plan financials are reviewed.

The Capital Investment and Venture Capital Income Tax relief application and approval process is similar to the other tax relief programs.

- A request for tax relief is made to the MOF who approves and sends to KRA. Similar to other tax relief programs in DTD, Trust Deeds and rules are reviewed, certificates are issued and details logged in a computer, and annual financials reviewed.
- Stations' Collection and Compliance sections inspect capital goods purchased and installed for compliance to Application for Capital Investment, and Venture Capital is audited for Application Compliance.

Objections and Appeals

Objections and Appeals (O&A) are received and administered in the Stations. Headquarters O&A provide monitoring and technical support regarding tax law. The procedures for IT and VAT are being harmonized; therefore, the situation described here is based on the harmonized process. DTD computerization for Income Tax and VAT has current modules to administer objections and appeals, including adjustments and suspension in interest and penalties in Taxpayer account.

- Objections are based on audit assessments of Taxpayers, who have 30 days after audit demand to make an objection.
- Objections are made by letter within this time period, and must give evidence of reasons for objections. Stay-over orders are produced from DTD systems for amount in dispute. The Taxpayer must pay any amount not in dispute.
- DTD has 60 days to decide the merits of the Taxpayer's dispute. Upheld disputes require an amended audit assessment to be made.
- Amounts still outstanding from objection are confirmed from IT and VAT systems by notice issue, for which the Taxpayer is given 14 days to pay. Interest applies on any amount of the objection not agreed to by KRA.

- The Taxpayer writes a Letter of Appeal to the Commissioner within 30 days of the objection notice decision if he/she is not in agreement.
- A Notice of Appeal must be filed with a Memorandum and Statement of Fact. Appeals have collection action stopped as well as interest calculations stopped. All undisputed tax amounts must be paid before the Appeal can be heard.[10]
- A Case Number is assigned to the appeal and the Taxpayer is informed when the committee/tribunal will hear the case. If appeal is upheld, then audit assessment is adjusted.

[10] It is noted that some Stations do not use the appeal module in the DTD computer system.

- If the appeal is rejected, the Taxpayer is given 14 days to pay any outstanding amount, which must be done in order to go to the third stage of the court, and within this time period.

Currently there are approximately 90 Objections and 70 Appeals for Income Tax; and 100 Objections with only one Appeal for VAT.

Legislation
This unit within P&L is the main contact for DTD staff to propose changes to the various legislative documents, and for obtaining input from DTD Managers on proposed policy and legislative changes proposed by MOF. Additionally, the private sector proposes about fifty percent of the changes to policy and legislative matters to DTD which is coordinated in this section of P&L.

- The basic process is for new requests to be received and reviewed between July and January, and to have committee recommendations or rejections determined before the end of February.
- Proposals for legislative change that can be addressed through a change in procedure are addressed in that fashion. Discussion with MOF on all proposed legislative changes that might be approved and included in the Finance Minister's budget speech starts in March.

There is a high volume of communication between MOF, P&L and other Sections and Mangers in DTD. This back and forth communication takes place by e-mail, fax, and DTD mail. There often are delays and missing mail, which causes some last-minute scrambles to meet deadlines. Due to the confidential nature of the Minister's budget speech, there are some security concerns for the current communication method.

6.2 Business Process Improvement

Exemptions
The Exemption process is rather streamlined and efficient. However, DTD would benefit overall from a module within the new ITMS design for this function that would allow for improved performance management and customer correspondence tracking. Such a module would ensure that customers receive consistent advice and action from all staff.

✓ **Solution (*IT*):** The receipt and filing of applications should be part of the ITMS system, eliminating file transfers to Stations, and vice versa. All correspondence to and from a Taxpayer will be scanned into the system, and associated with the PIN number, along with the basic information keyed into the new ITMS system. Therefore, all documents regarding any Exemption application will be available to view online and print, if necessary, by anyone authorized to do so. Basic performance measurement reports will be produced from the Exemption module and mail tracking module.

Remissions
- *Improved Services:* The Remissions section has the opportunity to significantly improve the level of service to Taxpayers and Diplomats, while increasing control over issued Exemptions and Remissions. There is an opportunity to computerize the application, approval and issue of Exemptions and Remissions. As CSD also receives the same documents from the same sources, a computerized KRA application should be made available for their use as well.

- ✓ **Solution (*IT*):** The ideal scenario will be that the Taxpayer or Diplomat e-files a request for Remission or Exemption, uploading the scanned necessary supporting documents to the online application module. This would then be reviewed online by MOF or MOFA, who would either reject or approve the application and forward the process to KRA for action within DTD or CSD. DTD would process the application and send back to the applicant online, the approval or rejection. Once the applicant has printed the Exemption or Remission it cannot be printed again by the applicant. Printing errors at the applicant's end will result in the applicant having to pick-up a duplicate copy from the DTD office.

  In the case of applicants who are not approved for e-filing, the Ministry involved will enter the basic data and upload the scanned application and supporting documents to the ITMS system. The applicant will then have to make only one trip to DTD to pick up the approved or rejected documents. This process could also be considered a staged process to applicant e-filing applications.

Pensions

The Pension and other tax relief processes are fairly streamlined and efficient. Nonetheless, DTD would benefit from a module within the new ITMS design for this function rather than the current manual and single user desktop computer program.

- ✓ **Solution (*IT*):** The receipt and filing of applications should be part of the ITMS system, which will eliminate file transfers to Stations, and vice versa. As with Exemptions, all correspondence to and from a Taxpayer will be scanned into the system, and associated with the PIN number, along with the basic information keyed into the new ITMS system. Therefore, all documents regarding any Pension application, Trust deeds and rules, and certificate will be available to view online, and print if necessary, by anyone authorized to do so. Basic performance measurement reports will be produced from the Exemption module

Objections and Appeals

The Objections and Appeals process is streamlined already to unify VAT and IT procedures. The ITMS system will include modules for the administration of the O&A process, as is currently available in the VAT and IT systems. A quick win situation would be to insist that the current system for Objections and Appeals be used to ensure that the Taxpayer accounts are reflected properly. This will be an important issue when the migration takes place from the current systems to the ITMS.

Legislation

- ✓ **Solution (*IT*):** A separate module should be part of the ITMS for documenting and communicating proposed legislative and policy changes. This module must be restricted to only those involved in reviewing or recommending changes to legislation, with the control being in P&L, who will add by legislative clause, who has access to the information. MOF should be allowed to access the DTD module via the Internet. Therefore, a group of selected DTD and MOF staff will be able to access and make comments, or propose changes, on any piece of legislation. There should be an ability to see all the comments or proposals within the P&L controlled group. A pop up message will be displayed to the users of any P&L controlled group when they log on if there are new comments or they are required to make comments for proposed legislation changes.

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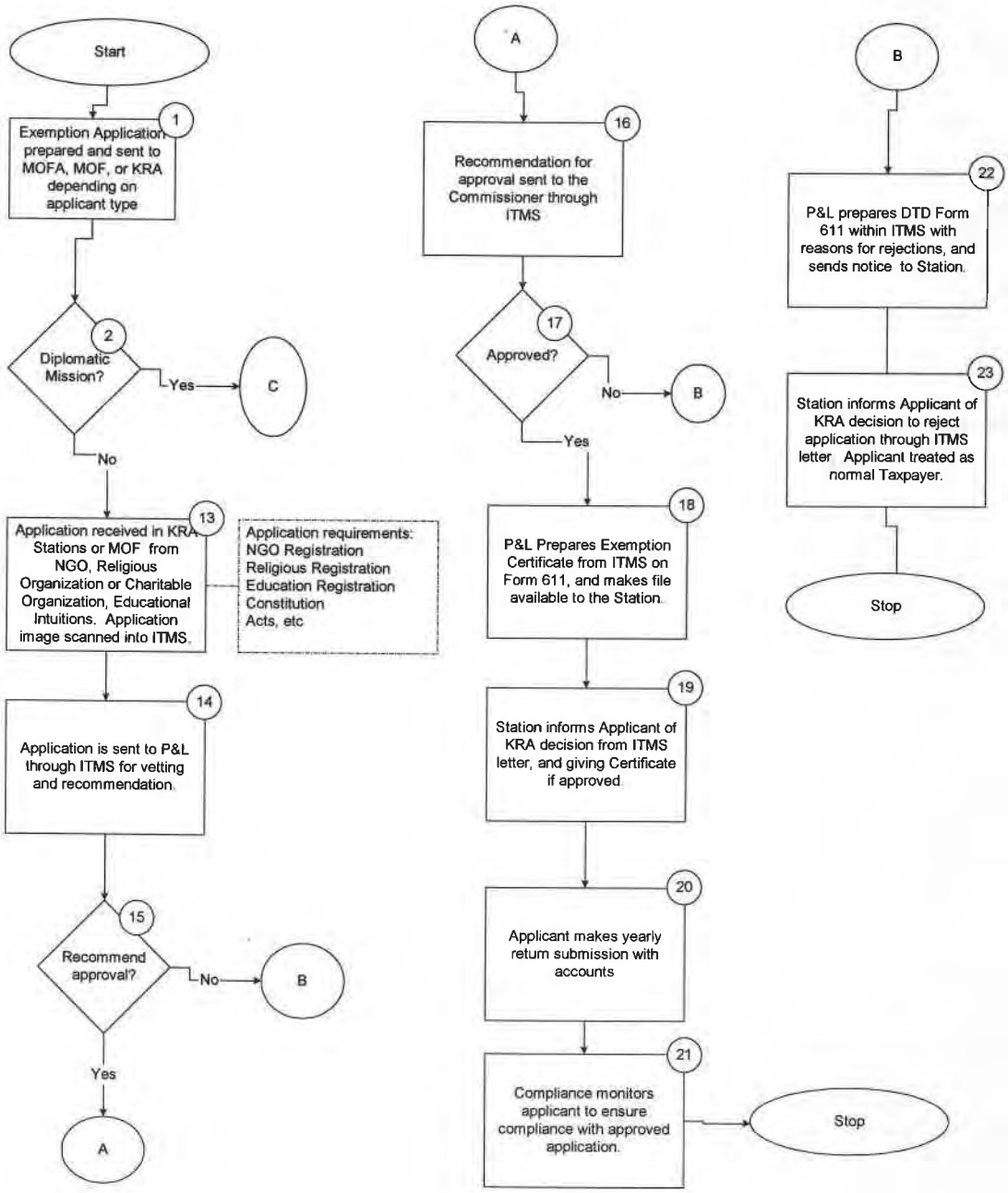
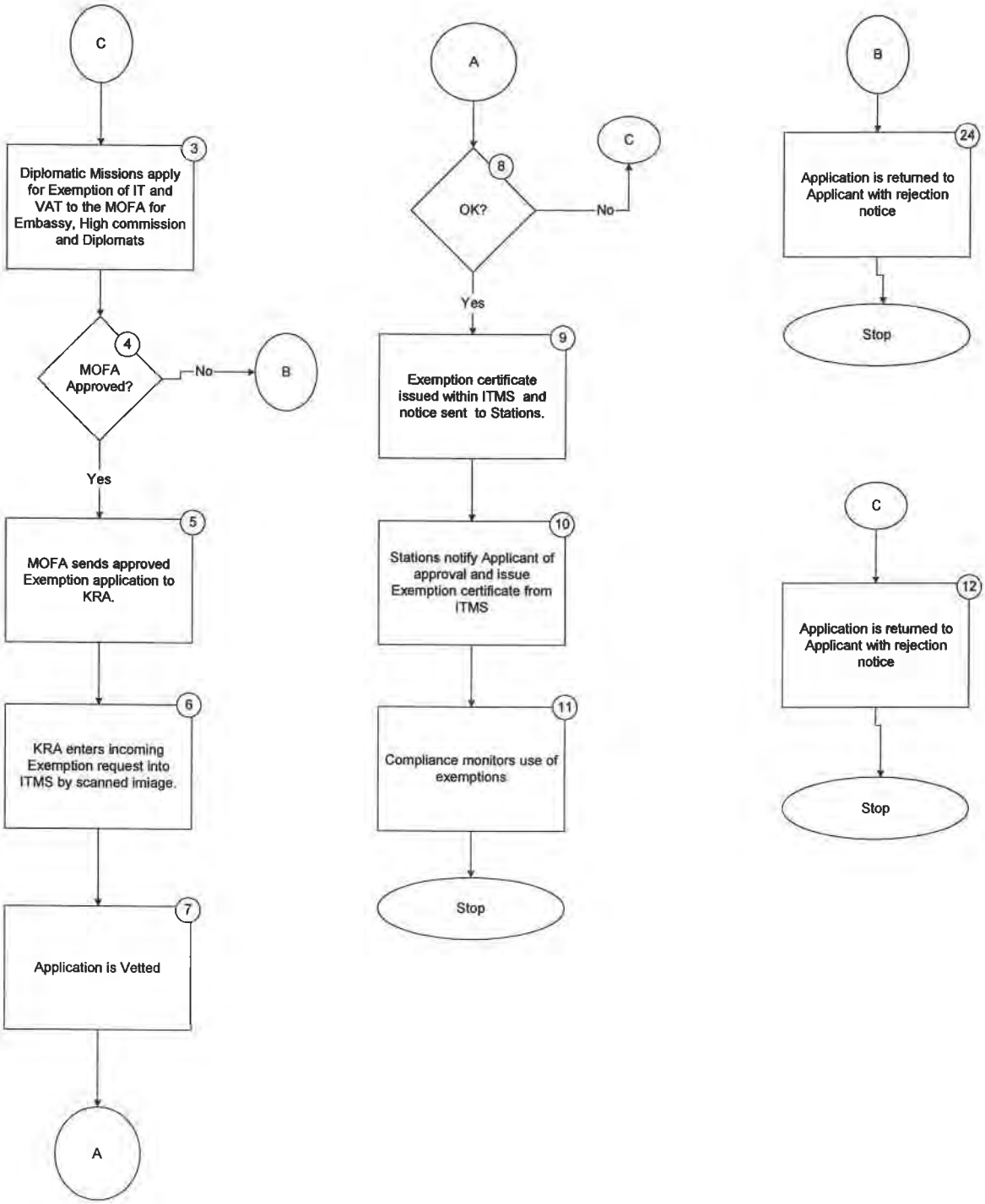
Policy and Legislation - Exemptions
Business Process Improvement*

1. Exemption Application prepared and sent to MOFA, MOF, or KRA depending on applicant type
2. *Diplomatic Mission?*
3. Diplomatic Missions apply for Exemption of IT and VAT to the MOFA for Embassy, High commission and Diplomats
4. *MOFA Approved?*
5. MOFA sends approved Exemption application to KRA.
6. KRA enters incoming Exemption request into ITMS by scanned image.
7. Application is Vetted
8. *OK?*
9. Exemption certificate issued within ITMS and notice sent to Stations.
10. Stations notify Applicant of approval and issue Exemption certificate from ITMS
11. Compliance monitors use of exemptions
12. Application is returned to Applicant with rejection notice
13. Application received in KRA Stations or MOF from NGO, Religious Organization or Charitable Organization, Educational Intuitions. Application image scanned into ITMS.
14. Application is sent to P&L through ITMS for vetting and recommendation.
15. *Recommend approval?*
16. Recommendation for approval sent to the Commissioner through ITMS
17. *Approved?*
18. P&L Prepares Exemption Certificate from ITMS on Form 611, and makes file available to the Station.
19. Station informs Applicant of KRA decision from ITMS letter, and giving Certificate if approved.
20. Applicant makes yearly return submission with accounts
21. Compliance monitors applicant to ensure compliance with approved application.
22. P&L prepares DTD Form 611 within ITMS with reasons for rejections, and sends notice to Station.
23. Station informs Applicant of KRA decision to reject application through ITMS letter. Applicant treated as normal Taxpayer.
24. Application is returned to Applicant with rejection notice

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

Policy & Legislation–Exemptions BPI Process




C
3
Diplomatic Missions apply for Exemption of IT and VAT to the MOFA for Embassy, High commission and Diplomats
4
MOFA Approved?
No
B
Yes
5
MOFA sends approved Exemption application to KRA.
6
KRA enters incoming Exemption request into ITMS by scanned imiage.
7
Application is Vetted
A
A
8
OK?
No
C
Yes
9
Exemption certificate issued within ITMS and notice sent to Stations.
10
Stations notify Applicant of approval and issue Exemption certificate from ITMS
11
Compliance monitors use of exemptions
Stop
B
24
Application is returned to Applicant with rejection notice
Stop
C
12
Application is returned to Applicant with rejection notice
Stop

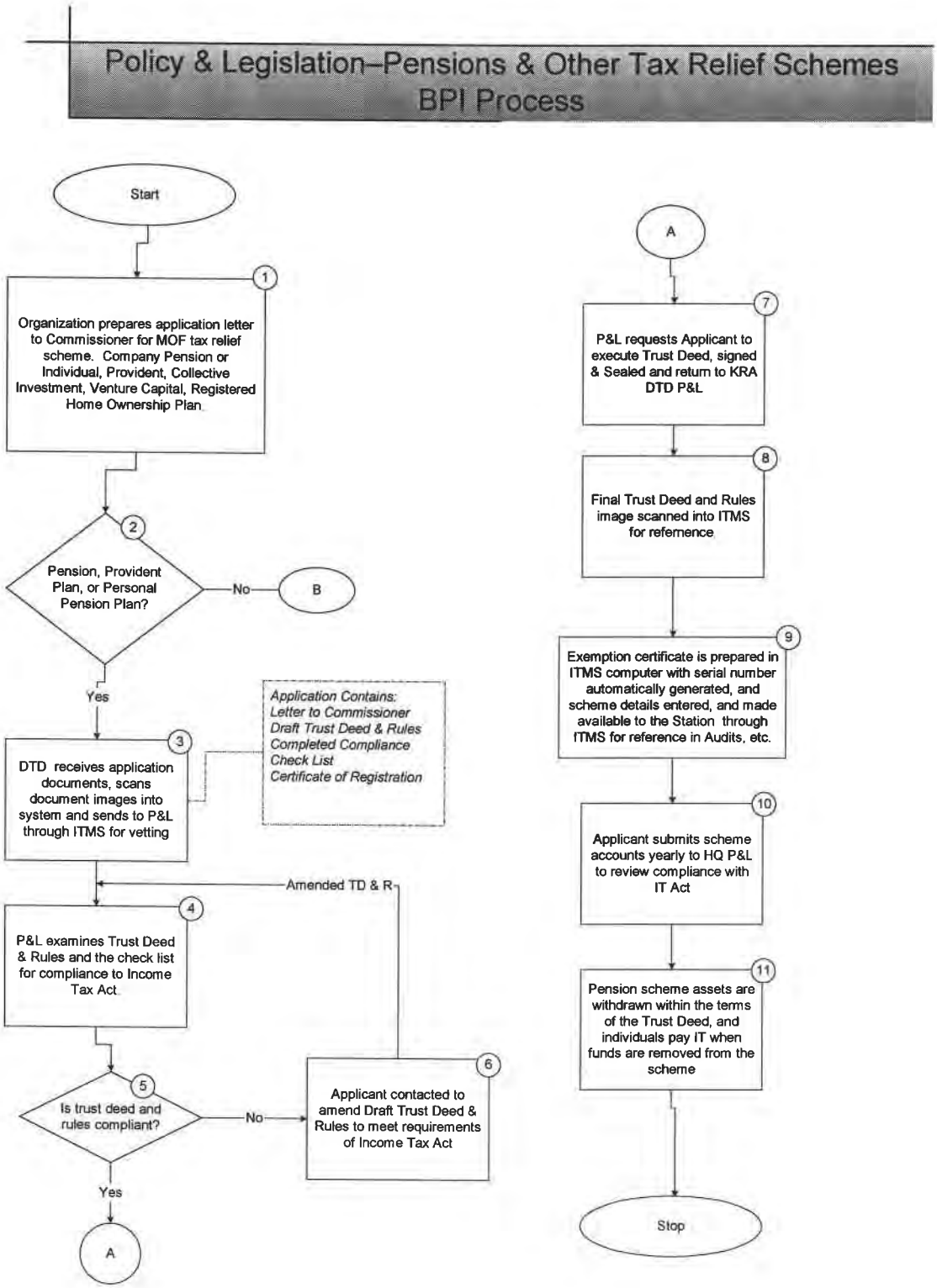
Policy and Legislation – Remissions
Business Process Improvement

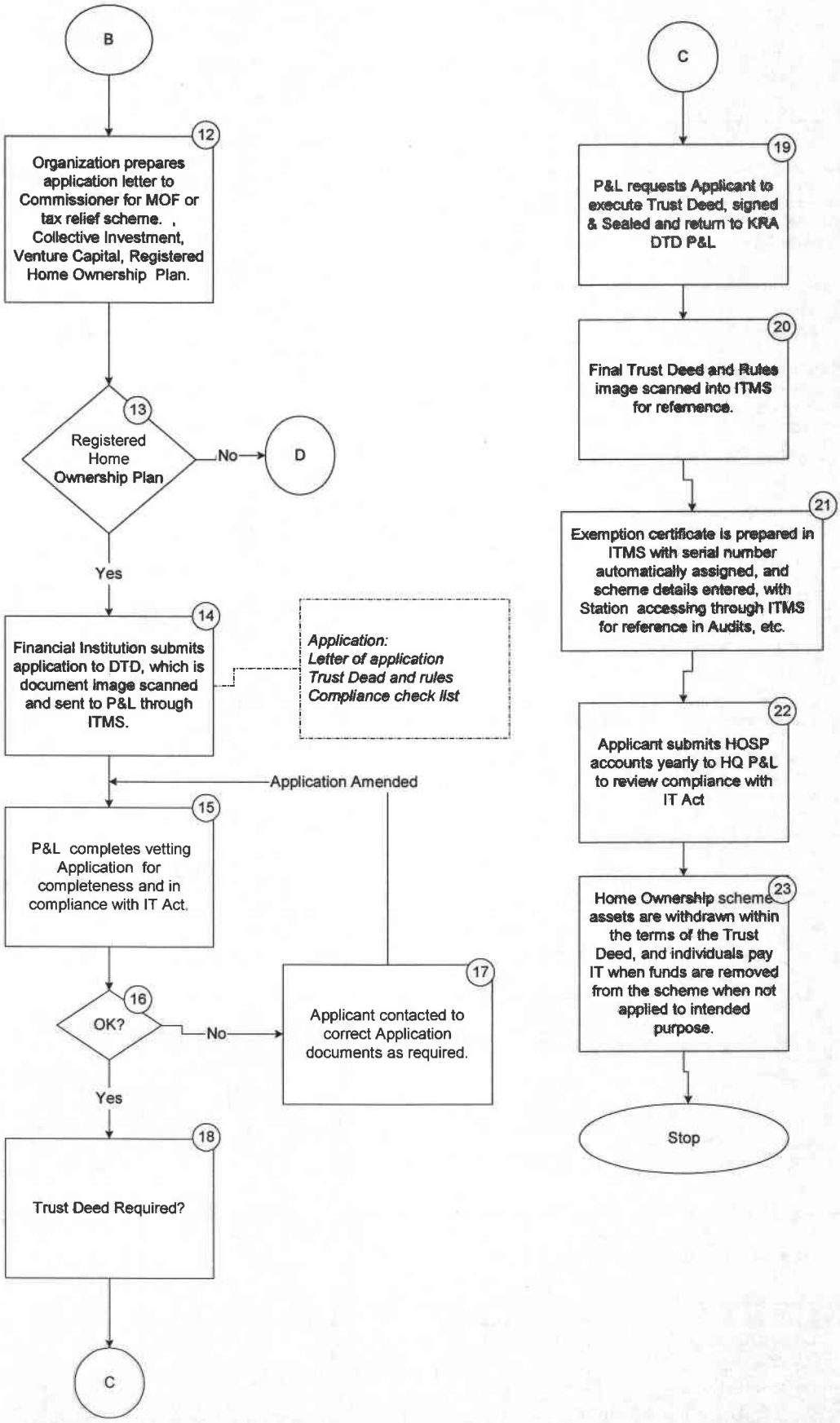
1. Remission or exemption Application prepared and sent to MOFA, MOF, or KRA depending on applicant status
2. *Diplomatic Mission?*
3. Ongoing Exemption request
4. Exemption form received in MOFA for approval and image scanned into ITMS if approved.
5. Return to applicant as rejected
6. DTD vets exemption request and approves if all in order.
7. Return to applicant as rejected
8. DTD issues exemption from within ITMS
9. Diplomat picks up approved exemption signing for against ITMS list.
10. DTD electronically reports on VAT exemptions from ITMS
11. Diplomat sends letter to MOFA to request ongoing for exemption of VAT for items such as Phone, electricity, Internet, etc.
12. Return to applicant as rejected
13. MOFA image scans approved letter into ITMS.
14. DTD receives letter from MOFA, and if ok prepares letter to supplier of service in 2 copies from ITMS.
15. Return to applicant as rejected
16. Copy of approved letter sent to supplier and copy of letter sent to Diplomat.
17. DTD electronically reports on VAT exemptions from ITMS
18. *Charitable?*
19. Purchase over 500,000?
20. Letter to MOF for approval before KRA
21. MOF Or DTD image scans documents into ITMS, and vets letters to determine compliance with VAT Act and issues letter to supplier or charitable organization from ITMS
22. Reply to applicant as rejected from ITMS letter
23. *Charitable?*
24. Letter to Station from applicant at end of Event outlining beneficiaries, which is image scanned into ITMS
25. Performance reporting available within ITMS
26. *Capital Investment?*
27. MOF approves application by investors for capital goods. Letter image scanned into ITMS.
28. DTD vets application received from MOF.
29. Return to MOF
30. Electronic file for capital remission sent to Station for monitoring
31. Summary of remissions available on demand from ITMS
32. Application DA1 (3 copies) received in KRA Stations or MOF from NGO, Religious Organization or Charitable Organization.
33. MOF vets DA1 form and approves or rejects.
34. *Approved?*
35. Return to applicant as rejected
36. MOF signs DA1 and image scans into KRA system.
37. DTD vets DA-1 form for compliance to VAT Act and appropriate attachments.
38. Return to applicant as rejected with relevant documents
39. Applicant comes to DTD to pick and sign for approved DA1 forms
40. DTD prepares manual reports on DA1 VAT Remissions.

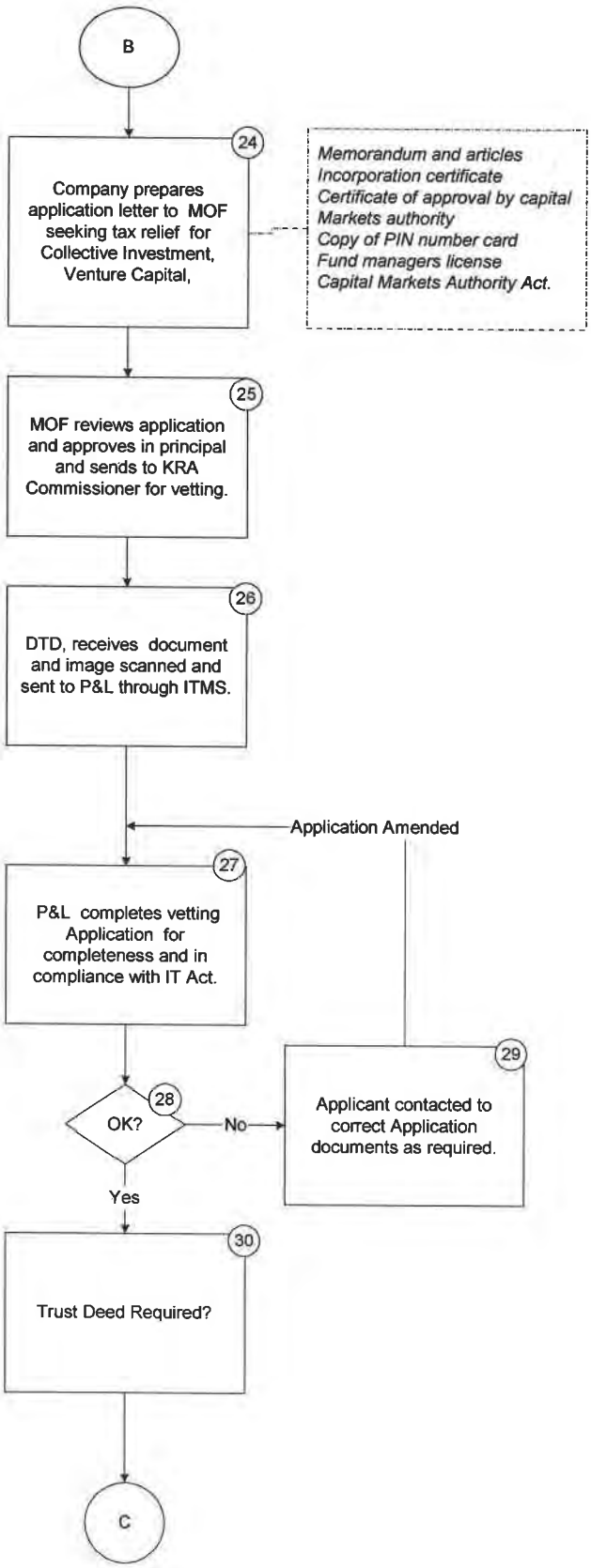
Policy and Legislation – Pensions and Other Tax Relief Schemes
Business Process Improvement

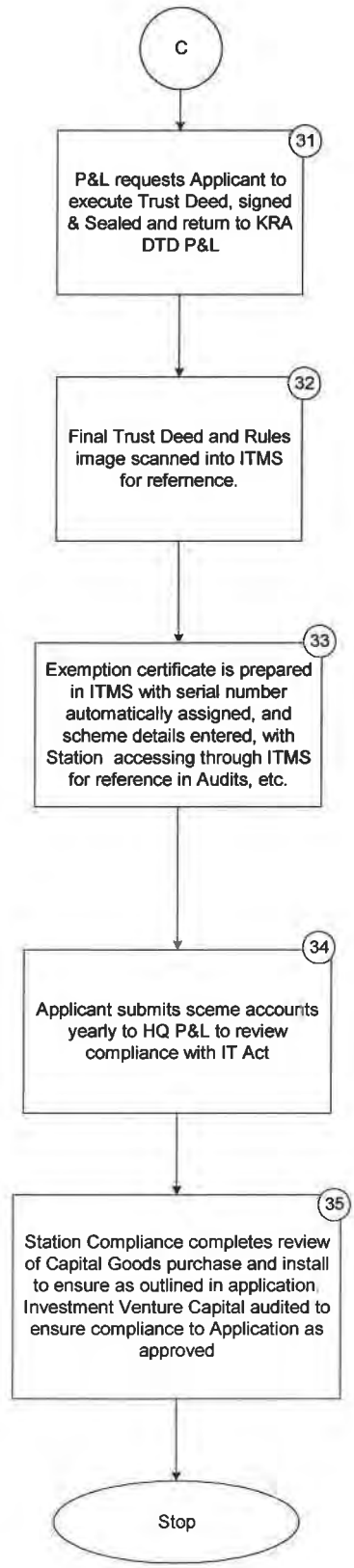
1. Organization prepares application letter to Commissioner for MOF tax relief scheme. Company Pension or Individual, Provident, Collective Investment, Venture Capital, Registered Home Ownership Plan.
2. *Pension, Provident Plan, or Personal Pension Plan?*
3. DTD receives application documents, scans document images into system and sends to P&L through ITMS for vetting
4. P&L examines Trust Deed & Rules and the check list for compliance to Income Tax Act.
5. *Is trust deed and rules compliant?*
6. Applicant contacted to amend Draft Trust Deed & Rules to meet requirements of Income Tax Act
7. P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
8. Final Trust Deed and Rules image scanned into ITMS for reference.
9. Exemption certificate is prepared in ITMS computer with serial number automatically generated, and scheme details entered, and made available to the Station through ITMS for reference in Audits, etc.
10. Applicant submits scheme accounts yearly to HQ P&L to review compliance with IT Act
11. Pension scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme
12. Organization prepares application letter to Commissioner for MOF or tax relief scheme. Collective Investment, Venture Capital, Registered Home Ownership Plan.
13. *Registered Home Ownership Plan?*
14. Financial Institution submits application to DTD, which is document image scanned and sent to P&L through ITMS.
15. P&L completes vetting Application for completeness and in compliance with IT Act.
16. *OK?*
17. Applicant contacted to correct Application documents as required.
18. Trust Deed Required?
19. P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
20. Final Trust Deed and Rules image scanned into ITMS for reference.
21. Exemption certificate is prepared in ITMS with serial number automatically assigned, and scheme details entered, with Station accessing through ITMS for reference in Audits, etc.
22. Applicant submits HOSP accounts yearly to HQ P&L to review compliance with IT Act
23. Home Ownership scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme when not applied to intended purpose.
24. Company prepares application letter to MOF seeking tax relief for Collective Investment, Venture Capital,
25. MOF reviews application and approves in principal and sends to KRA Commissioner for vetting.
26. DTD receives document and image scanned and sent to P&L through ITMS.
27. P&L completes vetting Application for completeness and in compliance with IT Act.
28. *OK?*
29. Applicant contacted to correct Application documents as required.

30. Trust Deed Required?
31. P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
32. Final Trust Deed and Rules image scanned into ITMS for reference.
33. Exemption certificate is prepared in ITMS with serial number automatically assigned, and scheme details entered, with Station accessing through ITMS for reference in Audits, etc.
34. Applicant submits scheme accounts yearly to HQ P&L to review compliance with IT Act
35. Station Compliance completes review of Capital Goods purchase and install to ensure as outlined in application. Investment Venture Capital audited to ensure compliance to Application as approved


Policy & Legislation–Pensions & Other Tax Relief Schemes
BPI Process
Start
1
Organization prepares application letter to Commissioner for MOF tax relief scheme. Company Pension or Individual, Provident, Collective Investment, Venture Capital, Registered Home Ownership Plan.
2
Pension, Provident Plan, or Personal Pension Plan?
No
B
Yes
3
DTD receives application documents, scans document images into system and sends to P&L through ITMS for vetting
Application Contains:
Letter to Commissioner
Draft Trust Deed & Rules
Completed Compliance Check List
Certificate of Registration
Amended TD & R
4
P&L examines Trust Deed & Rules and the check list for compliance to Income Tax Act.
5
Is trust deed and rules compliant?
No
6
Applicant contacted to amend Draft Trust Deed & Rules to meet requirements of Income Tax Act
Yes
A
A
7
P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
8
Final Trust Deed and Rules image scanned into ITMS for reference.
9
Exemption certificate is prepared in ITMS computer with serial number automatically generated, and scheme details entered, and made available to the Station through ITMS for reference in Audits, etc.
10
Applicant submits scheme accounts yearly to HQ P&L to review compliance with IT Act
11
Pension scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme
Stop


B
12
Organization prepares application letter to Commissioner for MOF or tax relief scheme. , Collective Investment, Venture Capital, Registered Home Ownership Plan.
13
Registered Home Ownership Plan
No
D
Yes
14
Financial Institution submits application to DTD, which is document image scanned and sent to P&L through ITMS.
Application:
Letter of application
Trust Dead and rules
Compliance check list
Application Amended
15
P&L completes vetting Application for completeness and in compliance with IT Act.
16
OK?
No
17
Applicant contacted to correct Application documents as required.
Yes
18
Trust Deed Required?
C
C
19
P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
20
Final Trust Deed and Rules image scanned into ITMS for reference.
21
Exemption certificate is prepared in ITMS with serial number automatically assigned, and scheme details entered, with Station accessing through ITMS for reference in Audits, etc.
22
Applicant submits HOSP accounts yearly to HQ P&L to review compliance with IT Act
23
Home Ownership scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme when not applied to intended purpose.
Stop


B
24
Company prepares application letter to MOF seeking tax relief for Collective Investment, Venture Capital,
Memorandum and articles
Incorporation certificate
Certificate of approval by capital Markets authority
Copy of PIN number card
Fund managers license
Capital Markets Authority Act.
25
MOF reviews application and approves in principal and sends to KRA Commissioner for vetting.
26
DTD, receives document and image scanned and sent to P&L through ITMS.
Application Amended
27
P&L completes vetting Application for completeness and in compliance with IT Act.
28
OK?
No
29
Applicant contacted to correct Application documents as required.
Yes
30
Trust Deed Required?
C


C
31
P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
32
Final Trust Deed and Rules image scanned into ITMS for refernence.
33
Exemption certificate is prepared in ITMS with serial number automatically assigned, and scheme details entered, with Station accessing through ITMS for reference in Audits, etc.
34
Applicant submits sceme accounts yearly to HQ P&L to review compliance with IT Act
35
Station Compliance completes review of Capital Goods purchase and install to ensure as outlined in application. Investment Venture Capital audited to ensure compliance to Application as approved
Stop

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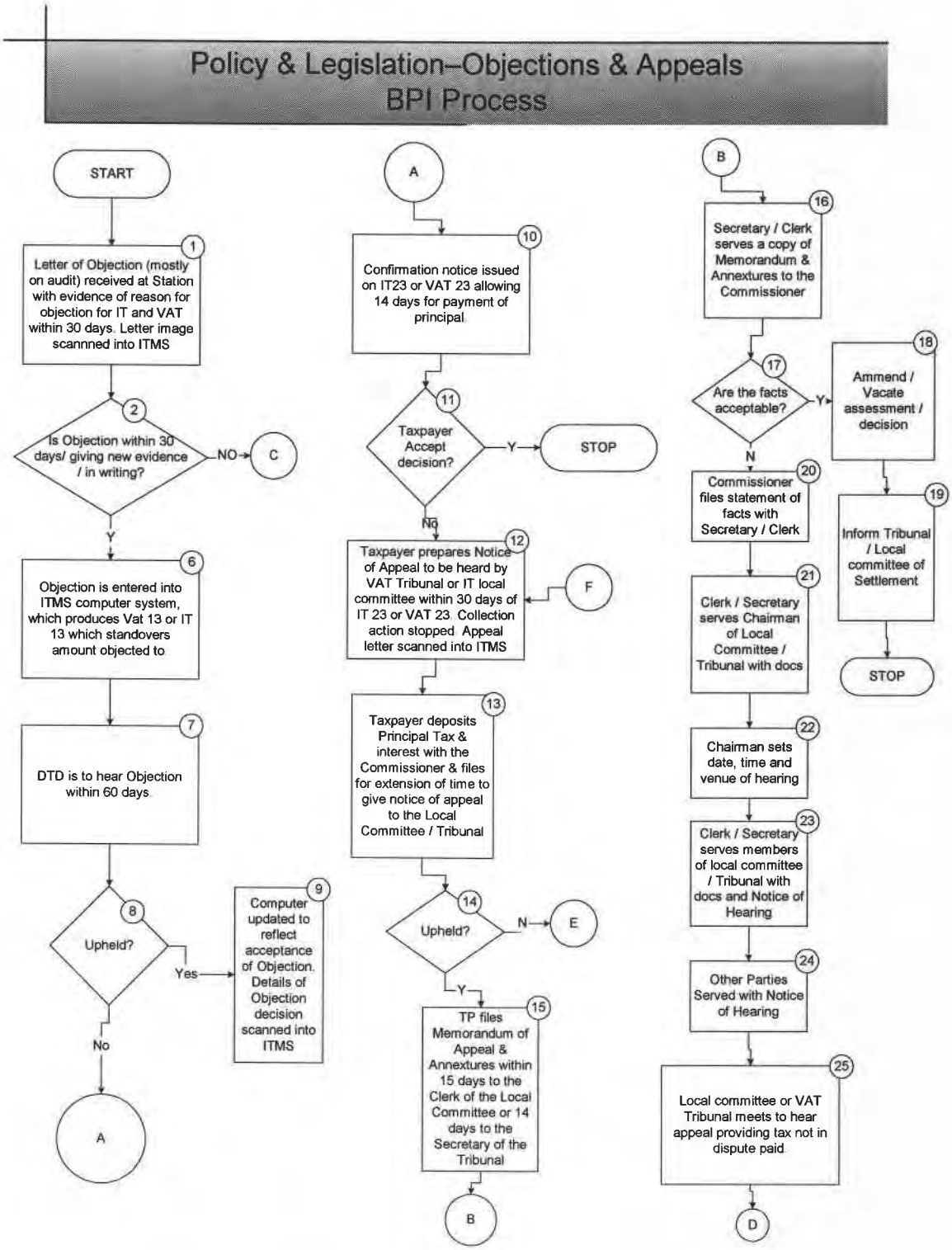
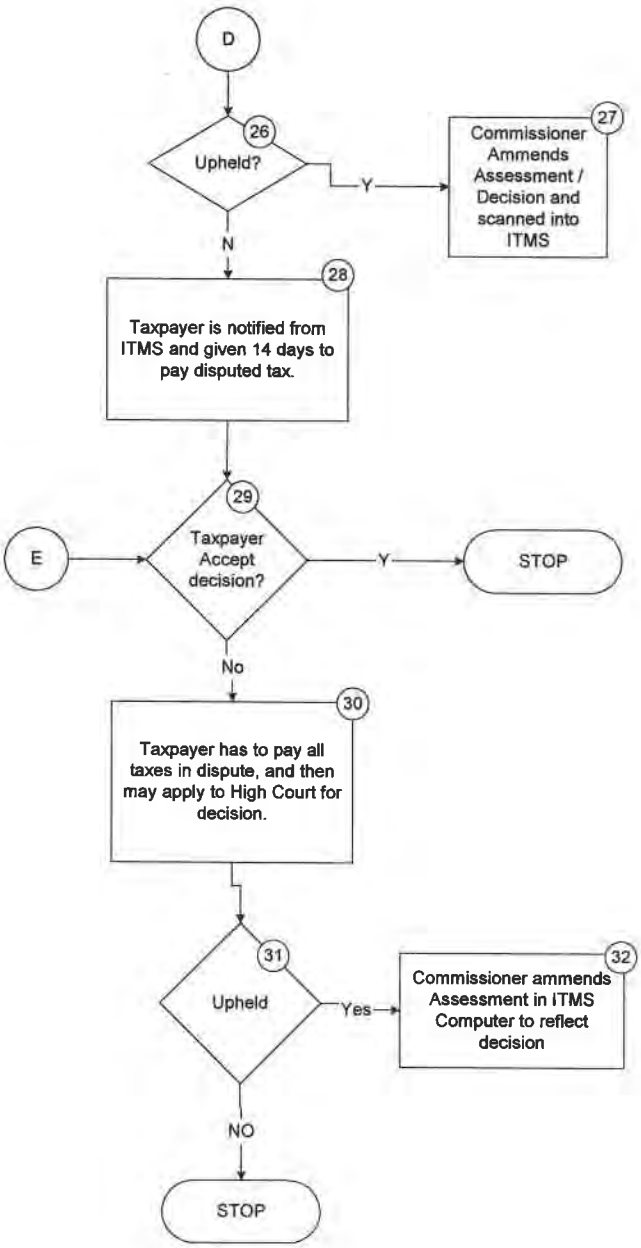
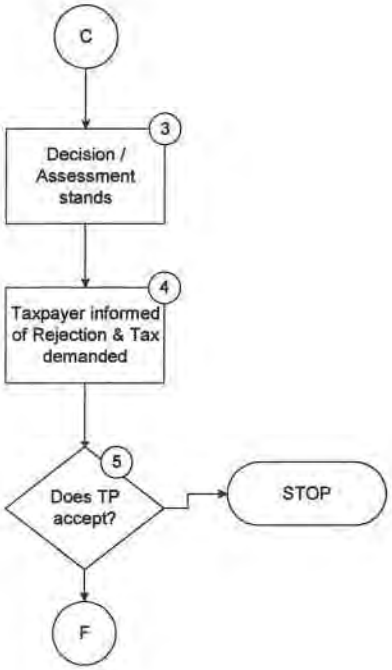
Policy and Legislation – Objections and Appeals
Business Process Improvement

1. Letter of Objection (mostly on audit) received at Station with evidence of reason for objection for IT and VAT within 30 days. Letter image scanned into ITMS
2. *Is Objection within 30 days/ giving new evidence / in writing?*
3. No? Decision / Assessment stands
4. Taxpayer informed of Rejection & Tax demanded
5. *Does TP accept?*
6. If yes? Objection is entered into the IT or VAT computer system, which produces VAT 13 or IT 13 which stand over amount objected to.
7. DTD is to hear Objection within 60 days.
8. *Upheld?*
9. Yes, Computer updated to reflect acceptance of Objection. Details of objection decision scanned into ITMS.
10. If not, Confirmation notice issued on IT23 or VAT 23 allowing 14 days for payment of principal.
11. *Does Taxpayer Accept decision? Stop*
12. No? Taxpayer prepares Notice of Appeal to be heard by VAT Tribunal or IT local committee within 30 days of IT 23 or VAT 23. Collection action stopped. Appeal letter scanned into ITMS
13. Taxpayer deposits Principal Tax & interest with the Commissioner & files for extension of time to give notice of appeal to the Local Committee / Tribunal
14. *Upheld?*
15. Yes? TP files Memorandum of Appeal & Annexure within 15 days to the Clerk of the Local Committee or 14 days to the Secretary of the Tribunal
16. Secretary / Clerk serves a copy of Memorandum & Annexure to the Commissioner
17. *Are the facts acceptable?*
18. Amend / Vacate assessment / decision
19. Inform Tribunal / Local committee of Settlement
20. Commissioner files statement of facts with Secretary / Clerk
21. Clerk / Secretary serves Chairman of Local Committee / Tribunal with docs
22. Chairman sets date, time and venue of hearing
23. Clerk / Secretary serves members of local committee / Tribunal with docs and Notice of Hearing
24. Other Parties Served with Notice of Hearing
25. Local committee or VAT Tribunal meets to hear appeal providing tax not in dispute paid.
26. *Upheld?*
27. Yes? Commissioner Amends Assessment / Decision which is scanned into ITMS
28. No? Taxpayer is notified from ITMS and given 14 days to pay disputed tax.
29. *Taxpayer Accept decision?*
30. NO? Taxpayer has to pay all taxes in dispute, and then may apply to High Court for decision.
31. *Upheld?*
32. Yes? Commissioner amends Assessment in ITMS Computer to reflect decision


Policy & Legislation–Objections & Appeals
BPI Process
START
1
Letter of Objection (mostly on audit) received at Station with evidence of reason for objection for IT and VAT within 30 days. Letter image scannned into ITMS
2
Is Objection within 30 days/ giving new evidence / in writing?
NO
C
Y
6
Objection is entered into ITMS computer system, which produces Vat 13 or IT 13 which standovers amount objected to
7
DTD is to hear Objection within 60 days.
8
Upheld?
Yes
9
Computer updated to reflect acceptance of Objection. Details of Objection decision scanned into ITMS
No
A
A
10
Confirmation notice issued on IT23 or VAT 23 allowing 14 days for payment of principal.
11
Taxpayer Accept decision?
Y
STOP
No
12
Taxpayer prepares Notice of Appeal to be heard by VAT Tribunal or IT local committee within 30 days of IT 23 or VAT 23. Collection action stopped. Appeal letter scanned into ITMS
F
13
Taxpayer deposits Principal Tax & interest with the Commissioner & files for extension of time to give notice of appeal to the Local Committee / Tribunal
14
Upheld?
N
E
Y
15
TP files Memorandum of Appeal & Annextures within 15 days to the Clerk of the Local Committee or 14 days to the Secretary of the Tribunal
B
B
16
Secretary / Clerk serves a copy of Memorandum & Annextures to the Commissioner
17
Are the facts acceptable?
Y
18
Ammend / Vacate assessment / decision
19
Inform Tribunal / Local committee of Settlement
STOP
N
20
Commissioner files statement of facts with Secretary / Clerk
21
Clerk / Secretary serves Chairman of Local Committee / Tribunal with docs
22
Chairman sets date, time and venue of hearing
23
Clerk / Secretary serves members of local committee / Tribunal with docs and Notice of Hearing
24
Other Parties Served with Notice of Hearing
25
Local committee or VAT Tribunal meets to hear appeal providing tax not in dispute paid.
D


D
26
Upheld?
Y
27
Commissioner Ammends Assessment / Decision and scanned into ITMS
N
28
Taxpayer is notified from ITMS and given 14 days to pay disputed tax.
29
E
Taxpayer Accept decision?
Y
STOP
No
30
Taxpayer has to pay all taxes in dispute, and then may apply to High Court for decision.
31
Upheld
Yes
32
Commissioner ammends Assessment in ITMS Computer to reflect decision
NO
STOP


C
3
Decision / Assessment stands
4
Taxpayer informed of Rejection & Tax demanded
5
Does TP accept?
STOP
F

6.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

Exemptions

- Exemption certificates and related documents will be viewed by anyone authorized to do so, and associated with the PIN. There is a savings in administration and file storage, while improving service level to applicants.
- Performance indicators will be available to authorized persons.
- Mail tracking will improve control of documents.

Remissions

- Service level to Taxpayers and Diplomats will be increased.
- Improved Control over use of Remissions and Exemption applications.
- Performance Indicator reporting for Management decisions.
- Instant reporting of number and amount of tax relief afforded to applicants.

Pensions

- Exemption certificates and related documents will be able to be viewed by anyone authorized to do so, and associated with the PIN. There is a savings in administration and file storage, while improving service level to applicants.
- Performance indicators will be available to authorized persons.
- Mail tracking will improve control of documents.

Objection and Appeal

- Mail tracking will allow record keeping of all correspondence to and from the Taxpayer.
- Performance reporting will provide service level reporting for management actions.
- Instant reporting of number of O&A, amount of principal and interest in suspension.

Legislation

- Time of distribution of proposed legislative changes will be significantly reduced.
- Security and confidentiality of documents and possible budget speech implications will be controlled.
- Communication within DTD and MOF will be improved when all invited group users will be able to see each others comments and proposals.

6.4 Challenges

The challenges that would have to be considered are as follows:

- There will be a challenge in getting Ministries trained, and using the Remission and Exemption module.
- Training and administering public users will be equally challenging.
- It will to be necessary to get taxpayers accounts updated with Objections and Appeals if Stations have not been using the current system.
- Providing a level of support to users in MOF, MOFA, Taxpayers and Diplomats will also be challenging.
- In the case of P&L, ensuring that DTD managers are using the DTD system on a daily basis, and participate in the responses.

6.5 Performance Management

To manage work loads, direct staff to the most sensitive areas of Agency Revenue, and obtain basic information for management decisions, performance indicators produced from the System must be in place. The performance indicators are to be displayed graphically and in report format on screen and in printed copy. **The performance indicators may be varied from time to time and must be easily adjustable in the computer systems, and reporting must be in both standard and ad-hoc modes.**

While the following list may not be complete, it is an indication of the type of reporting that must be available in the new DTD Integrated Tax Management System.

- From the Remissions module, a total number of remissions and exemptions received by day, week, and month should be produced;
- The total number of remissions and exemptions approved and rejected by day, week, and month;
- Value of Tax under remission and exemption daily, weekly, monthly by type, organization or individual;
- Number of remissions or exemptions processed by individual, by type;
- Number of remissions or exemptions processed according to workload targets;
- Amount of principal and interest under Objection and Appeal;
- Objections or Appeals that are past the target completion date; and
- Pension and other Tax relief schemes received and time of processing versus targets.

7. Revenue Forecasting

Tax analysis and revenue forecasting have become increasingly important functions as governments undertake reforms of their tax systems to enhance revenues, improve the equity and efficiency of taxes, and promote investment and exports. In addition, fiscal and tax policy stability are increasingly recognized as key to promoting private sector investment. The importance of having the capacity to deal with these key tax policy issues has prompted governments in an increasing number of countries to seek the development of in-house skills and aptitudes in tax analysis and revenue forecasting.

7.1 Current Process

The Kenya Revenue Authority (KRA) is often asked for "what if" scenarios of changing tax law or rates of taxation policies. The Ministry of Finance (MOF) is the final decision maker on Government policy, legislation and tax rates, but seeks a heavy input from the KRA in making these decisions. The process of preparing "what if" scenarios is time consuming and labor intensive, given the level of technology availability in the KRA.

Additionally, Strategic Planning Support is not as vibrant as is often found in other tax administrations. Besides the "what-if" scenarios that are addressed, the ability to carefully plan budgets for staff deployments, hiring, training, etc. to address increase and decreased workloads is not as effective as it could be if the level of technology and processes were made available.

7.2 Business Process Improvement

The infrastructure of the modernized tax and revenue system enables usable data/information with the implementation of e-commerce technologies (Internet, Kiosk and telephone) and capture technologies such as Optical Character Recognition (OCR) and Image Character Recognition (ICR). The amount of data/information available in computer useable format increases from 40 to 100 percent.

The increase in the data/information available coupled with the use of external sources of information such as demographic (census) or market segment/trade will assist administrators in the planning and execution of tactical and strategic objectives to improve compliance.

Availability of up-to-date information and appropriate data exploitation tools are the two key elements to support better strategic planning for tax and revenue agencies/departments. Moreover, changes such as workload growth, public demand for better services, economic pressures and periodic tax legislation amendments require effective planning, analysis and forecasting capabilities. Fast responses to *ad hoc* queries and what-if analyses are often required. The Management Information System can provide entities with integrated financial, management and activity, staffing and performance information.

This forecasting function will provide a system to collect data from various applications and analyze data for decision-support. This system should be able to provide a more efficient means of decision making by analyzing large volumes of historical and production data. The project would include a data warehouse, which could contain integrated agency/departmental-wide data and minimize the impact of information enquires on the performance of operational systems. Moreover, this effort should provide a single entry to access both systems - the existing Management Information System and the Strategic Planning Support System.

With the forecasting system, an entity can improve the responsiveness to requests for analytical information, projections and what-if analyses for strategic planning. It will also provide more timely and accurate information for management decisions, and reduce system development and support effort.

Major Functionalities:
A Strategic Planning System (SPS) should have these functions:

- Provide regular reports.
- Have a GUI (graphic user interface) based, user-friendly enquiry tool (i.e. point-and click, pull-down menu, etc.).
- Give On-line Analytical Processing (OLAP) capability, such as what-if analysis, historical data analysis, and trend analysis.
- Allow ad-hoc query by users with "drill-down" capability (i.e. query following detail levels).
- Have rich graphical presentations for output (such as pie chart, bar chart, 2-D and 3-D graphs and imbedded images).

There should be no noticeable performance impact to any production system or requirement for the SPS to receive up-to-date data instantly.

A data warehouse differs from those operational databases that people most often use. A data warehouse allows OLAP while an operational database is mainly for On-line Transaction Processing (OLTP). Data analysis is often an intensive query process with a large amount of data and can not be handled in an OLTP system. Therefore, a model that reflects the requirements of the query and analysis work should be chosen.

7.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- With a clear picture of important business figures and trends, operational decision-making would be improved. The ability to carry the analysis further with "what-if" scenarios would help to predict possible consequences of changing various business factors. For example, users could predict what additional revenue would be achieved if the tax rate of a specific group is raised by 5%, or how much would be saved on staff overtime if productivity is raised by 5 %.
- The OLAP tools would also provide the potential to produce colorful graphic presentations such as bar and pie charts, 3-D graphics, etc., so that differences and trends would be readily apparent without digging into hundreds of figures for comparison.

7.4 Challenges

The challenges that would have to be considered are as follows:

- A project should begin after all required data sources have been made available.
- Sufficient user training should be provided to major users, especially to those knowledgeable workers, who need to perform data analysis and what-if analysis.
- Identifying what data sources are to be used.
- Having a set of suitable tools for data extraction, conversion and loading.
- Designing an appropriate data model.
- Developing templates for ad-hoc queries.

8. Agency Revenue

KRA DTD collects revenue on behalf of several other Government entities. KRA receives a fee of 1.5% for collecting on behalf of the organizations for Kenya Bureau of Standards Levy (KBS), Sugar Development Levy (SDL), and Stamp Duty (SD) for the sale of property.

Each of these three revenue collections operate via KRA designed forms, with SDL and KBS being returns due on the 20th of each month. SD is handled on a transaction-by-transaction basis.

Agency Revenue	Approximate Volume of Transactions	Approximate Revenue Collected in KSh (March 2006)
Standards Levy	3,600 per month	1,779,885.10
Sugar Development Levy	20-25 per month	42,716,964.75
Stamp Duty	4000 per month	87,105,979.55

8.1 Current Process

- The taxpayer takes the return (SL3 for KBS, or SDL2 for SL) or completed SD1 form (which is completed by the land registry office) to a commercial bank in three (3) copies. The Bank marks all copies "Paid," giving one copy to the Taxpayer. In the case of KBS and SDL, the bank keeps one copy.

- The KRA retrieves the copies of all SDL2, SL3 and SD1 from the bank the following day for the previous day's transactions. KRA also obtains the commercial bank statement for each agency revenue account, and in the case of Stamp Duty a second bank statement is collected. The commercial bank transfers by Electronic Funds Transfer (EFT) to the KRA Central Bank of Kenya (CBK) accounts at the end of each day for the money collected.

- Returns, forms and bank statements are brought to KRA for processing. One copy of the bank statement and copy 3 of the SD1 form are delivered to the Land Registry Office.

- In the case of Stamp Duty, the SD1 form is brought to the Collections and Compliance Section of KRA DTD where the payment information is keyed into the DTD computer. The return is then sent to Returns Processing for data entry of details into the DTD computer system. Collections and Compliance completes the reconciliation between the bank statement and SD1 forms received.

- Subsequent reconciliation is completed between the CBK EFT statements and the commercial bank statement in Collections and Compliance. The Land Registry office is also able to confirm payments by going online to the commercial banks.

- Standards Levy process is similar to Stamp Duty in process, with the exception being that the payment, return processing, and reconciliation are completed in Compliance & Collection.

- Sugar Levy follows a slightly different process, in that Agency Revenue calls Stations to obtain the previous day's transactions, and then reconciles the SDL2 with commercial bank statements. Finance completes the reconciliation of the commercial bank statement with the

CBK EFT statement. There are only 22 SDL2 returns expected each month, which are handled by three (3) Stations.

- Compliance and Collection monitors the SL and SDL returns for non-filers and return pattern variation.

8.2 Business Process Improvement

- *Excessive Paperwork:* Excessive paperwork and steps make the Agency Revenue process time-consuming and difficult for both taxpayers and the Revenue Authority.

✓ **Solution (*IT/Procedural*):** The processing for all the Agency Revenue should be by *mandatory* e-filing of returns and SD forms. The Taxpayer will complete the form over the Internet on KRA computer site or on his/her own computer and then transmit over the Internet to KRA. In the case of Stamp Duty, the e-filing will be completed by the Land Registry Office. **The decision of how the data gets into the computer will be discussed later in the project, and is subject to an ICT decision.**[11]

The Taxpayer would then go to the bank with his/her PIN number. The bank will call up the transaction from KRA computers by entering the Taxpayer PIN number, and will see all transactions that are waiting for payment (Numerous DTD returns are due on the same day.) The bank will accept payment and print receipt from KRA system showing the date and time of payment. **The decision if the Taxpayer can pay for all returns due with one check and obtain one detailed receipt, or pay each one individually and obtain separate receipt for each will be determined in the ICT portion of this study.**

The return should be reviewed for quintessence in relation to other returns submitted. Possible irregularities should be investigated and may possibly be a foundation for audit selection.

Computerized reconciliation of each transaction can be completed with proper data from the CBK EFT reports that are received in hard and soft copy each day for the previous day's transactions.

Other than submissions to Treasury or KRA Board of Directors, hard copy reports will no longer be required to be assembled each day, week or month. Any KRA employee with the correct user rights can see the revenue reports status in numbers and graphically for any period of time, day, week month, year to date, previous years, etc.

As most non-individuals and government stake holders in Agency Revenue today are computerized and have access to the Internet, it is not envisioned that there will any difficulty in implementing e-filing. Commercial Banks are already using a similar process with Customs & Excise Department of KRA.

- Volume of returns by tax type reported daily, weekly, monthly, and year to date reported by Stations and DTD total against budget.
- Number of return review completed by employees on daily, weekly and monthly basis.
- Number of returns completed by employees while in the "return review" module.

[11] The process for electronic reconciliation is dealt with in the revenue accounting and EFT sections of this document

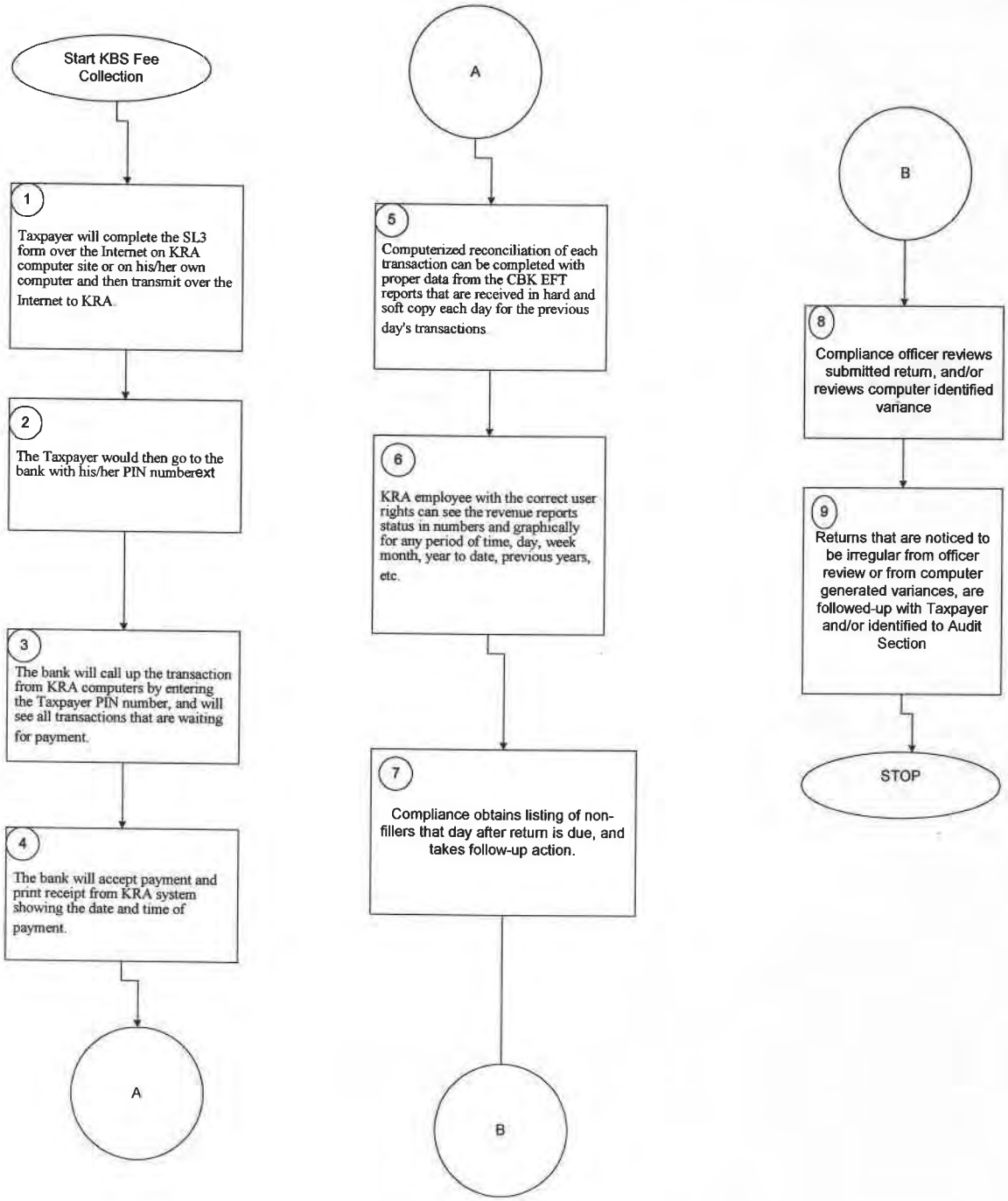
- Number of returns that were flagged for further review action by Compliance and Collection or Audit.
- Results of returns that were reviewed and resulted in amendment, and number not resulting in amendment.
- Results of return review by employee, and with comparison to other employees.
- Computerized reporting of returns that show a variance of tax paid to a history of previous returns over the past quarter, half-year, and year when the variance is more than a set percentage.

Kenya Bureau of Standards Levy
Business Process Improvement*

1. Taxpayer will complete the SL3 form over the Internet on KRA computer site or on his/her own computer and then transmit over the Internet to KRA.
2. The Taxpayer would then go to the bank with his/her PIN number.
3. The bank will call up the transaction from KRA computers by entering the Taxpayer PIN number, and will see all transactions that are waiting for payment.
4. The bank will accept payment and print receipt from KRA system showing the date and time of payment.
5. Computerized reconciliation of each transaction can be completed with proper data from the CBK EFT reports that are received in hard and soft copy each day for the previous day's transactions.
6. KRA employee with the correct user rights can see the revenue reports status in numbers and graphically for any period of time, day, week month, year to date, previous years, etc.
7. Compliance and Collection obtains listing of non-fillers that day after return is due, and takes follow-up action.
8. Compliance and Collection officer reviews submitted return, and/or reviews computer identified variance.
9. Returns that are noticed to be irregular from officer review or from computer generated variances, are followed-up with Taxpayer and/or identified to Audit Section.

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

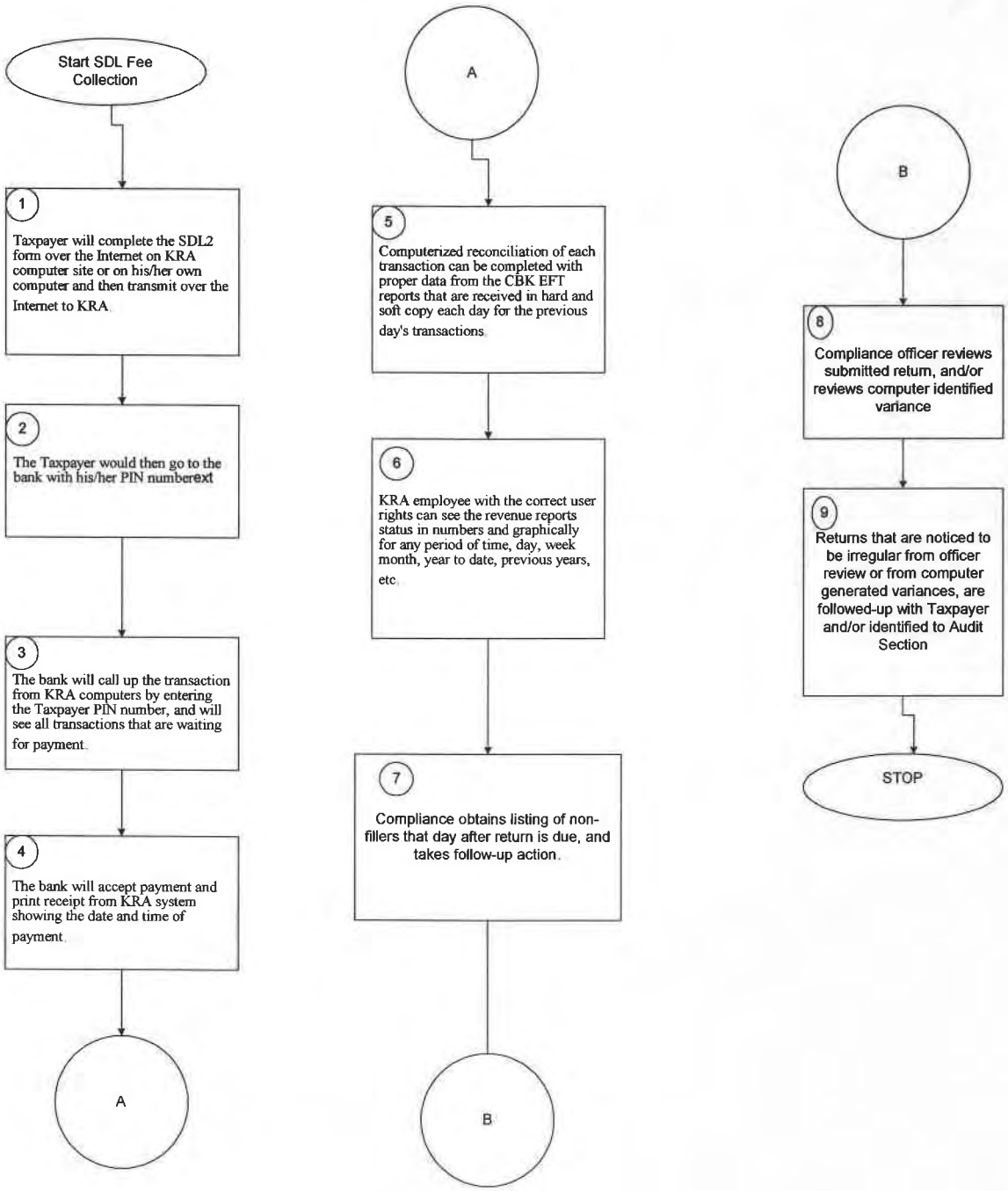
Agency Revenue-KeBS Levy BPI Process



Sugar Development Levy
Business Process Improvement

1. Taxpayer will complete the SDL2 form over the Internet on KRA computer site or on his/her own computer and then transmit over the Internet to KRA.
2. The Taxpayer would then go to the bank with his/her PIN number.
3. The bank will call up the transaction from KRA computers by entering the Taxpayer PIN number, and will see all transactions that are waiting for payment.
4. The bank will accept payment and print receipt from KRA system showing the date and time of payment.
5. Computerized reconciliation of each transaction can be completed with proper data from the CBK EFT reports that are received in hard and soft copy each day for the previous day's transactions.
6. KRA employee with the correct user rights can see the revenue reports status in numbers and graphically for any period of time, day, week month, year to date, previous years, etc.
7. Compliance obtains listing of non-fillers that day after return is due, and takes follow-up action.
8. Compliance officer reviews submitted return, and/or reviews computer identified variance.
9. Returns that are noticed to be irregular from officer review or from computer generated variances are followed-up with Taxpayer and/or identified to Audit Section.

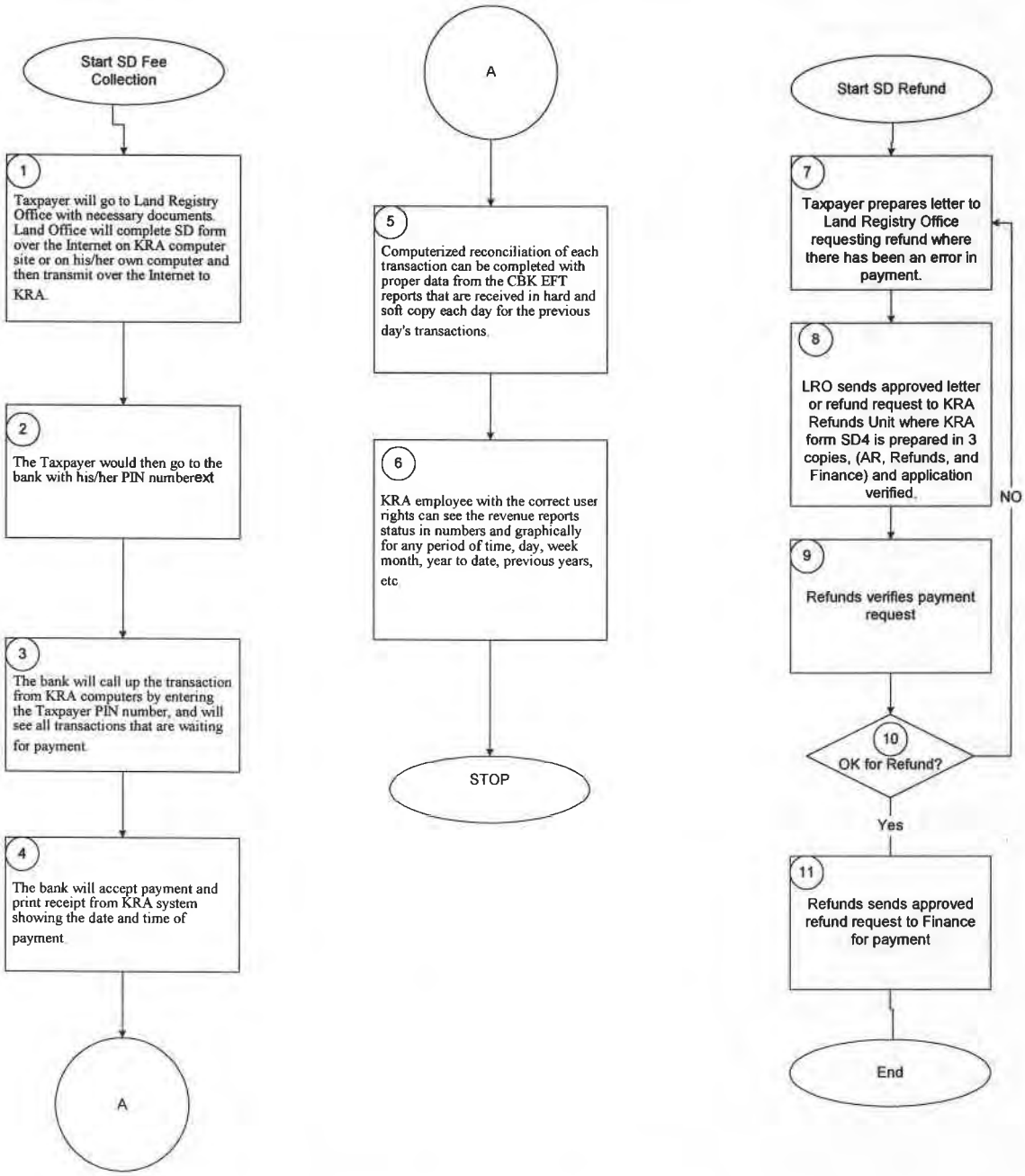
Agency Revenue-Sugar Development Levy BPI Process



Stamp Duty
Business Process Improvement

1. Taxpayer will go to Land Registry Office with necessary documents. Land Office will complete SD form over the Internet on KRA computer site or on his/her own computer and then transmit over the Internet to KRA.
2. The Taxpayer would then go to the bank with his/her PIN number.
3. The bank will call up the transaction from KRA computers by entering the Taxpayer PIN number, and will see all transactions that are waiting for payment.
4. The bank will accept payment and print receipt from KRA system showing the date and time of payment.
5. Computerized reconciliation of each transaction can be completed with proper data from the CBK EFT reports that are received in hard and soft copy each day for the previous day's transactions.
6. KRA employee with the correct user rights can see the revenue reports status in numbers and graphically for any period of time, day, week month, year to date, previous years, etc.
7. Taxpayer prepares letter to Land Registry Office requesting refund where there has been an error in payment.
8. LRO sends approved letter or refund request to KRA Refunds Unit where KRA form SD4 is prepared in 3 copies, (AR, Refunds, and Finance) and application verified.
9. Refunds verifies payment request.
10. *If not okay for refund, letter of application is rejected and sent back to Land Registry Office.*
11. Refunds sends approved refund request to Finance for payment.

Agency Revenue-Stamp Duty BPI Process



8.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- Taxpayers would benefit by having an electronic system to assist in the calculation of tax due by eliminating manual calculations. The Taxpayer also benefits from the reduced amount of paperwork by not having to take forms to the bank.
- This process will go a long way to streamlining the DTD processes and eliminating substantial daily work in Return Processing, Compliance and Collection and Finance. DTD will be able to see the payments made immediately after the transaction. Compliance and Collection can easily monitor non-filers with lists than can be produced from the Station either on-screen or in hard copy for follow-up action.
- The new BPI process also straightens some of the inconsistencies in DTD current processes where for example, reconciliations are completed in Compliance and Collection for Agency Revenue and in Finance for others.
- The instant on-demand report generation will eliminate the requirement for manual report creation. Managers will be able to instantly see all activity in the Agency Revenue collection activity.

8.4 Challenges

In implementing Agency Revenue e-filing there are a number of challenges that have to be addressed.

- Reaching an agreement by ICT and business managers in regard to technology, business practice, and political sensitivity of ease of e-file implementation and support.
- Developing a communication strategy to Taxpayers in regard to mandatory e-filing for Agency Revenue that is in line with other mandatory and elective e-filing initiatives contained in other chapters in this document.
- Reaching an agreement with commercial banks, and possible CBK on the payment procedures based on the business practices and ICT solution chosen.
- Developing an effective education and training program for Taxpayers that is easy for them to learn.
- Obtaining EFT data from the CBK for commercial bank collection that complies with the KRA format in order to complete effective electronic reconciliation.
- Ensuring that the mandatory e-filing system is available in 24/7 fully supported with Taxpayer help lines.
- Preparing a human resource plan for implementing e-filing where there will be a reduction in data capture and records management staff, training requirements and a change in the way officers currently work in switching from hard copy reviews to computer screen review.

8.5 Performance Management

To manage work loads, direct staff to the most sensitive areas of Agency Revenue, and obtain basic information for management decisions, performance indicators produced from the System must be in place. The performance indicators are to be displayed graphically and in report format on screen and in printed copy. **The performance indicators may be varied from time to time and must be easily adjustable in the computer systems, and reporting must be in both standard and *ad hoc* modes.**

While the following list may not be complete, it is an indication of the type of reporting that must be available in the new DTD integrated tax system.

- Revenue collection by tax type on demand for various time periods such as day, week, month by Stations and DTD total.
- Revenue collection reported against target collections by tax type for progress of month to date, end of month, year to date, and be by Stations and DTD total.

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9. Electronic Tax Register (ETR)

The Electronic Tax Register (ETR) is a newly implemented program of the KRA. The program is designed to provide tamper-proof receipts of sales for the purpose of verifying VAT returns.

9.1 Current Process

There are approximately 30 staff members in DTD headquarters and Stations for Technical & Enforcement. Enforcement currently includes programs of recruitment, education, assistance to taxpayers, and enforcement for the issuing of ETR receipts.

The taxpayer ETR consists of 1 of 3 devices that is supplied and maintained by a private company. The devices range from cash machine type, receipting from merchant sales computer system (one type of technology), and signature device (another type of technology) for non-individuals such as consulting firms. The ETR devices are licensed and approved by KRA, and must include specific security features (8 levels) that eliminate the possibility of tampering with the device. The memory in the devices must hold up to 5 years of transactions, and have appropriate battery back-up. Each model of a device has unique serial number (printed on all receipts and reports.) The DTD also approves the supplier and ensures that their taxes are paid up to date.

> ETR programs have been successfully implemented in Italy and Greece, and the UK is in the process of starting implementation. The EU is about to approve ETR in general for all member countries.

Auditors go to the premises of the taxpayer and connect to each installed device or main computer at large retail stores where the data is installed, to download transaction detail to a laptop to be used in verifying the VAT returns. The detail can be downloaded in a transaction by transaction basis, or in a summary of daily receipts format. A specific audit module that includes ETR data is being developed now.

9.2 Business Process Improvement

For the ETR, the current process is documented, and no BPI was undertaken due to the fact that the program is new and the processes are well documented. The ETR is yet to be fully implemented due to legal challenges by some Taxpayers.

9.3 Benefits/Impact

The benefits that can be derived from implementing the above improvements are:

- As tamper-proof devices capable of documenting sales receipts, instances of fraud and mis-reporting of VAT returns should drastically decrease.
- Each device has the capability to transmit data directly to the KRA in the future, should such service be created.

9.4 Challenges

The challenges that would have to be considered are as follows:

- The procedure for deleting data from ETR devices needs to be outlined, and a determination should be made as to whether the KRA and/or the taxpayer can delete data.
- The amount of staff allocated to the ETR program is small given the large amount of recruitment, advice, and training that has to be completed.
- The implementation and enforcement of the ETR program is currently a major undertaking, and will continue to be while the legal challenges are being settled.

9.5 Performance Management

- Consistent and accurate data extraction from devices, and from major retailer computers.
- Measure of the overall increase in VAT collections against the target for ETR implementation.
- Measure of the increase by Taxpayer, by Station, and by sector.
- Staff allocation of time for audit on ETR sites versus non-ETR sites.

10. Records Management

Records Management refers to the planning, organizing, training, and promoting of records creation, maintenance, and use, in order to achieve adequate and proper documentation of the policies and transactions of Taxpayers and effective and economical management of Kenya Revenue Authority (KRA) operations. Records management apples to hard copy database files, scanned images, and hard copy documents.

10.1 Current Process

The Domestic Tax Department has records for taxpayers' returns in separate files for VAT, IT, Agency Revenue, Excise, etc. These are in the process of being combined into one taxpayers file with the integration of departments into DTD. Returns are received in the Stations' records management area after returns have been data processed in return processing. There are significant delays in data processing of IT returns; therefore if one wants to find a return, they must manually search through received returns. Returns from outside Nairobi are sent for centralized return processing, and then returned to the Stations for filing.

There are separate registries for incoming and outgoing mail. These are recorded in register books and dispatched to various officers/sections within DTD. The Commissioner's registry sees correspondence put in register book and then transferred to the Commissioners executive assistant, who either gives to the commissioner or sends to another party as required. There is correspondence that is hand-delivered to KRA, along with faxes that are not entered into any registry.

Given the above, it is very difficult to set and report on any type of performance measurement standards, or locate a complete file on any one Taxpayer. It is also difficult to purge files when they have exceeded the intended legal life, thus requiring more storage space than would normally be required.

DTD is actively looking at records management, and implementing some changes to combine files to make them available in one location. Significant business advantages can be obtained if DTD, if not KRA, records management was upgraded to a modern electronic tracking and handling system.

10.2 Business Process Improvement

DTD could improve business practices if a modern records management system was put into place. The Records Management system is unlikely to be included in an ITMS COTS system. Therefore, a stand-alone system could be implemented now as a quick win while waiting for the ITMS systems. The ITMS system will have a link to the Records Management system, and vice versa, so that one can go back and forth by taxpayers PIN number.

- *Manual Processes:* Given the highly manual process of document management and transfer, it is extremely difficult to quickly and efficiently find and retrieve relevant taxpayer documentation as needed.

✓ **Solution (*IT/Organizational*):** The implementation of an effective Records Management system will require the establishment of a Document Reception Area (DRA) where all hard copy documents will be required to be lodged. The DRA will scan the document using the appropriate module (returns, letters, etc.) and entering the PIN number, with the date being automatically assigned. In the case of the correspondence module, the subject matter will be entered, and the

addressee will be notified that there is mail to be reviewed. The returns and correspondence will be marked with the computer generated file location and sent to the Achieves for filing if a letter, as the hard copy will not longer be needed for day to day work. Returns will be sent to returns processing who will complete the data processing, and then send the documents to the Archives. The documents are available immediately for viewing, except in the case of Stations outside of Nairobi, in which case the image will be transmitted over night to the centralized Records Management system.

In the case of returns, the image will be available almost immediately; therefore Compliance could easily see that a return has been filed without having to look for the hard copy. In the case of correspondence, the Records Management system can report on the location of any letter, which will allow the forwarding of letters to others for action. In addition, the system would be able to report on the movement history, including reporting on correspondence performance guidelines and reporting those letters that are outside of the DTD response time standard.

Hard copy records that are retrieved from the archives receive a new file locator number when they are returned. They are not placed back into the same spot that they were retrieved from, thus saving re-filing time. Records that have met the destruction time period set at the time they are entered into the system are listed for action. When confirmed that there is no ongoing action, the hard copy records are retrieved and destroyed.

The implementation of a Records Management system will be the solution to combining all Taxpayers files into one location in an electronic format, and not require physical combining of files. The effective implementation of a Records Management System will require and separate extensive study to ensure that all aspects of KRA DTD document processes are accounted for. The procedure for classifying non-associable Taxpayer files requires addressing. There are a number of commercial off the shelf software systems that are available that can be modified to suit DTD immediate needs. There is not requirement to wait for the ITMS implementation in the future.

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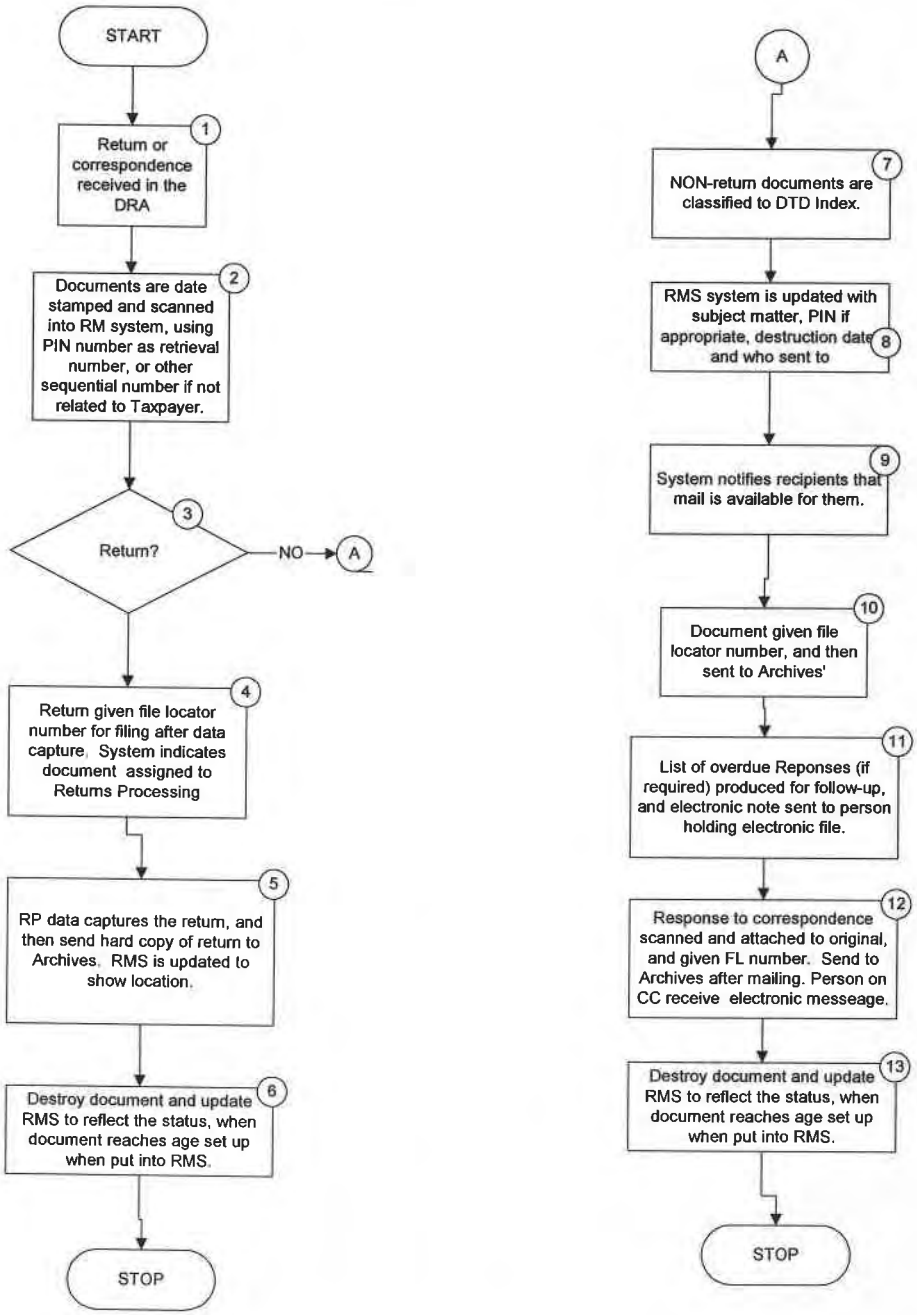
Records Management
Business Process Improvement*

1. Return or correspondence received in the DRA
2. Documents are date stamped and scanned into RM system, using PIN number as retrieval number, or other sequential number if not related to Taxpayer.
3. *Return?*
4. Return given file locator number for filing after data capture. System indicates document assigned to Returns Processing
5. RP data captures the return, and then send hard copy of return to Archives. RMS is updated to show location.
6. Destroy document and update RMS to reflect the status, when document reaches age set up when put into RMS.
7. NON-return documents are classified to DTD Index.
8. RMS system is updated with subject matter, PIN if appropriate, destruction date, and who sent to
9. System notifies recipients that mail is available for them.
10. Document given file locator number, and then sent to Archives'
11. List of overdue Reponses (if required) produced for follow-up, and electronic note sent to person holding electronic file.
12. Response to correspondence scanned and attached to original, and given FL number. Send to Archives after mailing. Person on CC receive electronic message.
13. Destroy document and update RMS to reflect the status, when document reaches age set up when put into RMS.

* The improved processes outlined in this report do not always mean a streamlining of operations by a reduced number of steps. The objective of the BPI is to increase collections and strengthen the KRA's integrated system. For certain processes, the improvements may actually result in an increased number of steps.

Mail and Records Management BPI Process



10.3 Benefits/Impact

The benefits of implementing an electronic Records Management system include:

- Greatly improved documents control;
- Significantly improved retrieval and viewing of Taxpayer files;
- Performance measurement reporting;
- Offsite storage of hardcopy files under proper records management conditions, thus saving prime office space;
- Immediate information for compliance officers of return lodgment;
- Improved document destruction handling; and
- Ability to move documents electronically within KRA as required, even though hard copy has remained in the archives.

10.4 Challenges

The challenges that would have to be considered are as follows:

- Establishing procedures whereby all incoming and outgoing documents are placed in the records management system.
- Establishing a point where all filed documents are filed in the system so that a Taxpayer profile is complete in electronic view.
- Ensuring that the records management system is available consistently and that the communications infrastructure will allow large image files to be retrieved at remote stations.
- Classifying documents that do not meet PIN association requirement.
- Having infrastructure that allows heavy volume scanning.
- Training of users across DTD (and perhaps KRA-wide).

10.5 Performance Management

- Time taken to respond to correspondence received.
- Time from return receipt to data entry.
- Document destruction within the time limits established by KRA.

11. Internal Data Access: DTD, CSD, and RTD

The opportunity currently exists for two (2) Departments to provide access to Domestic Tax Department (DTD) via the Internet. The Customs Service Department (CSD) has information on imports and exports that can be used for verification of VAT refunds and for DTD audit confirmation; and for recruitment of persons who are importing or exporting into Kenya and are not in the DTD tax system. DTD access to Road Transport Department (RTD) would allow auditors view vehicle registrations to verify deductions, and would allow Debt Management to quickly find movable vehicle assets when destraint orders are being utilized for collection. [12]

11.1 Current Process

Currently PIN data is shared between all three departments (DTD, CSD, RTD) with DTD being the host of the data. Data is moved physically to RTD and CSD every two days. Both RTD and CSD have asked for real-time data access.

Additionally, at this time intelligence information is not shared within the KRA. There has been some expression of interest in this as it is thought that if there is smuggling in CSD or non-filers in DTD, that one could suspect fraudulence across all KRA transactions. [13]

11.2 Business Process Improvement

Quick Wins

- DTD and RTD should formally request access to the CSD Simba system. This would require DTD and RTD to outline the number of users they will want to have, and the data they would like to have access to (not all data should be available to all persons.) Training will be required in the use of the Simba system to allow RTD to verify serial numbers and duty paid status of imported vehicles. DTD Refunds will be able to verify exports for VAT refund and Excise returns.
- As a compliance and recruitment issue, ICT should be asked to take the PIN numbers of persons that are in the Simba systems and do a comparison to find the corresponding PINs in the IT and VAT returns. A list of people not found in the DTD systems, if any, should be give to Taxpayer Recruitment. If persons are importing and exporting, it is likely the volume of business would indicate a requirement to be registered in VAT.
- ICT should also be asked to compare the PIN numbers of persons who are registered owners of vehicles against the IT returns. Persons owning a vehicle are highly likely to have enough financial earnings that they should be in IT net. A list of persons not in the IT system should be given to recruitment for follow-up action. It is understood that the owning a car may not mean that a person should be in the tax net, but that is worth confirming.

In the new integrated tax system, the connection to other RTD and CSD can be made seamless with a single login to the DTD system. Access to the approved areas of RTD and CSD based on the user profile will not require additional login as the servers will control the areas that a user is allowed to access **(please note that this feature is subject to ICT design.)**

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[12] Similarly, RTD requires access to Customs Service Department (CSD) import entries to verify that imported vehicles serial numbers are contained in the Customs information. Access to Customs data is technically available through the Internet, and simply requires a restricted read only user ID and password authorized by Customs. The area of access to the data can be restricted by user ID profile

[13] Flow charting is not presented for this section of the report as many practices are not structured in the current environment

Under the new Integrated Tax System, RTD and CSD should access PIN data from the DTD PIN system directly online. This will be helpful to RTD and CSD in verifying new PIN registrants.

In the design of the new DTD system it is envisioned that there will be a "One View" of a taxpayer accounts. This means that all KRA transactions will be available in one account window for each Taxpayer in that IT, VAT, Excise, Agency Revenue, RTD and CSD transactions will be in one account view **(data may be pulled from separate systems within DTD, and is subject to ICT design).** A Taxpayer will be able to see his/her account online. However, the enforcement actions that may be undertaken by Debt Management will not be seen by the Taxpayer. This One Window account will be able to have enforcement actions attached to it that would allow the seizure of imports and exports goods, stop the transfer of vehicles, and if possible stop the issuance of driver's licenses in some cases. A One Window account will also ensure that money is not paid by one Department while money is owed to another Department. The actual design of how the One Window account and enforcement actions are subject to change by ICT when they have looked at the whole DTD system, and the features of available off-the-shelf tax software.

The One Window accounting system could also be used to provide Taxpayer history from each Department. If a Taxpayer is caught smuggling by Customs, then the Taxpayer profile could indicate that, which would flag DTD to look closely at the transactions in their Department or vice-versa.

DTD Auditors, having the Customs transactions for verification of VAT and IT returns, will also be able to alert Customs to undervalued declarations based on the bank and sales and purchase records of the company being audited. This information would assist CSD in selecting Taxpayers for post audit. The knowledge that DTD had completed an audit within a certain time period, and had verified the CSD transactions, may help CSD not to select that importer for post audit. View-only access to the DTD audit records should be given to CSD for viewing completed audits. Audits that are scheduled by CSD or DTD should be made known to each other via the "One Window" account system by way of a flag that the taxpayer has been selected for audit.

Investigations should be able to put an invisible flag on a Taxpayer that is under their scrutiny, so that every transaction in KRA is immediately brought to their attention. This would also be best served under the One Window Accounts system. The One Window Account scenario will also have a field that will indicate that payment transactions have been verified to the CBK EFT statements. Transactions not verified will be notified to the finance in each department.

11.3 Benefits/Impact

There are many benefits to sharing data between Departments in the KRA and for the Taxpayer.

- The One Window account viewable online by the Taxpayer will ensure that the KRA accounts are correct. The Taxpayer will be able to verify the account and question any unrecognized or erroneous transaction on his/her account.
- For the KRA as a whole, sharing information between Departments means better accounting and Taxpayer profiles. It means better management information for all Departments and for KRA Headquarters.
- Debt collection and enforcement actions are greatly enhanced. Taxpayer recruitment will receive a boost from the compared information, as will compliance and audit in both DTD and CSD.

- The overall effect of the public understanding that the Departments within KRA are working as one unified force will assist with Taxpayer compliance.

11.4 Challenges

The challenges that would have to be considered are as follows:

- When comparing the quick win data comparison between departments for compliance and targeting recruitment purposes, the comparison must be for the years that returns data is available.
- DTD Recruitment and Compliance should identify employees with analytical minds and strong computer skills that can be trained to access and extract data. This data extraction and comparison will be a common operational function, both within DTD data sources and in the development of outside data sources, and should not continue to be an ICT task.

11.5 Performance Management

- Performance Management should be measured for the results for data excise within KRA, and should be reported within. Specific measurement and reporting is outlined in the sections on Compliance & Collections for DTD. [14]

[14] Performance measurement and reporting for RTD and CSD is not outlined in this report as it is outside of the DTD structure

Feasibility Study for Integrated Tax Management System

Final Report

Chapter 5

EXCLUDED FROM PUBLIC VERSION

Feasibility Study for Integrated Tax Management System

Final Report

Chapter 6

Deliverable from Tasks 3 & 4:
Procurement and Implementation Strategy for ICT

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Feasibility Study for Integrated Tax Management System

Deliverable from Tasks 3 & 4: Procurement and Implementation Strategy for ICT

Submitted to:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted by:
DevTech Systems, Inc.

June 2006
Revised November 15, 2006

This report was funded by the U.S. Trade and Development Agency (USTDA), an agency of the U.S. Government. The opinions, findings, conclusions, or recommendations expressed in this document are those of the author(s) and do not necessarily represent the official position or policies of USTDA. USTDA makes no representation about, nor does it accept responsibility for, the accuracy or completeness of the information contained in this report.

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Feasibility Study for Integrated Tax Management System

(USTDA Grant GH04142396)

Deliverable from Tasks 3 & 4:
Procurement and Implementation Strategy for ICT

Submitted To:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted By:
DevTech Systems, Inc.

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June 2006
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TABLE OF CONTENTS

Abbreviations and Acronyms iii

Executive Summary 1

1. Procuring and Implementing the ITMS 5

1.1 Procurement of System 5
1.2 Implementation of System Components 6
1.3 Pilot Site and Roll-Out of ITMS Core System 10
1.3.1 Pilot Site 10
1.3.2 Rollout 10
1.4 Post-Implementation Considerations 11
1.4.1 Software Changes 11
1.4.2 Management of Source Code 11
1.4.3 Capacity Building 11

2. Linkage to DFID-funded ICT Strategy 13

2.1 Business Processes 13
2.2 Information Management 13
2.3 Computer Hardware Technology 13
2.4 Contributions to DFID-Funded ICT Strategy: Communications 13
2.4.1 Wide Area Connectivity Links 14
2.4.2 Times Tower LAN Speed 15
2.4.3 Communications Enhancement 16
2.4.3.1 VoIP Telephony 16
2.4.4 Implementation Skills 17

3. Recommended Skill Requirement 19

3.1 Software 19
3.2 Hardware 19

4. Implementation Estimated Costs 21

4.1 Training 21
4.1.1 ICT Staff 21
4.1.2 DTD Staff 21
4.1.3 Banking 22
4.1.4 Taxpayers & Publicity 22
4.2 Hardware and Software Products Costs 22
4.2.1 Hardware Cost Estimation 22
4.2.1.1 Workstations 24
4.2.1.2 Printers 25
4.2.1.3 Scanners (Heavy Duty) 25
4.2.1.4 Storage 27
4.2.1.5 Servers 28
4.2.1.6 Other Critical Hardware Components 29

4.2.2 Software Cost Estimation 30
4.2.2.1 Integrated Tax *System X* 30
4.2.2.2 Integrated Tax *System Y* 30
4.2.2.3 RMS Software 31
4.3 Communication Cost Estimates 31
5. Budgetary Estimates 33

List of Tables and Figures

Table 2.1. Workstations at Remote Stations and WAN speeds 15
Table 2.2: Number of Voice Gateway Ports per Office 17
Figure 1: Schematic of Server Configurations at KRA-DTD 23
Table 4.1 Workstation Specifications 24
Table 4.2 Laser Printer Specifications 25
Table 4.3: Workstations, Printers and Scanner Procurement Cost Estimation 26
Table 4.4: Storage Cost Estimate 27
Table 4.5 High Performance Server Configuration (Database and Failover) 28
Table 4.6 Other Server Configuration (Application, Mail and Web, etc.) 28
Table 4.7: Initial Hardware Costs 29
Table 4.8: Lifecycle Hardware Costs Estimation 30
Table 4.9 Infrastructure Budgetary Estimates 31
Table 5.1 Total ITMS Procurement, Implementation, Upgrade Costs 33

Annexes

Annex I: Draft "General and Functional Specifications for Request for Information on Tax Administration Software and Services for Kenya Revenue Authority"

Abbreviations and Acronyms

C&C	Collections and Compliance
CBK	Central Bank of Kenya
CSD	Customs Services Department
CRM	Citizen Relationship management
DFID	Department for International Development
DLN	Document Locator Number
DM	Debt Management
DTD	Domestic Tax Department
ETR	Electronic Tax Register
GUI	Graphic User Interface
HQ	Headquarters
HR	Human Resources
ICT	Information and Communications Technology
IMF	International Monetary Fund
IT	Information Technology
ITMS	Integrated Tax Management System
KEBS	Kenya Bureau of Standards
KRA	Kenya Revenue Authority
KREISA	KRA Enterprise Information System Architecture
KSh	Kenya Shillings
LTO	Large Taxpayer Office
MIS	Management Information Systems
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MVR	Motor Vehicle Registration
NRB	National Registration Bureau
PAYE	Pay As You Earn
PIN	Personal Identification Number
PIT	Personal Income Tax
PRO	Principal Revenue Officer
PSV	Public Service Vehicle
RARMP	Revenue Administration Reform and Modernization Program
RMS	Record Management System
RTD	Road Transport Department
SAC	Senior Assistant Commissioner
SD	Stamp Duty
SDC	Senior Deputy Commissioner
SDL	Sugar Development Levy
SL	Standard Levy
SOW	Scope of Work
TIS	Tax Information System

TOR	Terms of Reference
TPC	Tax Procedures Code
UPS	Uninterrupted Power Supply
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
VAT	Value Added Tax
WAN	Wide Area Network
WLAN	Wireless Local Area Network

Executive Summary

The United States Trade and Development Agency (USTDA) has provided a grant to the Kenya Revenue Authority (KRA) to fund an independent contractor to conduct a feasibility study focusing on the development of a modernized integrated tax administration system. DevTech Systems, Inc. (DevTech), a United States-based consulting firm, was awarded a contract to conduct the study, and to date has submitted reports for the following:

- Deliverable from Task 1a: Situational Assessment Findings Report
- Deliverable from Task 2a: Requirements Definition Report
- Deliverable from Task 1b: Redesigned Business Processes Report
- Deliverable from Task 2b: Final Products Requirement Report

This report is the deliverable from Tasks 3 and 4, and presents a procurement and implementation strategy, including telecommunications infrastructure upgrade requirements, for the envisaged Integrated Tax Management System (ITMS) for the Domestic Tax Department (DTD) of the KRA. The document offers recommendations and guidance for the procurement and phased implementation of system components, linkages to the existing DFID-funded ICT Strategy, and implementation requirements and costs. This overall implementation strategy is consistent with the DFID-funded KRA ICT Strategy, which provided an overall road map for the modernization of the KRA's ICT framework. The proposed ITMS is one component of the broader KRA-wide strategy for modernization and improvement in the area of ICT.

Due in large part to the KRA's goal of procuring, customizing, testing, and implementing the new ITMS by June 2007, commercial off-the-shelf (COTS) software is considered to be the most expedient and optimal solution. Given the short time frame, the DevTech Team recommends simultaneously targeting both COTS suppliers and other government revenue authorities who may have tax administration systems that can be adapted to meet the KRA's needs.

In recognition of the compressed time frame for implementing a complex information system, the Contractor recommends a phased acquisition/development and roll-out. As such, in consultation with the KRA/DTD and as a direct result of the business process analysis and redesign effort, the Contractor has identified priority components for implementation. These components, which are expected to be the most critical and to generate immediate results include Records Management, Registration, Returns Processing, E-filing, Payments Processing, Revenue Accounting, and Performance Measurement.

Implementation of the new ITMS will require a significant level of training and skills development, as well as increased staffing levels in some areas. In this report, the Contractor summarizes these requirements.

Finally, the Contractor has conducted a rapid assessment to prepare a breakdown of estimated costs to implement the new ITMS. This cost estimated is provided as a basis for planning purposes, and is itemized by training, hardware, software, and telecommunications upgrades. The total estimated cost of procurement and implementation of the ITMS and the upgrading of the telecommunications framework to a level that can support the modernized system will be approximately US$ 9,006,623.

Based on the analyses conducted to date by the Contractor, it is recommended that the KRA/DTD proceed with the acquisition and implementation of the ITMS. It is fully expected based on the situational assessment and identification of redesigned processes that the investment in the new ITMS will be offset by savings realized as a result of more efficient automated processes, and increased revenue collected due to improved controls and processes such as debt collection management. Furthermore, a more streamlined tax administration will be in line with efforts by the Government of Kenya to improve the competitive position of the Kenyan economy and reduce corruption in the public sector.

Introduction

The Kenya Revenue Authority (KRA) Commissioner General has decreed that an Integrated Tax Management System (ITMS) for Domestic Tax Department (DTD) should be operational by June 2007. Given this short time period, (approximately one year from the issuance of this report), the procurement of a commercial-off-the-shelf (COTS) software is considered to be the optimal solution, instead of completing in-house software application development.

The United States Trade and Development Agency (USTDA) is funding a Feasibility Study to assist the KRA in the development of the ITMS. The Contractor responsible for conducting this study is a US-based consulting firm, DevTech Systems, Inc. (DevTech) and its subcontractor, The M Group. As part of this Feasibility Study, the Contractor is providing several documents to assist the KRA in the eventual procurement, customization, testing, and implementation of the ITMS. The first Deliverable (Task 1a) provided the basis for the KRA decision to plan for and acquire an off-the-shelf solution.

The Contractor has thus far provided the KRA with two Deliverables to assist the KRA in advancing with the implementation of the ITMS.

- ⇒ Deliverable from Task 1b: Redesigned Business Process Report; and
- ⇒ Deliverable from Task 2b: Final Products Requirements Report.

Based on the input of these reports, the Contractor worked with the KRA to create a "General and Functional Specifications for Request for Information on Tax Administration Software and Services for Kenya Revenue Authority" document. A draft of this document is included as Annex I to this report. Concurrently with the submission of this report, the KRA is finalizing this draft, and seeking additional information regarding the availability of COTS and compatibility from suppliers.

This report is the Deliverable from Tasks 3 and 4: Procurement and Implementation Strategy for ICT. The purpose of this report is to assist in the prioritization of system components using a phased roll-out, so that the KRA will be able to make significant progress towards their goal of enhancing revenue collection and streamlining revenue administration by June 2007 (Section 1). In addition this report documents the on-the-ground contributions, recommendations and discussions regarding enhancements to the DFID-Funded ICT Strategy (Section 2). The report also identifies the skill requirements for implementing the ITMS (Section 3). This report presents the estimated costs for training, computer and office equipment hardware, software, and communication technology required to implement the ITMS (Section 4). Total costs are summarized in Section 5, along with a discussion of specific cost savings and revenue increases that will be possible as a result of ITMS implementation.

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1. Procuring and Implementing the ITMS

1.1 Procurement of System

Based on discussions with the KRA DTD, the Contractor recommends that the KRA consider a two-pronged approach to facilitate procuring a new system: collecting information on available commercial off-the-shelf products, while leaving open the possibility of a government-to-government acquisition of ITMS software.

COTS	Government-to-Government
A. Immediate steps should be taken for the business users and ICT staff to re-confirm the current "COTS Specifications" document that outlines the requirements for the DTD ITMS.	
B. A Request for Information (RFI) should be published as quickly as possible. The RFI should follow the normal tender rules and regulations, and clearly indicate that the responses may be used to short-list invited parties to participate in a possible future tender, but <u>without commitment</u> to actually complete a COTS procurement process.	B. Specifications from COTS should be provided to other prospective Government Tax Departments to determine if systems meeting KRA's requirements are available for sale or give-away. In particular, Governments that currently have COTS software in operation should be canvassed to determine if there is a sharing of technology advantage that could be pursued.
C. Upon receipt of responses from the COTS suppliers, information secured should be compared to DTD requirements to determine the extent of customization required. The top three to four best matches should be considered for invited tender, unless the Government canvassing result in other favorable options.	C. Upon receipt of responses, information secured should be compared to DTD requirements to determine the extent of customization required. The top three to four best matches should be considered for invited tender, unless the Government canvassing result in other favorable options.
D. The procurement process must begin immediately, in order to have at least the core system in place by the June, 2007 deadline. Delays in the initiation of the procurement process will negatively impact reaching the start-date goal.	Acquisition agreement must begin shortly thereafter, in order to have at least the core system in place by the June, 2007 deadline.

1.2 Implementation of System Components

To provide guidelines for implementation, the Contractor has identified components that must be implemented together, and others that can be added at the beginning or end of the installation of the core Integrated Tax Management System. These are indicative, and may vary depending on whether suppliers' components are built-in or available as add-on's. Therefore, Tables 1.1, 1.2, 1.3 may need to be modified when the supplier is determined.

Table 1.1: Priority Processes	Observation	Schedule
✓ Records Management	It is anticipated that the Records Management System (RMS) will be a separate COTS, and can be procured separately.	Immediately
✓ Registration	The Registration module is internal to DTD and can be started at one time on its own, as it does not rely on other modules.	As soon as possible
✓ Returns Processing	The module for all Returns must be available at the start of ITMS so that manual data capture can occur.	*Priority 1* with installation of ITMS
Payment:	Payments 'on accounts' makes the Banking Module a priority requirement.	See above
One Window Accounts	To ensure accounts are correct in the One Window system, the Road Transport Department (RTD) and Customs Services Department (CSD) need to post their transactions in the system. The One Window accounts must include all transactions that affect Taxpayer payments of all types (IT, VAT, PAYE, Excise, Agency Revenue, Withholding taxes, RTD and CSD transactions, etc), amounts owing, amounts refunded, amounts submitted for write-off and waiver.	See above
Cash Office	Cash offices should be connected to the One Window Accounts.	See above
Reconciliation Payments and Returns:	With the EFT data standardized and with unique transaction codes, electronic reconciliation of payments in the banking module and Returns reconciliation to the One Window accounts will be possible.	See above
Daily reporting:	Daily revenue reports will be available from the banking module.	See above
✓ E-Filing		
Stamp Duty (SD):	Duty should be the first of the mandatory e-filing modules to be implemented.	First mandatory filing
Sugar Development Levy (SDL):	As there are only 22 Taxpayers subject to this	Second

Table 1.1: Priority Processes	Observation	Schedule
	levy; it can be added quickly to the E-Filing as the mandatory e-filing.	(Quick Win)
Standards Levy:	Standards Levy can be added as the third mandatory e-filing requirement. This component involves many Taxpayers, and should wait until e-filing from the small controlled group of SD and SDL is perfected.	Third
Excise	Excise with elective e-filing, except for Large Taxpayer Department (LTD) Taxpayers (which is mandatory).	Fourth
PAYE:	PAYE which is also elective e-filing (except for LTD) and PAYE end of year returns should be added as the final e-filing module.	Fifth
VAT Returns	VAT returns for LTD, and elective for other businesses	Sixth
IT Returns	Income Tax returns to be implemented as mandatory for LTD 2008/09, and elective for other businesses for 2008/09.	Seventh
Personal IT Returns	Personal Income Tax returns to be elective e-filing for the tax year 2009/10	Final
Withholding Tax Returns and Payments	Withholding Tax returns for LTO and elective for other businesses	As appropriate
Performance Measurement	Implemented in stages as module data is available (Revenue against targets)	With Above

As further explanation to the above, The Records Management System (RMS), which is likely to be a standalone system with links to the main ITMS, can be implemented early on. The image scanning of Returns can be completed in the first stage, and would provide immediate benefit to many DTD functions. The implementation of the RMS is dependent on the Telecommunications recommendations being acquired and implemented.

The correspondence portion of the system can be implemented immediately after the Returns portion of the RMS has been implemented. However, it will require a careful study of records management by a professional with experience in computerized records management systems.

The Registration module of the new ITMS could also be implemented in one phase upon change-over from one system to another. The key is to arrange for the new PIN and VAT (if still applicable) database structure to be populated from the old database. There may be a need to extract data from the new PIN/VAT database and populate the old databases with new registrants' information while the remainder of the ITMS core modules are being implemented. The recommended procedure for PIN/VAT registration proposes the image scanning of registrants documents, therefore it would be helpful if the RMS was implemented prior to the Registration module, albeit not crucial to the PIN/VAT registration process.

The Banking Module must be started at one time in order to have an accurate and effective "One Window Account," regardless of whether the old accounting data is brought across or not. All revenue received for the 2007/2008 tax year should be in the new ITMS. The process on how to deal with non-agent commercial banks that process EFT payments direct to KRA accounts will have to given careful consideration. This Banking Module must be ready on July 1, 2007, at the start of ITMS pilot.

The One Window Accounting (OWC) module should also be made available at the start of ITMS. This means the connections and programming for RTD and CSD must be completed so that their transactions are posted to this accounting module. See Table 1.2. The OWC will be the most detailed of all the ITMS modules, as it is the pivot to the Taxpayer history of payments, refunds, write-offs, waivers, and other DTD transactions linked to the other modules of the ITMS and other KRA Departments.

Table 1.2:Processes Related to One Window	**Observation**	**Schedule**
Risk Management	Risk Management tools need to be established in order to select audit cases.	With One-Window
Audit	Audit is dependent on the risk management module, data from the data warehouse, and the One Window Accounts for posting of assessments.	With One-Window
Refunds	Refunds are not likely to be processed immediately due to backlogs and verification requirements of old data. Refunds are linked to the One Window Accounts.	With One-Window
Objections & Appeals	Objections & Appeals are related to audit assessments and are connected to the One Window Accounts for staying of penalties and interest.	With One-Window
Debt Management	Debt Management is mostly related to audit and non-payments, but relies completely on the One-Window Accounts for information and some enforcement action.	With One-Window
Performance Measurement	Implemented in stages as module data is available.	With One-Window

Table 1.3 highlights the proposed timing for several businesses processes (*please refer to the Deliverable from Task 1B report for specific information regarding each process*).

Table 1.3:Stand-Alone or Second-Level Priority	Observation	Schedule
Pension	Pension is a stand alone module, and will be available for stations reference and audit.	Once Audit and Stations are up
Exemption	Exemption is an E-request stand-alone module for implementation, and should be available when the main ITMS modules are fully implemented.	After Priority 1
Remission	Remission is an E-request stand-alone module for implementation when main ITMS modules are fully implemented.	After Priority 1
Revenue Forecasting	Revenue Forecasting is a stand-alone module that requires data from ITMS and data from current systems.	Cannot be implemented until data storage locations and formats are determined.
Legislation	Legislation is a stand-alone module that is helpful, though not essential, and so should be the last of the modules considered in the overall ITMS structure.	After Priority 1
Performance Measurement	Implemented in stages as module data is available (Production against Resources)	With Above

It is recommended that data entry into ITMS commence with the 2006/2007 Tax Returns due on June 30, 2007, and the monthly Returns beginning in July 2007. A business decision will have to be made regarding the transfer of data from the old system to the new ITMS: whether to start the new system without the old data in place, or to transfer data at another time. Given the backlog of Returns and refunds processing, the current data and complete data will not be available at the start of the ITMS, and for some time period after. However, Returns processing should dedicate staff to entering data into the ITMS to make the 2006/2007 Tax Returns available as quickly as possible, and should data capture the manual Returns from Agency Revenue and Excise starting with the month of July 2007. The backlogs of old Returns can continue to be data captured in the current systems until caught up.

Clearly there are business decisions to be made by KRA regarding old data. One option would be to only transfer the last 6-7 years of data into the ITMS, or it would be possible to transfer all that is available. It is known that the IT data is highly suspected of not being accurate, and this issue must be addressed, especially in regards to the transfer of data from the accounting modules of VAT and IT to ITMS. It is important in the immediate future that some testing of Taxpayers accounts and records be completed to determine the accuracy of the existing data. It is anticipated that the PIN database will be "cleaned" by the start of ITMS and the PIN and VAT databases can be combined with relative ease. The data from returns, objection & appeals, and

payment and refund history needs to be confirmed, or adjustments made if the data is not accurate. For example, if the appeals module is not in use, then accounts will not be accurate. This has to be rectified before data transfer can occur to ITMS.

1.3 Pilot Site and Roll-Out of ITMS Core System

Given the testing that will be required of the ITMS, and the time that will likely be needed to resolve problems that arise as the system is implemented during the pilot stage, it is recommended that implementation begin in the Headquarters area, rather than at one of the remote stations. During this phased implementation, KRA should monitor its key indicators, such as costs, revenue generated, and returns processed, to ensure that the new system is meeting KRA goals of increased revenue and improved efficiency in a cost-effective manner.

1.3.1 Pilot Site

It is recommended that the Large Taxpayer Department (LTD) be used for the pilot testing of the new ITMS. The LTD has a current taxpayer base of approximately 300 companies. Consideration is being given to expanding the number of companies assigned to LTD, and this may raise the base to approximately 700 taxpayers. The pilot on the core ITMS should run for approximately three (3) months, or longer depending on the availability of e-filing in the chosen COTS system.

While not all LTD taxpayers are in the immediate Nairobi area, the number of Taxpayers is manageable in a pilot. The LTD Taxpayers also have a tendency to be the most computerized and Internet-connected group, due to their business demands. This will be a distinct advantage when testing the e-filing modules, as the feedback from these experienced computer users will be helpful in making changes and updates during the pilot stage.

E-filing could start on July 1, 2007 with Stamp Duty as the pilot. The SD1 form is completed in the Land Registry Office in Nairobi. The SD1 form is a fairly simple form in regards to details (see the Task 1b Report appendix on Forms.) This being the only site, the training and problem resolution will be very manageable. If the e-filing module is not ready for July 1, 2007, then the SD1 data should be keyed into ITMS manually.

E-filing of other Agency Revenue, Excise, and PAYE should be also be piloted with the LTD Taxpayers as quickly as the modules are available. Data from Returns made in the first few months of 2007/2008 tax year should be keyed into the ITMS for all taxpayers until the e-filing modules are piloted and implemented.

1.3.2 Rollout

The rollout can be completed on a Station-by-Station basis. One Nairobi station can be started immediately once the LTD pilot has proven successful. Other Nairobi Stations, Mombasa, and Kisumu could be started together immediately after the first Nairobi Station has been successfully started. Other Stations can be added together quickly using the staff from those Stations who are familiar with the ITMS software. It may be helpful during rollout to begin implementing the system quickly in a remote station. This would allow for rapid identification of the specific challenges faced by the more remote stations in the implementation stage. In addition, regional considerations should be made such that at least one station in every region

serve as the center of training and implementation for that specific region. This will facilitate a smoother rollout of the ITMS in other stations in the region.

- **Income Tax Returns**: With the proposed centralization of Income Tax Returns at the start the 2006/2007 Returns data capture, there will be no roll out for this process.

- **Monthly VAT Returns, Agency Revenue, Excise, PAYE, Withholding Tax/VAT**: These returns will need to be data captured until e-filing is in place. The roll-out for these will follow the description above, but the return data for the 2007/2008 tax year will have to be captured in a post-mode for stations not rolled out on July 1, 2007 in the new ITMS. This will cause some duplicate data entry for a few months in both the current systems and ITMS. PAYE and Withholding Tax returns will be filed at the end of the year.

1.4 Post-Implementation Considerations

During rollout and continued implementation, there are several key areas of consideration to meet continuing maintenance and support requirements.

1.4.1 Software Changes

Software changes to the acquired software (if the identified solution is COTS) would be part of the contract negotiation with the vendor. Normally, in addition to initial procurement costs, vendors typically sign for an annual upgrade/maintenance contract that allows for upgrades/maintenance of the software. One COTS vendor provided an estimate of 10-15% of initial acquisition costs as annual maintenance and upgrade charges. In estimating lifecycle hardware costs (Table 4.8), a factor of 15% was used to allow for upgrade/maintenance of acquired hardware. A similar factor of 15% could be used in estimating the software upgrade/maintenance costs related to acquired software. However, it should be noted that this would only be a factor in estimating the lifecycle costs (not the initial costs).

1.4.2 Management of Source Code

Management of the source code would be achieved by a version control system such as Clearcase or PVCS. The selected vendor may recommend appropriate version control mechanism for the ITMS source code customized to KRA.

1.4.3 Capacity Building

For building KRA's capacity to be able to support ITMS operations without assistance from the selected vendor, KRA should consider training programs for KRA staff (See Section 4.1 for estimated costs for training). In addition, to ensure that KRA staff are fully cognizant of the systems functionalities and tools, KRA staff should be assigned to work side-by-side with the selected vendor's staff during customization and piloting phases.

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2. Linkage to DFID-funded ICT Strategy

In November of 2005, the KRA approved a DFID-funded Agency-wide ICT Strategy, which reviewed the KRA's existing ICT framework and strategic plan, made a cursory review of the Authority's business processes, and formulated a new ICT vision for the KRA. The proposed ITMS is one of nine projects discussed in the ICT Strategy, and given the high share of revenue generated through the Domestic Tax Department, is arguably one of the most significant.

In accordance with the TOR for this Feasibility Study, in this section we identify the linkages between this study and the DFID-funded ICT Strategy. In addition, consistent with the requirements of Task 4, the Contractor IT consultants assessed and developed several recommendations to contribute to the Communications component of the ICT Strategy, specifically related to the ITMS.

2.1 Business Processes

The DevTech-led Team conducted a thorough assessment of the KRA's business processes (see Deliverable from Task 1b: *Redesigned Business Processes Report* for more detail), building on the initial review from the November, 2005 ICT Strategy document. The DevTech review made recommendations for automation of certain processes, some of which would link with other departments of the KRA, such as Customs and the Road Transport Department. These linkages are one example of ways in which a modernized system will allow the KRA as a whole to function more efficiently and effectively.

2.2 Information Management

KRA will have an extensive amount of internal data from DTD, RTD and CSD returns and transactions. Additionally, with the implementation of Electronic Tax Registers (ETR), and the gathering of data from many other sources such as banking information and company registrar, there will be a requirement for a Data Warehouse to manage this information (see the 2005 ICT Strategy document for more discussion of a Data Warehouse for the KRA). Appropriate business and ICT staff will be required to service this data warehouse to make it relevant and effective in KRA operations.

2.3 Computer Hardware Technology

Many of the technical recommendations that are made in this report flow directly from the DFID KRA ICT Strategy. For example, the Strategy document called for increased use of technologies such as new Blade server technology. Blade servers offer reduced complexity and a smaller footprint than more traditional servers, and are appropriate for the needs of the ITMS. Specific application of Blade servers are referenced later in this document. In addition, specifications for workstations, printers and generic servers that are presented in this document are based on recommendations from the ICT Strategy document.

2.4 Contributions to DFID-Funded ICT Strategy: Communications

In order for the ITMS to function properly and efficiently, the telecommunications infrastructure of the KRA must have the capacity to transmit data rapidly and consistently. The existing sixteen data links between KRA head office and the remote DTD offices were analyzed for their ability to support the potential ITMS, and it was found that upgrades must be undertaken for six of

them. In addition to carrying data, the network should also be modified to carry voice, by installing Voice Gateways at the remote stations and head office. Specifications have been given for the core hardware to run the Integrated Tax Management System, and given that some of the upgrades will be a new technology for KRA, it is also advised that ICT staff responsible for its administration undergo a manufacturer-recommended administration course.

2.4.1 Wide Area Connectivity Links

In addition to the offices located at the Times Tower, Domestic Tax Department (DTD) has 18 remote stations distributed across the country. It is desired that users at these stations have access to the Integrated Tax System in order to undertake their routine operations. The availability of reliable data links of appropriate speeds, between head office at Times Tower and these remote stations is therefore necessary to ensure proper operation of the Integrated Tax System.

This section provides a review of the existing connectivity links between the head office and the various remote stations. The data rate per link and the expected number of users it will serve, when the new tax system is implemented, is first determined and is given below in Table 2.1.

- Column 4 indicates the number of workstations that will be required per station to realize a ratio of 2:1 staff per computer (this is the ratio determined as minimum necessary to ensure effective deployment of the integrated tax system.)
- Column 6, "Desired WAN Speeds," is determined using the following criteria: for a station with 10 or less number of staff, 64Kbps digital links will meet loading requirements whereas those with more staff will require 128Kbps links. This criterion is a rule of thumb; however, in the event the response times are not adequate, appropriate adjustments may be necessary.

Analysis of the table yields the following results:

1. 64Kbps digital data links need to be provisioned in the following offices, using the indicated technologies:
    - Bungoma (VSAT)
    - Malindi (VSAT)
    - Garissa (Kenstream)
    - Voi (VSAT)
    - Kerugoya (VSAT)

2. Upgrades are required from 64 to 128Kbps on the links to Thika, Nyeri, and Machakos.

3. The links to Kericho and Kakamega are routed through Kisumu, and therefore the backhaul to Nairobi of 128Kbps will not meet the desired speed criteria. As such, an upgrade of the backhaul link to 256 Kbps in recommended.

4. Since four additional 64Kbps VSAT links are required, it will be necessary to request Telkom Kenya Ltd to increase the total shared VSAT bandwidth from 128 Kbps to 512Kbps.

Table 2.1. Workstations at Remote Stations and WAN speeds

	1	2	3	4	5	6
	Station	**Employees**	**Existing # of Workstations**	**Short term target**	**Existing WAN speeds**	**Desired WAN Speeds**
1	THIKA	36	12	18	64K	128
2	ELDORET	35	12	18	128K	128
3	KISUMU	35	12	18	128K + WLAN **	256
4	NYERI	33	11	17	64K	128
5	NAKURU	34	12	17	128K	128
6	MSA NORTH	39	12	20	On LAN	
7	MSA SOUTH	56	12	28	On LAN	
8	KAKAMEGA	20	7	10	64K	64
9	MACHAKOS	21	6	11	64K	128
10	EMBU	16	4	8	128 K	64
11	MERU	19	4	10	64 K	64
12	KISII	13	3	7	64K	64
13	BUNGOMA	2	2	1	19K Kenpac	64
14	KERICHO	4	2	2	64K	64
15	MALINDI	5	3	3	None	64
16	GARISSA	4	1	2	19K Kenpac	64
17	VOI	4	1	2	None	64
18	KERUGOYA	3	1	2	Analog	64

Notes: ** *The link to Kisumu is used to carry data for Kakamega and Kericho Offices.*

2.4.2 Times Tower LAN Speed

Concern has been raised that the speed of the Local Area Network at the Times Tower is unacceptably low. This is especially true when trying to access the corporate E-mail services and Internet. Of significant concern is the fact that when the network gets additional loading by users accessing the integrated tax system, its response will become poorer. Such a situation will be unacceptable with the ITMS, particularly given requirements for image retrieval from the RMS.

Upon investigation, it was established that the network backbone connecting users to the servers on fourth floor of the Times Tower is not properly structured. Instead, users are cascaded through layers of switches, so the greater the number of layers a user is from the servers, the poorer the network response. All these connections are based on copper cables.

Additionally, cables at the network core centers terminate directly to equipment instead of patch panels, and poor labeling makes network administration a daunting task. Critical network equipment, such as routers and firewalls, is not enclosed in cabinets.

There is currently, however, an initiative to remedy these network problems by installing a fiber-optic backbone to the building and properly terminating all cables onto patch panels. **Since this initiative is at an advanced stage (tenders are being evaluated), its costing will not be included in the project under consideration.**

2.4.3 Communications Enhancement

The primary purpose for upgrading the KRA's wide area network infrastructure is to prepare it to support the envisaged Integrated Tax Management System. The upgraded infrastructure can also, however, enhance provision of other communication services such as E-mail and Voice over Internet Protocol (VoIP) telephony. This section explains how these services can be provisioned on the infrastructure to enhance corporate communications.

The Revenue Authority's E-mail services are provided through Lotus Notes applications. Provided additional licenses will be acquired to cover the additional users, the application will be easily availed to the remote stations. The number of additional licenses will be estimated to be equal to the new desktop computers that will be acquired for the integrated tax system.

Security issues on the network will be covered by the discussion in Section 4.2.

2.4.3.1 VoIP Telephony

The WAN infrastructure can be used to cater for VoIP solution in order to:

- Improve on the existing inter-office connections;
- Make use of limited capital with minimal infrastructural changes; and
- Cut telephone costs.

In order for the corporate network to handle voice traffic, a voice gateway is required at the head office and all remote offices to be connected. The voice gateway interfaces the telephone PABX with the local area network. Once the voice is converted to data, it is routed using the same links to the various destinations. Remote offices, therefore, become telephone extensions of the head office. Since voice is delay sensitive, however, the routers must have the capacity to prioritize voice over normal data when the links are busy.

The VoIP system will enable teleconferencing to be realized within the Revenue Authority. This will allow, for example, head office managers to hold a teleconference with station managers with the attendant savings in time and transport costs.

The number of voice ports on a gateway defines the maximum number of simultaneous calls that it can handle. Table 2.2 below indicates the number of ports desired for each office destined to have voice services in this infrastructure design.

Table 2.2: Number of Voice Gateway Ports per Office

Office	Gateway Ports
Head Office	16
Mombasa	8
Kisumu	4
Nakuru	4
Eldoret	4
Nyeri	4
Thika	4
Embu	2
Meru	2
Machakos	2
Kisii	2

2.4.4 Implementation Skills

Technical Training: A key component of the Blade Server system is the ability to dynamically allocate resources to applications. Staff responsible for management of operations of the Blade System implemented must undergo some training to appreciate how the system is put together to enable them to set the correct parameters, whenever the need arises. These specific members should attend a manufacturer's recommended course for administration of the Blade System that will be implemented. It is expected that attendees will undergo this course either in South Africa or Europe, since no commercial training provider is available in Kenya.

Project Management: It is proposed that a consultant be engaged to undertake supervision of implementation of the infrastructure system. It is possible that there may be an individual at KRA who can fill this role of Project Manager. The tasks of the Project Manager will include:

- Preparing technical specifications for all project components. These will include hardware, software, networking and training.
- In conjunction with the procurement department, prepare tender documents for the project components.
- When tender responses are received, assist in their evaluation to determine the response(s) that most closely meets the specifications given.
- Once component vendors are identified, the actual installations commence. During installation, the project manager undertakes the following:
    - Prepares the implementation plan to ensure time schedules agree with the client's timelines;
    - Monitors the vendors to ensure correct technical tasks are being undertaken and on time schedules;
    - Resolves vendor conflicts in a multi-vendor environment;
    - Issues certificates of works completed; and
    - Undertakes documentation for all project components for purposes of warranties and maintenance works.

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3. Recommended Skill Requirement

The following recommended skill requirements should be used as guidelines for the implementation of the ITMS. Once the new system is identified, these recommendations should be re-examined, as there may be slightly different requirements based on the specific system.

3.1 Software

The COTS will require a series of skills to operate the various software packages, both on servers and on desktop stations. The applications will require 24/7 consistent reliability, additional staff will likely be required.

- RMS servers and Applications 16/6: 6 staff
- COTS Software on servers 24/7: 8 staff
- COTS and other software in KRA 16/6: 12 staff
- COTS for Taxpayers and Banks 16/6: 7 staff

3.2 Hardware

The additional hardware to be procured would require additional staff for both Help Desk support, and operators to support hardware operations around the clock.

- **Help Desk Support**

  As a general rule, each station should have at least one additional Help Desk support staff. Currently, the Help Desk function is primarily at Times Tower and Mombasa, and staff must travel to a station to provide needed support. The addition of local help desk support would reduce unnecessary travel required of Help Desk staff. This additional staff person should be available for 16/6 support at the stations. In addition, the Mombasa regional station could have four Help Desk staff available 16/6, and Times Tower could have seven Help Desk staff available 16/6.

- **Systems Administrators/Operators**

  Given that there will be a centralized database management system, systems administrators and operators would be required at Times Tower. Times Tower would have seven systems administration and operation staff. The staff should be available 24/7. Their responsibility would be to make sure that the servers are running properly and complete routine backups and archival procedures on a daily, weekly and monthly basis.

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4. Implementation Estimated Costs

4.1 Training

There are a series of anticipated costs to be incurred in training KRA staff, taxpayers, and other stakeholders on use and application of the new ITMS. In addition, there are costs to be incurred in the area of publicity. The total estimate cost for training and training-related expenses for the ITMS is ***US$1,215,500***. The itemized breakdown of this total follows in the sections below.

4.1.1 ICT Staff

Both external and internal training will be required for DTD ICT staff to acquire the skills to maintain the new ITMS software, Records Management System (RMS) software, telecommunications, and Disaster Recovery. In addition, technical staff at stations outside Nairobi will need internal training in COTS, RMS, and Telecommunications. There will also be travel costs related to hardware and software installation at locations outside Nairobi.

- External Training: 15 ICT technical staff
- Internal Training: 20 ICT technical staff (will involve some travel)
- Installation Travel: 5 ICT installation staff

ICT Staff	Number	Cost	Total (US$)
External	15	$ 5,000	$ 75,000
Internal	20	$ 650	$ 13,000
Installation	5	$ 10,000	$ 50,000
Total			***$138,000***

4.1.2 DTD Staff

DTD staff in every function will require training in operation of both the ITMS and Records Management System (RMS) software, and basic microcomputer training. Much of this training can be completed within DTD, but some exploratory trips to other locations that use COTS and RMS software will be required to observe modern tax departments utilizing state-of-the-art technology. There will be some local travel required for some Stations personnel to attend training, and for trainers to travel to the training sites.

- External Training: 15 staff trained on ITMS
  5 staff trained on RMS
- Internal Training: 500 DTD users
- Training Staff: 8 DTD trainers

DTD Staff	Number	Cost	Total (US$)
External ITMS	15	$ 5,000	$ 75,000
External RMS	5	$ 5,000	$ 25,000
Internal	500	$ 650	$ 325,000
Training Staff	8	$ 10,000	$ 80,000
Total			***$ 505,000***

4.1.3 Banking

It is anticipated that training will be provided to the banking sector as a recoverable item. Most of this training will likely occur on KRA premises, thus removing the requirement to rent space at local hotels. Charges for this training are expected to be at a rate of $225.

- Training of banking staff at all levels: 100 staff

Banking	Number	Cost	Total (US$)
	100	$ 225	$22,500

4.1.4 Taxpayers & Publicity

It will be necessary to train taxpayers and land registry staff in the use of e-filing modules. The Land Registry Office, being a Government institution, should have training provided for free, and they should not incur any costs. Taxpayers in corporations and organizations using e-filing should follow the Simba policy and pay for training at $225 each. It will also be necessary to provide publicity and advertising for the E-filing initiatives to medium to small companies that are subject to Agency Revenues, to additionally encourage VAT, IT, Excise and PAYE elective e-filing, and eventually to the general public to encourage e-filing.

- Taxpayers trained for e-filing initiatives: 2,000
- Publicity: Estimate plug figure of $100,000

	Number	Cost	Total (US$)
Taxpayers	2000	$ 225	$ 450,000
Publicity	1	$100,000	$ 100,000
Total			***$ 550,000***

4.2 Hardware and Software Products Costs

A thorough analysis was performed to estimate hardware and software costs for the new ITMS. **As the new specific ITMS solution has not yet been identified, it is important to note that these estimated costs may differ somewhat from the costs of the final ITMS solution, once it is identified and procured.**

4.2.1 Hardware Cost Estimation

As part of the hardware cost estimation, the IT-related recommendations provided as part of Task 1b and Task 2b reports were reviewed to identify the hardware components which would be needed in preparation for ITMS procurement/deployment. A conceptual schematic showing the firewalls and location of various servers is shown in Figure 1 below. It is a design that uses two demilitarized zones (DMZ). The use of two demilitarized zones provides added security from hackers who might be able to break in through the loose external firewall and compromise the Application Server in the DMZ. In this configuration of two DMZs, the non-critical mail server and Application server functions would be in the first DMZ, and more confidential/critical applications would be deployed in the second demilitarized zone. The schematic also shows

provision for failover/disaster recovery servers with data replications between the two database servers. However, the network architecture presented should be considered preliminary and the ITMS vendor selection may impact the recommended hardware configuration.

The recommended configuration follows the assumption that telecom links between stations and Headquarters would be strengthened to allow for one corporate wide WAN and only necessitate thin clients at the stations. The failover servers need not be co-located; in fact proper disaster planning requires that the failover and primary database servers *not* be co-located. The ITMS vendor selected may suggest whether it is preferable to cluster the primary database server and failover database server. Clustering of the primary and secondary servers may lead to obvious efficiencies as both servers would be used to process tax returns from the outset. Furthermore, from an organization's point of view, clustering has the added advantage of allowing workers at both sites to be trained and ready to run tax processing operations in the event of disaster.

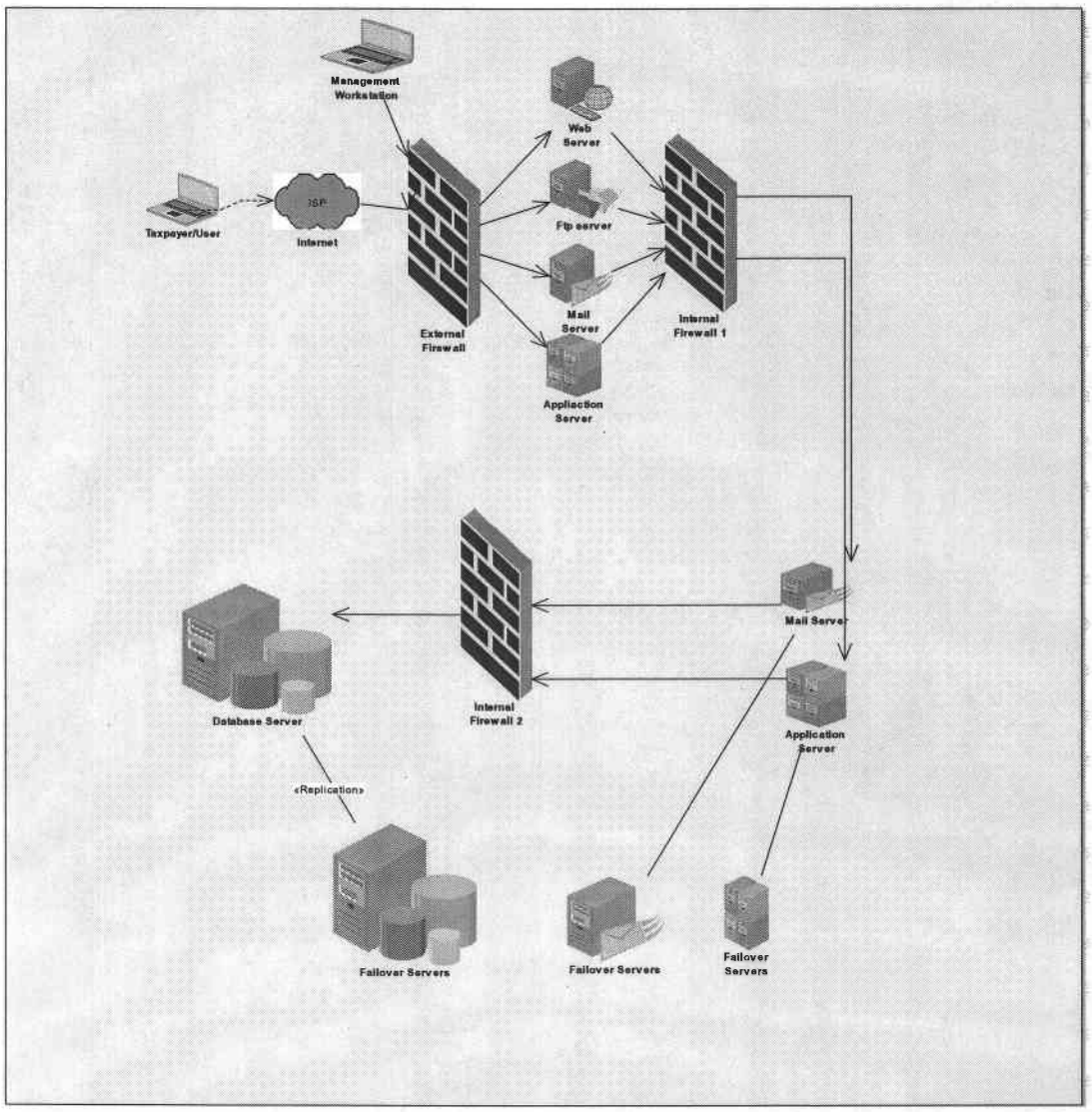

Figure 1: Schematic of Server Configurations at KRA-DTD

The hardware components needed to support ITMS as identified in Tasks 1b and 2b reports are as follows:

4.2.1.1 Workstations

As an ITMS leads to electronic medium being the main medium of communication/processing and control at the KRA, it is imperative that the currently inadequate quantity of mostly outdated workstations be replaced prior to ITMS deployment. The number of workstations needed has been estimated by targeting for the PC-to-staff ratio of 2:1. Although many current workstations at DTD have become technologically obsolete, a 25 percent re-deployment of current workstations was assumed. To estimate the cost of workstations, vendors in Kenya were asked for a quote for the requirement specifications for a PC listed below. The price quoted was US$1,644 plus VAT. Based on these parameters, the cost of new workstations to be procured has been estimated in Table 4.1 (adapted from 2005 KRA ICT Strategy).

Table 4.1 Workstation Specifications

Item Number	Specification Number	Item Description	Price (US$)
HW23	<HW-23>	Front-end PC Specs	$1644 + VAT
Components	**Requirement specification**		
Processor	• Must have at least a 750 MHz Pentium IV or equivalent type processor.		
Main Memory	• Minimum 512 MB. • There must be at least one empty DIMM memory slot available after installation of the required memory.		
Disk Units	• Total formatted disk capacity must be at least 40 GB.		
Monitor	• Monitor must be a separate unit. • Minimum 15inch diagonal dimension. • Must support at least 75 Hz at a 1024 x 768 resolution • Non-interlacing scanning type must be supported. • An integrated tilt and swivel stand is necessary. • Must have low radiation emission and power management features and must support MPR II standards.		
Graphics Card	• Must be equipped with at least a 32-bit Windows graphics card (AGP or equivalent) with at least 4 MB memory.		
LAN Card	• 10/100/1000 T-Base		

4.2.1.2 Printers

The requirement of printers has been estimated by assuming a target Printer-to-PC ratio of 1:10. Similar to the workstation calculation, a 25 percent redeployment of existing printers has been assumed. Vendors in Kenya were asked to price a printer with below specifications. The vendors quoted a price of US$822/printer plus VAT. Total procurement cost for printers based on these parameters has been provided in Table 4.2 (adapted from 2005 KRA ICT Strategy).

Table 4.2 Laser Printer Specifications

Item Number	Specification Number	Item Description	Price (US$)
LP	Laser Printers	High Volume Laser Printer	$822+ VAT
Components	**Requirement specification**		
Features	• Support a minimum of 30 ppm printing speed for Black & White mode • Have at least 64 MB memory. • Have at least 600 dpi resolution. • Must have parallel and Ethernet interface, cable provided. • Support PCL5 and Postscript languages. • Have 1000/31 00 sheets paper handling capacity. • Support A4 type paper size		

4.2.1.3 Scanners (Heavy Duty)

The Task 2b report of this study recommended the use of 2-D barcode-based form design and scanning, so that KRA does not face mounting backlogs in the future. Also, the Task 1b report recommended scanning of all tax returns/documents and storage of scanned copies as a preferred solution for records management at DTD. To facilitate this high volume of scanning, scanners must be procured and be available by the time the ITMS and RMS are deployed. It is recommended to procure one heavy-duty scanner at each of the stations and at each separate function at HQ. A scanner at each of the stations has an added advantage of reducing the costs of shipping returns from station to HQ and back for data capture. The price quoted for a heavy duty scanner from a Kenyan vendor is **US$2,740 plus VAT.** The estimated initial procurement cost for scanners is provided in Table 4.3.

Table 4.3: Workstations, Printers and Scanner Procurement Cost Estimation

Workstations/Printers and Scanner Requirement Estimation

Input Parameters:

% of Current PCs to be Re-deployed	25
% of Current Printers to be Re-deployed	25
Target PC to Staff Ratio	0.5
Target Printer to PC Ratio	0.1
Cost per PC (US$)	1644
Cost per Printer (US$)	822
Cost per Scanner (US$)	2740
VAT Rate	14

	Station	Employees	Current # of Workstations	To be Redeployed under ITMS	Target # of Workstations	# of new Workstations needed	#Printers(s)	Printers Redeployed under ITMS	Target # of Printers needed	# of new printers needed	#Scanner(s) Needed
1	CDTs OFFICE	2	5	1	1	0	2	1	1	0	1
2	DAGORETI/WON	65	13	3	33	30	5	1	4	3	1
3	LANGATA/SON	57	13	3	29	26	5	1	3	2	1
4	EMBAKASI/EON	59	13	3	30	27	5	1	3	2	1
5	KASARANI/NON	47	13	3	24	21	5	1	3	2	1
6	THIKA	36	12	3	18	15	3	1	2	1	1
7	ELDORET	35	12	3	18	15	3	1	2	1	1
8	KISUMU	35	12	3	18	15	6	2	2	0	1
9	NYERI	33	11	3	17	14	3	1	2	1	1
10	NAKURU	34	12	3	17	14	3	1	2	1	1
11	MSA NORTH	39	12	3	20	17	3	1	2	1	1
12	MSA SOUTH	56	12	3	28	25	3	1	3	2	1
13	KAKAMEGA	20	7	2	10	8	4	1	1	0	1
14	MACHAKOS	21	6	2	11	9	3	1	2	1	1
15	EMBU	16	4	1	8	7	1	0	1	1	1
16	MERU	19	4	1	10	9	1	0	1	1	1
17	KISII	13	3	1	7	6	2	1	1	0	1
18	BUNGOMA	2	2	1	1	0	0	0	1	1	1
19	KERICHO	4	2	1	2	1	0	0	1	1	1
20	MALINDI	5	3	1	3	2	0	0	1	1	1
21	GARISSA	4	1	0	2	2	1	0	1	1	1
22	VOI	4	1	0	2	2	0	0	1	1	1
23	KERUGOYA	3	1	0	2	2	1	0	1	1	1
25	HR	10	6	2	5	3	1	0	1	1	1
26	RESEARCH	5	3	1	3	2	1	0	1	1	1
27	T. AUDIT PROGR.	13	9	2	7	5	1	0	1	1	1
28	Policy & Legislation	16	13	3	8	5	1	0	1	1	1
29	COLLECTION & COMPLIANCE	23	12	3	12	9	2	1	2	1	1
30	DOMESTIC EXCISE	7	0	0	4	4	0	0	1	1	1
31	TRAINING SCHOOL	2	2	1	1	0	1	0	1	1	1
32	FINANCE	32	20	5	16	11	3	1	2	1	1
33	ADMIN OFFICE	7	2	1	4	3	1	0	1	1	1
34	CASH OFFICE	5	7	2	3	1	19	5	1	0	1
35	RETURNS PROCESSING	41	44	11	21	10	13	3	3	0	1
36	DEBT MANAGEMENT	6	7	2	3	1	2	1	1	0	1
38	MIS	9	9	2	5	3	6	2	1	0	1
42	REFUNDS PROCESSING	18	8	2	9	7	3	1	1	0	1
43	REGISTRATION & RECRUITMENT	5	4	1	3	2	3	1	1	0	1
44	TAXPAYER EDUCATION	5	2	1	3	2	1	0	1	1	1
45	PROJECT TEAM	3	2	1	2	1	1	0	1	1	1
46	CUSTOMER CARE	8	10	3	4	1	1	0	1	1	1
47	DC ETR	18	3	1	9	8	1	0	1	1	1
48	LTO	60		0	30	30	11	3	3	0	1
	Totals	902	337	88	463	375	131	34	67	38	43

Cost in US$	702,810		35,609	134,315

Total Cost in US$	872,734

4.2.1.4 Storage

As KRA and DTD increase their use of electronic medium to help in most of its functions, the requirements for storage needed would shift from physical storage to electronic storage. In Table 4.4, storage requirements are estimated based on annual return volume currently. It is assumed that an average return is three (3) pages long, and that furthermore, an equivalent number of pages would be generated for taxpayer communications/registrations/notices, etc. Assuming 70KB/page (grayscale scan) and 2k/page for data capture, and allowing 150% of primary storage need for secondary storage (backup, replication), total space requirements have been estimated at 1.551 terabytes per year. This would be incurred as a yearly cost for seven years to satisfy the statute of limitation requirements.

Table 4.4: Storage Cost Estimate

Storage Cost Estimation for ITMS		
Input Parameters:		
Averages Pages/Return:	3.0	
Ratio of #Other Communication Docs/# of Return Pages	1.0	
Scanned KB/Page (Assumes Grayscale)	70.0	KB
Text/Database storage/page	2.0	KB
Ratio of Secondary Storage (Backup/Failover/Replication) to Primary Storage	1.5	
Cost of Storage ($/GB)	3.0	
VAT Rate	14.0	%
Exchange Rate (Ksh vs. US $)	73.0	
Type of Returns	**Approximate Volume per year (2005)**	
Income Tax returns	830,000	
PAYE Returns	18,000	
VAT returns Processed	384,000	
KEBS	43,200	
SDL	300	
Withholding VAT	45,000	
Withholding Tax	59,000	
VAT refund claims	4,800	
Stamp Duty	48,000	
Income Tax Refunds	1,900	
Domestic Excise	1,860	
Total Return Volume	**1,436,060**	
Total Return Pages per year	**4,308,180**	
Other Documents (Notices/appeals, etc.)	**4,308,180**	
Total Pages/year	**8,616,360**	
Size of Scanned Image Storage Needed	**603,145,200**	KB
Text and Database Storage	**17,232,720**	KB
Total Primary Storage	**620,377,920**	KB
Total Secondary Storage	**930,566,880**	KB
Total storage needs/year	**1,551**	GB
Cost of Storage/Yr	**4,653**	US $
VAT	**651**	US $
Total Storage Cost/yr	**5,304**	US $
Total Storage Cost/yr (Million Ksh)	**0.3872**	

4.2.1.5 Servers

As depicted in Figure 1, several servers are envisioned for KRA DTD. In particular, the Web, FTP, non-critical Mail and Application servers are envisioned in the first DMZ. The critical Mail and Application servers have been envisioned behind the first internal firewall, and the Database server is envisioned behind the second internal firewall. These are preliminary recommendations, and the selected ITMS vendor may necessitate changes to this configuration. To estimate server costs, vendors were asked to quote prices for given specifications of two server configurations: (1) a high performance database server (the failover server may need to at the same performance level), and (2) a relatively lower performance server (to be used for applications, mail and web portal, etc.). The specifications for these two configurations are as below (adapted from 2005 KRA ICT Strategy):

Table 4.5 High Performance Server Configuration (Database and Failover)

Item Number	Item Description	Price (US$).
DS	Head Office	$342,466+VAT
Components	**Requirement specification**	
Total:	26 servers	
CPU:	2 x 32bit CISC CPUs,/3GHz minimum,/cache 1MB minimum Blade	
Performance	28,0- **SPECint_rate 2000 for 3200 MHz**	24,7 - **SPECfp_rate 2000 for 3200 MHz**
RAM:	3 GB, ECC	DDRII
HDD:	2 x 36 GB (HW RAID	
CD		

Table 4.6 Other Server Configuration (Application, Mail and Web, etc.)

Item Number	Specification Number	Item Description	Price (US$)
Server1	Server	Servers	$20,548 + VAT
Components	**Requirement specification**		
Features	• Pentium IV Processor 2GHz • 4 GB memory • 256 GB Hard Disk • DVD ROM		

The price quoted was $342,266 plus VAT for a high-performance server and $20,548 plus VAT for the other servers. For cost estimation, an assumption of two high-performance servers (data and failover) and ten other servers was utilized. The initial procurement cost estimates for servers is shown in Table 4.7.

4.2.1.6 Other Critical Hardware Components

In addition to the above main components, several other hardware components would be required to fully implement the vision outlined in Tasks 1b and 2b reports.

- 2D Bar Code Decoders: As outlined in Task 2b report, if KRA decides to implement a 2D barcode-based solution as a bridge between fully manual to fully e-filed solutions, then in addition to scanners, decoder software/hardware would be required to decode the information from the scanned barcodes to generate XML to populate the data stores in ITMS. US sources have indicated a cost of about US $3,000. It is estimated that two decoders (one at Nairobi and another at Mombasa) would be appropriate as a start.
- Voice Response Unit (IVR): IVR would be required to disseminate information to taxpayers to answer their routine questions. A dedicated phone line would answer "frequently asked questions" from taxpayers and would require an IVR unit. US sources have indicated a cost of US $ 3,848.
- Misc. Network Hardware (Cables, UPS, etc.): We are estimating miscellaneous network hardware cost as 10% of workstation costs.
- There has been some discussion of implementing a network and user management software for KRA that would enable sharing of resources such as printers. Currently most printers are connected to individual user PCs and shared from there. If the user shuts down his/her PC, the shared printer connected to the PC is not available to all. Network management software would also enable better management of users, and will also improve on security and general management of the KRA network. Several of these functions would be provided by the Operating System itself, and additional Network Management System costs would be captured in the miscellaneous 10% above.

These other hardware component costs together with servers, workstations, printers, scanners and storage costs have been summarized in Table 4.7.

Table 4.7: Initial Hardware Costs

Initial Hardware Costs			
Input Parameters:			
VAT Rate	14	%	
Exchange Rate (Ksh vs. US $)	73.0		
	Costs (US $)	**VAT**	**Cost Including VAT (US$)**
WorkStations	$ 616,500.00	$ 86,310.00	$ 702,810.00
Printers	$ 31,236.00	$ 4,373.04	$ 35,609.04
Scanners	$ 117,820.00	$ 16,494.80	$ 134,314.80
Storage	$ 4,652.83	$ 651.40	$ 5,304.23
Servers	$ 890,012.00	$ 124,601.68	$ 1,014,613.68
2D Barcode Decoders	$ 6,000.00	$ 840.00	$ 6,840.00
IVR	$ 3,848.00	$ 538.72	$ 4,386.72
Misc. Network Hardware			$ 70,281.00
Total Initial Costs			**$ 1,974,159.47**

Table 4.8 shows total life cycle hardware costs for 10 years of operations beyond the initial implementation. The yearly maintenance costs for hardware have been estimated using 15% of initial installation costs.

Table 4.8: Lifecycle Hardware Costs Estimation

Lifecycle Hardware Costs (In US$)										
Input Parameters:										
Mainenance Ratio	15	%								
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Initial Procurement Costs (Excluding Storage)	1,968,855									
Storage Costs	5,304	5,304	5,304	5,304	5,304	5,304	5,304	5,304	5,304	5,304
Maintenance Costs		295,328	295,328	295,328	295,328	295,328	295,328	295,328	295,328	295,328
Total Costs	1,974,159	300,633	300,633	300,633	300,633	300,633	300,633	300,633	300,633	300,633
Total Lifecycle Costs	4,679,852									

4.2.2 Software Cost Estimation

These costs are prepared from budget estimates provided from several Commercial Off-the-Shelf (COTS) suppliers, and actual costs may differ somewhat once procurement tendering or other negotiation is completed. It should be stressed that these are approximations, as vendors are very hesitant to offer specific prices without detailed specification and customization requests. For a more detailed listing of COTS tax software suppliers, please see the discussion in the Task 2a report for this project. Below are cost estimations for two popular COTS tax systems[1].

4.2.2.1 Integrated Tax *System X*

System *X* is provided by a worldwide supplier of COTS tax administration software. This system is currently being used in a country in southern Africa for a cost of approximately $3 million. This price includes license fees, implementation and configuration. Scoping and implementation should take approximately 18 months for full system implementation. Again, these estimates would change depending on the detailed specification and customization requirements.

4.2.2.2 Integrated Tax *System Y*

System *Y* is a popular COTS system, which can be easily customized for both tax and customs. For the sake of comparison, this system was recently sold as a fully integrated package (Customs and Tax) in a relatively small installation for a government in South America, at a price tag of $4 million. This should be considered the cost of an 'entry level' system. Of course, also, much of the cost of a new system depends on the extent of the roll-out, and how much a client is prepared

[1]The two COTS tax systems offered as examples are described in generic terms. They are actual systems sold by respected suppliers, but the details are omitted in order to maintain impartiality and procurement integrity at this stage. A full listing of prospective U.S. Sources of Supply will be included as an annex in the Final Report.

to accept off-the-shelf functionality, as opposed to significant customization. It is estimated that a system for the KRA would cost approximately **$5-6 million**. In terms of on-going support, to ensure long term sustainability, one could expect to pay between 10% and 15% of the total software cost.

4.2.2.3 RMS Software

The Records Management System (RMS) contains two functions, one of electronically storing images of Taxpayer returns, and the other of storing images of taxpayer and other correspondence which may or may not be linked to the Personal Information Number (PIN). These data will be searchable by keywords. Some of the potential ITMS COTS suppliers will have a provision for the storing of return images, while others will not. None of the COTS systems that have been reviewed have a provision for correspondence management. Given the uncertainty of the supplier of the COTS software, it is difficult to approximate a price for the RMS. It is estimated that an RMS can be procured for $1 Million. This estimate is based on a calculation of 1500 users at $500/user, and $250,000 for customization, but this estimate could change significantly depending on the supplier and the system. The level of customization that will be required is unknown at this time, but could be appropriately estimated through a records management study (as recommended in Task 1b of this study). It is not anticipated that there would be ongoing license fees as the software is anticipated to be customized significantly, which will likely eliminate future vendor updates.

4.3 Communication Cost Estimates

The tables below include costs necessary for improvements in the communications gateway, as well as implementation training and management (see Section 2.4 for additional details). These items constitute the improvements required in the wide area connectivity to ensure all the remote stations can effectively run the integrated tax application. The budgetary estimates for this improvement are, based on the current prices from Telkom Kenya Ltd, who is the preferred KRA infrastructure partner.

Table 4.9 Infrastructure Budgetary Estimates

INFRASTRUCTURE BUDGETARY ESTIMATES *Costs converted to US$ from KSh*			
Item Description	**Unit**	**Qty**	**Total**
	in US$		*in US$*
Communications Enhancement			
16 Port Gateway	3,425	1	3,425
8 Port Gateway	2,055	1	2,055
4 Port Gateways	1,233	5	6,164
2 Port Gateways	959	4	3,836
Installation & Configuration	1,644	11	18,082
E-mail Clients	164	350	57,534
Implementation Skills			
Blade Server Training	16,438	5	82,192
Project Management	143,836	1	143,836
GRAND TOTAL			**$ 317,123**

It should be noted that the Kenyan government has in past two years licensed five private sector companies to provide communications infrastructure countrywide. As a result, the cost of WAN links has started to fall drastically, and Telkom Kenya Ltd is expected to lower its prices to remain competitive. Initial estimates are that KRA is paying Telkom Kenya Ltd approximately four times for 64Kbps VSAT links what the private sector is charging. When this anomaly is rectified, then speeds of at least 256Kbps speeds can be realized for the current recurrent costs. In the longer term, one can expect the cost of these links to fall even further as more optical fibre backbone is laid between the major towns.

5. Budgetary Estimates

The estimated total cost to realize the procurement and implementation of the ITMS, including upgrades in telecommunications infrastructure, is **$9,006,623**, as detailed below.

Table 5.1 Total ITMS Procurement, Implementation, Upgrade Costs

Total Costs of Procurement, Implementation, and Upgrades

Implementation Costs (Training, etc)	$ 1,215,500
Initial Hardware Costs*	$ 1,974,000
COTS Software**	$ 4,500,000
RMS Software	$ 1,000,000
Telecom Improvements***	$ 317,123
Total	**$ 9,006,623**

**Does not include Lifecycle Hardware costs (maintenance, etc) of $4.7 million*
***Average cost of two systems referenced*
****Does not include current Fiber Optics upgrade*

The cost for the ITMS will be offset by both direct and indirect benefits in the implementation of the ITMS and RMS software. Though difficult to quantify, there will be cost savings from the improved business practices of e-filling (savings from reduced data entry staff) and RMS procedures (savings on prime office rent and courier charges for the movement of paper, and reduced staff for filing and retrieval.) The initial expense of telecommunication upgrades and installation will be offset by savings in reduced costs for data and voice communication.

- The timely collection of debts and improved enforcement activities should result in increased revenue collection. A conservative estimate would be a five percent increase, and likely higher.
- The debt collection improvement on principal amount owing alone for active debt would result in approximately $15 million dollars (nearly KSh1.1 billion) from current reported debt.
- The increased revenue collection from improved controls, risk management, recruitment, and data analysis within KRA and from external sources will improve revenue collection by at least five percent.
- Based on current DTD revenue collections of approximately annual $2.8 billion, a potential five percent increase in revenue collection represents an additional $140 million (approximately KSh10.2 billion) of increased revenue for the KRA.

Feasibility Study for Integrated Tax Management System

Final Report

Chapter 7

Deliverable from Task 5: E-government Legal Review

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Feasibility Study for Integrated Tax Management System

Deliverable from Task 5: E-government Legal Review

Submitted to:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted by:
DevTech Systems, Inc.

June 2006

This report was funded by the U.S. Trade and Development Agency (USTDA), an agency of the U.S. Government. The opinions, findings, conclusions, or recommendations expressed in this document are those of the author(s) and do not necessarily represent the official position or policies of USTDA. USTDA makes no representation about, nor does it accept responsibility for, the accuracy or completeness of the information contained in this report.

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Feasibility Study for Integrated Tax Management System

(USTDA Grant GH04142396)

Deliverable from Task 5: E-government Legal Review

Submitted To:
Kenya Revenue Authority
Domestic Tax Department (DTD)

Submitted By:
DevTech Systems, Inc.

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June 2006

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Table of Contents

Abbreviations and Acronyms ii
Executive Summary 1
I. Background 3
II. Legal and Regulatory Issues: Implementation 3
A. Sources of Law 3
B. General Challenges for E- Government 4
C. Privacy /Confidentiality 5
C.1. Integrity 5
C.2. Link Confidentiality with Privacy 6
D. Specific Queries Raised under the Kenya Tax E-Filing Proposal 7
D.1. e-/Digital Signatures 7
D.2. Mandatory e-Filing 8
D.3. Proof of Submission or Non Submission of Returns 9
D.4. Intellectual Property Concerns in E-Government Services 10
III. Legal and Regulatory Issues: Procurement 11
IV. Concluding Remarks 11

Annexes:

Annex I: 1996 UNCITRAL Model Law on Electronic Commerce
Annex II: 2001 UNCITRAL Model Law on Electronic Signatures
Annex III: Selections from Draft *Kenya Information Communication Technology (ICT) Bill (2006)*

Abbreviations and Acronyms

CSP	Certification Service Provider
DTD	Domestic Tax Department
ICT	Information and Communications Technology
IT	Information Technology
ITA	Income Tax Act
KRA	Kenya Revenue Authority
LTD	Large Taxpayer Department
PKI	Public Key Infrastructure
RARMP	Revenue Administration Reform and Modernization Program
UNCITRAL	United Nations Commission on International Trade Law
USTDA	United States Trade and Development Agency
VAT	Value Added Tax

Executive Summary

The United States Trade and Development Agency (USTDA) has provided a grant to the Kenya Revenue Authority (KRA) to fund an independent contractor to conduct a feasibility study focusing on the development of a modernized integrated tax administration system. DevTech Systems, Inc. (DevTech), a United States-based consulting firm, was awarded a contract to conduct the study, and to date has submitted reports for the following:

- Deliverable from Task 1a: Situational Assessment Findings Report
- Deliverable from Task 2a: Requirements Definition Report
- Deliverable from Task 1b: Redesigned Business Processes Report
- Deliverable from Task 2b: Final Products Requirement Report

Submitted concurrently with this report is the Deliverable for Tasks 3 and 4: Procurement and Implementation Strategy for Information and Communication Technology (ICT).

This report is the final deliverable for Task 5, the legal and regulatory review related to the procurement and implementation of the new Integrated Tax Management System (ITMS). A brief discussion of legal issues related to procurement was included in the Task 1a report (see Deliverable from Task 1a: Situational Assessment Findings Report, Section 9 for more detail). After consultation with the KRA, this document is a discussion of relevant legal and regulatory issues regarding e-government.

The document briefly describes the legal framework and precedents for e-government initiatives as relating to the KRA, highlights general challenges faced when working within this e-government legal framework, and then focuses on specific issues regarding the KRA's plans for implementation of an e-filing system. The three main issues facing the KRA when implementing e-filing are:

- The ability for a taxpayer to provide an e-signature of digital signature;
- The legality of making e-filing a mandatory requirement for certain taxpayers; and
- Obtaining proof of submission or non-submission of returns.

For each of these challenges, considerations and recommendations are made that can assist the KRA in the implementation of e-filing in the new Integrated Tax Management System.

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I. Background

A revolution is occurring in the way people conduct business worldwide. Governments, businesses and consumers are increasingly using computers to create, transmit and store information in the electronic form instead of as traditional paper documents. Information stored in electronic form has many advantages. Storage and retrieval is less expensive and faster, and communication can be almost instantaneous. International trade through the medium of e-commerce has grown rapidly and increasingly become essential for competitiveness, especially as many countries have switched from traditional paper-based commerce to e-commerce. Although individuals and businesses are aware of the advantages, often they are reluctant to conduct business (particularly with government) or conclude any transaction in the electronic form. One reason is the lack of an appropriate legal framework.

Kenya Revenue Authority (KRA) has already taken steps in moving toward e-government. It provides to its customers a web-based information center which allows people not only to obtain information on tax-related issues, but also to download tax return forms for use. Taxpayers can make queries on tax-related matters and obtain responses via e-mail. Furthermore, the Customs Services Department of KRA has implemented e-based transactions in the clearing of imported goods using the *Simba System*.

In its Revenue Administration Reform and Modernization Program (RARMP), KRA is now considering the legal modalities for the use of e-filing of tax returns in its Domestic Tax Department (DTD). This report is the final deliverable for Task 5, the legal and regulatory review related to the procurement and implementation of the new Integrated Tax Management System (ITMS). A brief discussion of legal issues related to procurement was included in the Task 1a report (see Deliverable from Task 1a: Situational Assessment Findings Report, Section 9 for more detail). After consultation with the KRA, this document is a discussion of relevant legal and regulatory issues regarding e-government.

II. Legal and Regulatory Issues: Implementation

As part of the review conducted by a Kenya lawyer and supported by an international expert on tax law, the Legal Team has identified five issues, examined in this report. In this discussion, the United Nations Commission on International Trade Law (UNCITRAL) laws on e-commerce and electronic signatures have been reviewed as a standard of Best Practice (see Annexes I and II). These include the a) source law for Income Tax and Value Added Tax, b) general challenges for e-government, c) privacy and confidentiality, d) electronic and digital signatures, and e) mandatory e-filing. Each is reviewed below, and recommendations for action by the KRA policy and/or legal staff are identified.

A. Sources of Law

The legal modalities pertaining to the filing of tax returns are found in the relevant Kenyan laws, namely *The Income Tax Act of 2004 (Cap 470)* and *The Value Added Tax Act of 2004 (Cap 476)*. These laws generally provide for:

- Type of tax returns to be filed;
- Form and content of the tax return;
- Time period of filing returns;

- Incidental laws regarding offences related to the filing of tax returns;
- Supporting documentation for tax returns; and
- General power of the Commissioner to specify the form of notices and returns.

Even a cursory examination of these laws makes it clear they were written with paper-based transactions in mind. This is especially true with regard to the requirement for signing of returns. Therefore, the legal framework for e-based transactions by the KRA/DTD will need to be amended to fully realize the potential savings and increased effectiveness of e-filing.

There are several potential approaches that the KRA may take to address this legal obstacle. First, the KRA can work with the appropriate authorities to introduce an amendment to the *Income Tax* and *Value Added Tax Acts.* Second, the KRA can work to incorporate the necessary provisions into the Draft *Information Communication Technology (ICT) Bill (2006)* that was introduced in February 2006 (see Annex III for selections from this bill). This Bill is a culmination of the efforts of ICT stakeholders in the private sector, civil society and government officials in the country who, upon realizing that the existing legal framework has been somewhat inhibitive to ICT growth and advancement, sought to address this situation by undertaking a review of the legal and regulatory framework to harmonize laws on ICT. To date, it does not appear that the KRA is featured as an interested stakeholder in the formulation of the ICT Policy and Bill.

Summary Recommendations

The Contractor recommends that the KRA consider the following actions:

- Taking an active role in monitoring the enactment of the ICT Bill February 2006.
- Participating in the policy dialogue, especially related to its role as a pioneering government institution that offers e-based transactions.
- Identifying amendments to the Income Tax and Value Added Tax Laws that will further modernize revenue administration in Kenya.

B. General Challenges for E- Government

The principal hurdles that stand in the way of facilitating electronic transactions are the requirements regarding the provision of and the legal recognition of electronic signatures. At present, many legal provisions assume the existence of paper-based records and documents which should bear signatures. In addition, the *Law of Evidence* is traditionally based upon paper-based records and oral testimony. As a result, many countries have made appropriate amendments to their laws to facilitate electronic transactions.

In order to facilitate e-government, it would be beneficial if the law permitted the use and acceptance of electronic records and digital signatures in the Government offices and state-owned bodies. This would enable the creation of rights and obligations through the electronic medium and improve citizens' interactions with the Governmental offices. To further boost the legal recognition of documents, a mechanism for a regulatory regime to supervise the Certifying Authorities issuing Digital Signature Certificates so as to prevent the possible fraud arising out of transactions and other dealings concluded over the electronic medium would be necessary.

In addition to these principle hurdles, to enhance the use and the acceptance of e-government among the citizens, further examination of the civil and criminal liabilities for fraud is merited. Furthermore, analysis of the *Penal Code (Cap 63)* and the *Evidence Act* (*Cap 80*) are recommended in order to address provisions that deal with offences relating to documents and paper-based transactions.

Summary Recommendations

The Contractor recommends that the KRA consider the following actions:

- Incorporating into the legal framework, recognition of e-filed returns as legally binding documents.
- Reviewing the retention of e-documents within the legal framework envisaged in the Draft Bill. As is the Draft Bill establishes technology neutral technical standards with regard to issues related to the originality; integrity and security of e-documents.
- Incorporating into the legal framework that the requirement for signed returns can legally be fulfilled through the use of electronic and/ or digital signatures.
- Redefining tax offences in the DTD regulations so as to recognize the fact that they can be committed electronically.
- Monitoring legislation related to cyber crime, as this could have a direct impact on KRA's performance.

C. Privacy /Confidentiality

Data integrity is defined as data that have not been altered in an unauthorized manner. This includes both privacy and confidentiality in its scope. Privacy is the right of individuals to control or influence what information related to them may be disclosed. Confidentiality relates to the protection against unauthorized disclosure of data content. To achieve the above objectives with regard to e-transactions, whether commerce-related or government-related, it is necessary to have a legal, regulatory and technical framework. However since the legal/regulatory framework is still being developed, particular emphasis needs to be placed on the technical aspects of provision of e-government.

C.1. Integrity

The legal framework to ensuring integrity of electronic data would take a two-pronged approach: first, enacting laws that criminalize actions that would bring the integrity of e-docs into doubt, and second, enacting laws relating to the proof of the integrity of e-docs.

Efforts to criminalize actions that would bring the integrity of e-docs into doubt would include, at a minimum, laws to criminalize illegal access to computer systems; illegal interception of privately transmitted data and the trafficking and possession of hacker tools only where such conduct is intentional, without right or with an intent to commit an offence. These aspects have been considered in a moderately acceptable level in the draft ICT Bill.

Laws that deal with proof of integrity of a document would concentrate on whether the information has remained complete and unaltered, apart from the addition of any endorsements and any change which arises in the normal course of communication, storage and display, the

standard of reliability required being assessed in the light of the purpose for which the information is required.

C.2. Link Confidentiality with Privacy

Privacy laws are not well developed in Kenya; even *The Draft ICT Bill* is silent on the issue of privacy. The *Value Added Tax* (VAT) Act implicitly advocates for privacy of information by providing circumstances in which information obtained by the Authority may be lawfully disseminated. The *Income Tax Act* (ITA) on the other hand requires officers charged with administration of its provisions to treat any information obtained there from as confidential. The Kenya Revenue Authority has also committed itself to the enforcement of privacy of taxpayers' information via The Taxpayers' Charter.

The United Nations guidelines concerning personal data files (see Annex I) list a few principles for the elaboration of legislation by its member states. These principles include that:

- Data collection subject to privacy laws is done in a lawful and fair manner. Thus KRA needs to obtain the data along the guidelines prescribed in the DTD laws on Returns and Notices. There is need for these laws to be amended to allow for notices to be given in electronic form.
- Collector of data undertakes regular checks on the data to make certain it is accurate and kept up to date.
- Data collected remains relevant and adequate for the purposes specified, and that the consent of the subject of the data is assured.

Summary Recommendations

With the introduction of e-filing, it is recommended that the KRA:

- Assess its capability to maintain privacy and confidentiality of taxpayers' information in light of increased unpredictability in forms of computer hacking and cyber crimes. This is especially important due to a lack of comprehensive law to tackle cyber crimes in Kenya, thus according the Authority no legal redress in the event of its occurrence
- Define the limit of privacy and confidentiality it is willing to provide to the taxpayer through a privacy policy document. Here the KRA can state the measures taken to ensure that the privacy of taxpayers' information is maintained. These measures should reasonably provide for the privacy of the information. This privacy policy document would assist the Authority in determining the level of responsibility it has bound itself to accept.
- Review requirements for data retention. Best practice in privacy laws requires that data retention should not be for periods longer than required. Both the VAT and ITA implicitly provide for a period of seven years for which the commissioner issues an assessment on Tax Returns. Only when the KRA suspects fraud or gross or willful neglect can it assess tax for periods later than seven years. An assessment of the period for which the Authority would like to keep the data should therefore be undertaken by KRA with these legal requirements in mind.

D. Specific Queries Raised under the Kenya Tax E-Filing Proposal

D.1. e-/Digital Signatures

It is important to make a distinction between electronic signatures and digital signatures. The former refers to any mechanisms of identifying the originator of an electronic message, not necessarily using cryptographic technique, while the later uses the cryptographic technique.

As discussed earlier, one of the legal hurdles with regard to e-filing of tax returns relates to the requirement of having the returns signed. The signature is intended to signify the signor's declaration as to the truth and completeness of the return being submitted (non repudiation). The signature can also be used as an authenticator even though this is not a primary role as envisaged by the DTD laws.

When the taxpayer files his return electronically, there needs to be a way in which the taxpayer is able to append the equivalent of a signature. In an e-commerce/e-government scenario this process in known as authentication and it is intended to establish the origin of the information or determine the identity of the sender. Cryptography is one form of authentication and it involves a coding method when data is encrypted and then decrypted using an algorithm. This is the simple form of encryption. Another method of encryption that is gaining popularity is that of Public Key cryptography because it allows for parties to communicate over an open network without having previously exchanged their private keys. In order to ensure confidence in the validity of the public key cryptography, it is supported by a Public Key Infrastructure (PKI) which is supported by trusted third party's Certification Service Providers (CSP), the CSP objective is to ensure that the public key pertaining to the entity and individual has not been corrupted. They issue revocation lists for keys that have been corrupted or are out of date.

Best practice as provided by the UNCITRAL Model Law (See Annex II) on e-signature as regards the legal requirements of e-signature includes the following considerations:

- The legal recognition of e-signatures as having the same efficacy as conventional paper written signatures so that a transaction which is validated by the use of a signature shall not be denied effect simply because an electronic signature was used.
- The compliance requirements of an e-signature before its acquisition of legal recognition.

The above have been taken into consideration in the draft ICT bill. Further e-government transactions have specifically been legalized provided they comply with the requirements that have been laid down by the government regulator.

However, there are some issues on e-signatures that the draft law has not considered, though they might affect the efficacy of e-signatures if the draft bill is passed as it is. These are:

- Spell out the responsibilities of the parties to an e-signature i.e. the signatory; the CSP and the relying party. In accordance with article 8-ll of the said model law, the following responsibilities should be accorded to the parties:
    - (i) The signatory should exercise reasonable care to avoid unauthorized use of his signature creation data; to notify the CSP in any case of corruption

of his signature creation data and together with the CSP exercise reasonable care to ensure accuracy and completeness of all material representations made by the signatory that are relevant to the certificate.

(ii) The CSP has a legal obligation to provide reasonably accessible means to ascertain from the certificate the identity of the certification service provider; the signatory that is identified in the certificate had control of the signature creation data at the time the certificate was issued and the signature creation data were valid at or before the certificate was issued.

(iii) Article 9(11)D imposes further obligations on the CSP that enable the relaying party to ascertain the method used to identify the signatory; any limitations on the purpose of creation data or certificate and on the extent of liability of the CSP, the validity of the signature creation data, the offer of revocation services and the means for the signatory to give notice pursuant to article 8 in the case of corruption of the signature creation data.

(iv) Article 11 imposes obligations on the conduct of the relaying party. It is put to the relaying party to ensure that s/he has taken all reasonable steps to verify the reliability of an electronic signature and the certificate and checking revocation lists to ascertain that the certificate was not revoked or suspended.

These obligations for all intents and purposes try to distribute the burden of checking validity of the electronic signature and the certificate so that liability for reliance on a compromised signature can be effectively attributed to the party who has not exercised reasonable care. To the extent that these obligations are not spelt out in law; there would be a tendency to blindly accept e/digital –signatures with out exercising due care in their use.

The proposed amendment to the Evidence Act with regard to e-/digital signatures is meant to provide it with a refutable presumption of validity. Thus, if a party to the signature does not exercise due care, the presumption may be easily rebutted against the negligent party.

Summary Recommendations

With the introduction of e-filing, it is recommended that the KRA:

- Review the Draft bill and incorporate the above Best Practices (see above).
- Establish authentication standards for those wishing to submit documents electronically to the government. The Authority may do this in any one of the following ways: establish its own system for online authentication in which it issues to the user e.g. passwords; contract a private entity to do the same; or issue standards and approve all private sector service providers who meet those standards.

D.2. Mandatory e-Filing

Since there is discussion within the KRA whether to make e-filing mandatory for a certain group of taxpayers, namely the Large Taxpayers and those submitting agency payments, this section focuses on the legality of such a policy.

Currently regulations provide that the Commissioner may prescribe the form of returns and notices. The best practice on e-commerce on taxes, however, provides as follows:

> "Electronic filing programs should be implemented through administrative rules, to provide flexibility for the tax authority. The one exception is in the case of a mandated program, which must be implemented through legislation. In that case, the legislation should be as flexible as possible, such as reference to a liability threshold to be prescribed by the agency Director. Adoption of uniform or model statutes, are encouraged."

Summary Recommendations

To provide for future modernization, it is recommended that the KRA consider supporting a provision to provide that the commissioner has the power to prescribe forms, which can be either electronic or paper-based. This would increase flexibility in the modifications in the content of returns law in the future.

D.3. Proof of Submission or Non Submission of Returns

It should be noted at the outset that the issue of proof of submission or non submission of returns (document transactions) is not something generic to the e-filing of returns. The same rules governing proof of submission in manual systems can be applied to prove the submission of electronic returns. It is necessary to recognize that the act of filing returns as a G2C transaction in e-government is very similar and analogous to B2C or B2B transactions in e-commerce. The accepted business practice in this issue is for the parties with an interest in the proof of submission or non submission (in this case the Authority & the taxpayer) to agree on how the submission of returns will be proved between themselves. In the event however, that matter has not been agreed upon, the operation of law takes place.

The law does not provide a prescribed method of proving submission or non-submission of a return; however, one has arisen as a matter of tax practice. The current practice of proof of submission of returns is through obtaining an acknowledgement in the form of a stamped copy from the entity to which a taxpayer is submitting payment/return of tax. The *Value Added Tax* return is provided in the form of a booklet that is filled in triplicate. At the submission of a return, the triplicate is stamped by the receiving authority. This serves as proof of submission of returns. While returns under the ITA are not usually required to be filled in dup/triplicate, a prudent taxpayer would always make an extra copy and request for the receiving entity to stamp both copies so that he may retain a duplicate. He would then retain it as proof of his submission of return.

In the e-commerce/e-government regime, the UNCITRAL Model on E-commerce has provided rules and regulations with regard to acknowledgement of receipt of electronic records. These rules (which have also been envisaged under the draft ICT Bill) will prove valuable in the determination of the above issue.

Summary Recommendations

The considerations that KRA may wish to adopt based on Best Practices include:

- Determination of the form of acknowledgement of receipt i.e. whether in terms of content or whether electronic or otherwise.

- Consideration should be made on the issue of supporting documentation that is required as a matter of law to accompany the return.
- Provide a legal mechanism for the acceptance of acknowledgement of receipt as legal proof of submission of return through legislation.
- A related issue with regard to submission of return relates to the time of submission. It is recommended that the provisions in both the DTD laws be amended to include the rules with regard to time of receipt of electronic filing.

D.4. Intellectual Property Concerns in E-Government Services

Because the e-filing system envisaged by KRA will involve the electronic dissemination of information from the Authority to taxpayers and require taxpayers to likewise electronically disseminate information to the Authority by the use of software, communication links and infrastructure, issues may arise related to intellectual property. The Authority needs to address the following concerns related to intellectual property rights in the processing of e-filed returns:

- When disseminating information, the Authority must determine who owns the intellectual property regarding this information.
- When publications are made by private parties on the order of the Authority, the Authority needs to be sure that disseminating this information will not be in violation of the intellectual property of the private party.
- When the Authority requests certain information to be delivered to them by private parties, the question also arises whether the private party can deliver this information to government without violating the rights of others who were responsible for creating the requested information.

Summary Recommendations

Due to the complex nature of intellectual property rights, it is also expedient for the KRA to take the following precautionary measures:

- Consideration the above mentioned preventive and precautionary measures.
- Assigning responsibility for taking precautionary measures to the parties involved in e–filing transaction.
- Establishment of draft criteria for Authority's liability in this venture.
- Limit or exclude liability.

III. Legal and Regulatory Issues: Procurement

The Legal advisor met with the KRA/DTD and it was determined that there are no significant legal or regulatory issues related to the procurement of the new system that will not be addressed by the KRA Legal Department. The recommendation of this report is to follow the current procurement legislation to determine if any issues may arise. Notwithstanding, the Legal Team have identified some potential issues for consideration. The considerations the KRA may consider include:

- In making the decision whether or not to outsource the service of e-filing returns, the Authority may wish to consider that while that may be financially expedient in terms of development of infrastructure/software/communications links, this method would ensure that the private entity owns the intellectual property rights, limiting the Authority's influence in developing and exploiting the service. This risk may be minimised if the Authority undertakes to become an equal investor in the project.

- Where private parties have contributed to the e-government service of electronic tax filing either by generating publications or providing infrastructure or software, care must be taken to ensure that rights to these services are transferred to the Authority. This ensures that the Authority has a free rein in the use/modification/alteration of the intellectual property rights on the publications/software/infrastructure without fear of breach of intellectual property rights.

- The Authority may want to consider not basing the e-filing service on one specific standard, technology or platform, obliging end users to apply this standard, technology or platform. Enterprises and citizens should be able to choose between different suppliers of software that is necessary to use the services of public authorities. Also from the viewpoint of best practice e-government, this is essential with regard to cost-effectiveness. A competitive situation can ensure the presence of competing products and lead to better and cheaper services. A way of ensuring this is through the use of open standards and compatibility.

IV. Concluding Remarks

The primary legal and regulatory issues related to the procurement and implementation of the new system are those related to e-based transactions. As stated, the laws relating to e-based transactions are still being developed government-wide. KRA's participation in this effort is important due to the nature and sensitivity of the data to be protected. The remaining critical legal issues to address are integrity and privacy of taxpayer data, particularly as the system is implemented by a third party. Consequently, it is expected that KRA standards for electronic data may need to be higher than those of other agencies.

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Relevant Legal References

Annex I: 1996 UNCITRAL Model Law on Electronic Commerce

Annex II: 2001 UNCITRAL Model Law on Electronic Signatures

Annex III: Selections from Draft *Kenya Information Communication Technology (ICT) Bill (2006)*

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Annex I: 1996 UNCITRAL Model Law on Electronic Commerce

Chapter 1 of the UNCITRAL Model Law on Electronic Commerce follows. The full document can be accessed at:
http://www.uncitral.org/uncitral/en/uncitral_texts/electronic_commerce/1996Model.html

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UNCITRAL Model Law on Electronic Commerce with Guide to Enactment 1996

with additional article 5 *bis* as adopted in 1998

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UNCITRAL
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CONTENTS

	Page
GENERAL ASSEMBLY RESOLUTION 51/162 OF 16 DECEMBER 1996	1
UNCITRAL MODEL LAW ON ELECTRONIC COMMERCE	3
Part one. Electronic commerce in general	3
Chapter I. General provisions	3
Article 1. Sphere of application	3
Article 2. Definitions	4
Article 3. Interpretation	4
Article 4. Variation by agreement	4
Chapter II. Application of legal requirements to data messages	5
Article 5. Legal recognition of data messages	5
Article 5 *bis*. Incorporation by reference	5
Article 6. Writing	5
Article 7. Signature	5
Article 8. Original	6
Article 9. Admissibility and evidential weight of data messages	7
Article 10. Retention of data messages	7
Chapter III. Communication of data messages	8
Article 11. Formation and validity of contracts	8
Article 12. Recognition by parties of data messages	8
Article 13. Attribution of data messages	8
Article 14. Acknowledgement of receipt	9
Article 15. Time and place of dispatch and receipt of data messages	11
Part two. Electronic commerce in specific areas	12
Chapter I. Carriage of goods	12
Article 16. Actions related to contracts of carriage of goods	12
Article 17. Transport documents	12

	Paragraphs	Page
GUIDE TO ENACTMENT OF THE UNCITRAL MODEL LAW ON ELECTRONIC COMMERCE	1-150	15
Purpose of this Guide	1	15
I. Introduction to the Model Law	2-23	16
A. Objectives	2-6	16
B. Scope	7-10	17
C. Structure	11-12	18
D. A "framework" law to be supplemented by technical regulations	13-14	19
E. The "functional-equivalent" approach	15-18	20
F. Default rules and mandatory law	19-21	21
G. Assistance from UNCITRAL secretariat	22-23	22
II. Article-by-article remarks	24-122	23
Part one. Electronic commerce in general	24-107	23
Chapter I. General provisions	24-45	23
Article 1. Sphere of application	24-29	23
Article 2. Definitions	30-40	26
Article 3. Interpretation	41-43	29
Article 4. Variation by agreement	44-45	30
Chapter II. Application of legal requirements to data messages	46-75	31
Article 5. Legal recognition of data messages	46	31
Article 5 *bis*. Incorporation by reference	46-1-46-7	32
Article 6. Writing	47-52	35
Article 7. Signature	53-61	37
Article 8. Original	62-69	41
Article 9. Admissibility and evidential weight of data messages	70-71	44
Article 10. Retention of data messages	72-75	44
Chapter III. Communication of data messages	76-107	46
Article 11. Formation and validity of contracts	76-80	46
Article 12. Recognition by parties of data messages	81-82	48
Article 13. Attribution of data messages	83-92	49
Article 14. Acknowledgement of receipt	93-99	51
Article 15. Time and place of dispatch and receipt of data messages	100-107	54

	Paragraphs	Page
Part two. Electronic commerce in specific areas	108-122	58
Chapter I. Carriage of goods	110-122	58
Article 16. Actions related to contracts of carriage of goods	111-112	59
Article 17. Transport documents	113-122	59
III. History and background of the Model Law	123-150	63

Resolution adopted by the General Assembly

[on the report of the Sixth Committee (A/51/628)]

51/162 *Model Law on Electronic Commerce adopted by the United Nations Commission on International Trade Law*

The General Assembly,

Recalling its resolution 2205 (XXI) of 17 December 1966, by which it created the United Nations Commission on International Trade Law, with a mandate to further the progressive harmonization and unification of the law of international trade and in that respect to bear in mind the interests of all peoples, in particular those of developing countries, in the extensive development of international trade,

Noting that an increasing number of transactions in international trade are carried out by means of electronic data interchange and other means of communication, commonly referred to as "electronic commerce", which involve the use of alternatives to paper-based methods of communication and storage of information,

Recalling the recommendation on the legal value of computer records adopted by the Commission at its eighteenth session, in 1985,[1] and paragraph 5*(b)* of General Assembly resolution 40/71 of 11 December 1985, in which the Assembly called upon Governments and international organizations to take action, where appropriate, in conformity with the recommendation of the Commission,[1] so as to ensure legal security in the context of the widest possible use of automated data processing in international trade,

[1]See *Official Records of the General Assembly, Fortieth Session, Supplement No. 17* (A/40/17), chap. VI, sect. B.

Convinced that the establishment of a model law facilitating the use of electronic commerce that is acceptable to States with different legal, social and economic systems, could contribute significantly to the development of harmonious international economic relations,

Noting that the Model Law on Electronic Commerce was adopted by the Commission at its twenty-ninth session after consideration of the observations of Governments and interested organizations,

Believing that the adoption of the Model Law on Electronic Commerce by the Commission will assist all States significantly in enhancing their legislation governing the use of alternatives to paper-based methods of communication and storage of information and in formulating such legislation where none currently exists,

1. *Expresses* its appreciation to the United Nations Commission on International Trade Law for completing and adopting the Model Law on Electronic Commerce contained in the annex to the present resolution and for preparing the Guide to Enactment of the Model Law;

2. *Recommends* that all States give favourable consideration to the Model Law when they enact or revise their laws, in view of the need for uniformity of the law applicable to alternatives to paper-based methods of communication and storage of information;

3. *Recommends* also that all efforts be made to ensure that the Model Law, together with the Guide, become generally known and available.

85th plenary meeting
16 December 1996

UNCITRAL Model Law on Electronic Commerce

[Original: Arabic, Chinese, English, French, Russian, Spanish]

Part one. Electronic commerce in general

CHAPTER I. GENERAL PROVISIONS

*Article 1. Sphere of application**

This Law** applies to any kind of information in the form of a data message used in the context*** of commercial**** activities.

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*The Commission suggests the following text for States that might wish to limit the applicability of this Law to international data messages:

"This Law applies to a data message as defined in paragraph (1) of article 2 where the data message relates to international commerce."

**This Law does not override any rule of law intended for the protection of consumers.

***The Commission suggests the following text for States that might wish to extend the applicability of this Law:

"This Law applies to any kind of information in the form of a data message, except in the following situations: [...]."

****The term "commercial" should be given a wide interpretation so as to cover matters arising from all relationships of a commercial nature, whether contractual or not. Relationships of a commercial nature include, but are not limited to, the following transactions: any trade transaction for the supply or exchange of goods or services; distribution agreement; commercial representation or agency; factoring; leasing; construction of works; consulting; engineering; licensing; investment; financing; banking; insurance; exploitation agreement or concession; joint venture and other forms of industrial or business cooperation; carriage of goods or passengers by air, sea, rail or road.

Article 2. Definitions

For the purposes of this Law:

(a) "Data message" means information generated, sent, received or stored by electronic, optical or similar means including, but not limited to, electronic data interchange (EDI), electronic mail, telegram, telex or telecopy;

(b) "Electronic data interchange (EDI)" means the electronic transfer from computer to computer of information using an agreed standard to structure the information;

(c) "Originator" of a data message means a person by whom, or on whose behalf, the data message purports to have been sent or generated prior to storage, if any, but it does not include a person acting as an intermediary with respect to that data message;

(d) "Addressee" of a data message means a person who is intended by the originator to receive the data message, but does not include a person acting as an intermediary with respect to that data message;

(e) "Intermediary", with respect to a particular data message, means a person who, on behalf of another person, sends, receives or stores that data message or provides other services with respect to that data message;

(f) "Information system" means a system for generating, sending, receiving, storing or otherwise processing data messages.

Article 3. Interpretation

(1) In the interpretation of this Law, regard is to be had to its international origin and to the need to promote uniformity in its application and the observance of good faith.

(2) Questions concerning matters governed by this Law which are not expressly settled in it are to be settled in conformity with the general principles on which this Law is based.

Article 4. Variation by agreement

(1) As between parties involved in generating, sending, receiving, storing or otherwise processing data messages, and except as

otherwise provided, the provisions of chapter III may be varied by agreement.

(2) Paragraph (1) does not affect any right that may exist to modify by agreement any rule of law referred to in chapter II.

CHAPTER II. APPLICATION OF LEGAL REQUIREMENTS TO DATA MESSAGES

Article 5. Legal recognition of data messages

Information shall not be denied legal effect, validity or enforceability solely on the grounds that it is in the form of a data message.

Article 5 bis. *Incorporation by reference*

(as adopted by the Commission at its thirty-first session, in June 1998)

Information shall not be denied legal effect, validity or enforceability solely on the grounds that it is not contained in the data message purporting to give rise to such legal effect, but is merely referred to in that data message.

Article 6. Writing

(1) Where the law requires information to be in writing, that requirement is met by a data message if the information contained therein is accessible so as to be usable for subsequent reference.

(2) Paragraph (1) applies whether the requirement therein is in the form of an obligation or whether the law simply provides consequences for the information not being in writing.

(3) The provisions of this article do not apply to the following: [...].

Article 7. Signature

(1) Where the law requires a signature of a person, that requirement is met in relation to a data message if:

(a) a method is used to identify that person and to indicate that person's approval of the information contained in the data message; and

(b) that method is as reliable as was appropriate for the purpose for which the data message was generated or communicated, in the light of all the circumstances, including any relevant agreement.

(2) Paragraph (1) applies whether the requirement therein is in the form of an obligation or whether the law simply provides consequences for the absence of a signature.

(3) The provisions of this article do not apply to the following: [...].

Article 8. Original

(1) Where the law requires information to be presented or retained in its original form, that requirement is met by a data message if:

(a) there exists a reliable assurance as to the integrity of the information from the time when it was first generated in its final form, as a data message or otherwise; and

(b) where it is required that information be presented, that information is capable of being displayed to the person to whom it is to be presented.

(2) Paragraph (1) applies whether the requirement therein is in the form of an obligation or whether the law simply provides consequences for the information not being presented or retained in its original form.

(3) For the purposes of subparagraph *(a)* of paragraph (1):

(a) the criteria for assessing integrity shall be whether the information has remained complete and unaltered, apart from the addition of any endorsement and any change which arises in the normal course of communication, storage and display; and

(b) the standard of reliability required shall be assessed in the light of the purpose for which the information was generated and in the light of all the relevant circumstances.

(4) The provisions of this article do not apply to the following: [...].

Article 9. Admissibility and evidential weight of data messages

(1) In any legal proceedings, nothing in the application of the rules of evidence shall apply so as to deny the admissibility of a data message in evidence:

(a) on the sole ground that it is a data message; or,

(b) if it is the best evidence that the person adducing it could reasonably be expected to obtain, on the grounds that it is not in its original form.

(2) Information in the form of a data message shall be given due evidential weight. In assessing the evidential weight of a data message, regard shall be had to the reliability of the manner in which the data message was generated, stored or communicated, to the reliability of the manner in which the integrity of the information was maintained, to the manner in which its originator was identified, and to any other relevant factor.

Article 10. Retention of data messages

(1) Where the law requires that certain documents, records or information be retained, that requirement is met by retaining data messages, provided that the following conditions are satisfied:

(a) the information contained therein is accessible so as to be usable for subsequent reference; and

(b) the data message is retained in the format in which it was generated, sent or received, or in a format which can be demonstrated to represent accurately the information generated, sent or received; and

(c) such information, if any, is retained as enables the identification of the origin and destination of a data message and the date and time when it was sent or received.

(2) An obligation to retain documents, records or information in accordance with paragraph (1) does not extend to any information the sole purpose of which is to enable the message to be sent or received.

(3) A person may satisfy the requirement referred to in paragraph (1) by using the services of any other person, provided that the conditions set forth in subparagraphs *(a)*, *(b)* and *(c)* of paragraph (1) are met.

CHAPTER III. COMMUNICATION OF DATA MESSAGES

Article 11. Formation and validity of contracts

(1) In the context of contract formation, unless otherwise agreed by the parties, an offer and the acceptance of an offer may be expressed by means of data messages. Where a data message is used in the formation of a contract, that contract shall not be denied validity or enforceability on the sole ground that a data message was used for that purpose.

(2) The provisions of this article do not apply to the following: [...].

Article 12. Recognition by parties of data messages

(1) As between the originator and the addressee of a data message, a declaration of will or other statement shall not be denied legal effect, validity or enforceability solely on the grounds that it is in the form of a data message.

(2) The provisions of this article do not apply to the following: [...].

Article 13. Attribution of data messages

(1) A data message is that of the originator if it was sent by the originator itself.

(2) As between the originator and the addressee, a data message is deemed to be that of the originator if it was sent:

(a) by a person who had the authority to act on behalf of the originator in respect of that data message; or

(b) by an information system programmed by, or on behalf of, the originator to operate automatically.

(3) As between the originator and the addressee, an addressee is entitled to regard a data message as being that of the originator, and to act on that assumption, if:

(a) in order to ascertain whether the data message was that of the originator, the addressee properly applied a procedure previously agreed to by the originator for that purpose; or

(b) the data message as received by the addressee resulted from the actions of a person whose relationship with the originator or with any agent of the originator enabled that person to gain access to a method used by the originator to identify data messages as its own.

(4) Paragraph (3) does not apply:

(a) as of the time when the addressee has both received notice from the originator that the data message is not that of the originator, and had reasonable time to act accordingly; or

(b) in a case within paragraph (3)*(b)*, at any time when the addressee knew or should have known, had it exercised reasonable care or used any agreed procedure, that the data message was not that of the originator.

(5) Where a data message is that of the originator or is deemed to be that of the originator, or the addressee is entitled to act on that assumption, then, as between the originator and the addressee, the addressee is entitled to regard the data message as received as being what the originator intended to send, and to act on that assumption. The addressee is not so entitled when it knew or should have known, had it exercised reasonable care or used any agreed procedure, that the transmission resulted in any error in the data message as received.

(6) The addressee is entitled to regard each data message received as a separate data message and to act on that assumption, except to the extent that it duplicates another data message and the addressee knew or should have known, had it exercised reasonable care or used any agreed procedure, that the data message was a duplicate.

Article 14. Acknowledgement of receipt

(1) Paragraphs (2) to (4) of this article apply where, on or before sending a data message, or by means of that data message, the originator has requested or has agreed with the addressee that receipt of the data message be acknowledged.

(2) Where the originator has not agreed with the addressee that the acknowledgement be given in a particular form or by a particular method, an acknowledgement may be given by

(a) any communication by the addressee, automated or otherwise, or

(b) any conduct of the addressee

sufficient to indicate to the originator that the data message has been received.

(3) Where the originator has stated that the data message is conditional on receipt of the acknowledgement, the data message is treated as though it has never been sent, until the acknowledgement is received.

(4) Where the originator has not stated that the data message is conditional on receipt of the acknowledgement, and the acknowledgement has not been received by the originator within the time specified or agreed or, if no time has been specified or agreed, within a reasonable time, the originator:

(a) may give notice to the addressee stating that no acknowledgement has been received and specifying a reasonable time by which the acknowledgement must be received; and

(b) if the acknowledgement is not received within the time specified in subparagraph *(a)*, may, upon notice to the addressee, treat the data message as though it had never been sent, or exercise any other rights it may have.

(5) Where the originator receives the addressee's acknowledgement of receipt, it is presumed that the related data message was received by the addressee. That presumption does not imply that the data message corresponds to the message received.

(6) Where the received acknowledgement states that the related data message met technical requirements, either agreed upon or set forth in applicable standards, it is presumed that those requirements have been met.

(7) Except in so far as it relates to the sending or receipt of the data message, this article is not intended to deal with the legal consequences that may flow either from that data message or from the acknowledgement of its receipt.

Article 15. Time and place of dispatch and receipt of data messages

(1) Unless otherwise agreed between the originator and the addressee, the dispatch of a data message occurs when it enters an information system outside the control of the originator or of the person who sent the data message on behalf of the originator.

(2) Unless otherwise agreed between the originator and the addressee, the time of receipt of a data message is determined as follows:

(a) if the addressee has designated an information system for the purpose of receiving data messages, receipt occurs:

(i) at the time when the data message enters the designated information system; or

(ii) if the data message is sent to an information system of the addressee that is not the designated information system, at the time when the data message is retrieved by the addressee;

(b) if the addressee has not designated an information system, receipt occurs when the data message enters an information system of the addressee.

(3) Paragraph (2) applies notwithstanding that the place where the information system is located may be different from the place where the data message is deemed to be received under paragraph (4).

(4) Unless otherwise agreed between the originator and the addressee, a data message is deemed to be dispatched at the place where the originator has its place of business, and is deemed to be received at the place where the addressee has its place of business. For the purposes of this paragraph:

(a) if the originator or the addressee has more than one place of business, the place of business is that which has the closest relationship to the underlying transaction or, where there is no underlying transaction, the principal place of business;

(b) if the originator or the addressee does not have a place of business, reference is to be made to its habitual residence.

(5) The provisions of this article do not apply to the following: [...].

Part two. Electronic commerce in specific areas

CHAPTER I. CARRIAGE OF GOODS

Article 16. Actions related to contracts of carriage of goods

Without derogating from the provisions of part one of this Law, this chapter applies to any action in connection with, or in pursuance of, a contract of carriage of goods, including but not limited to:

(a) (i) furnishing the marks, number, quantity or weight of goods;

(ii) stating or declaring the nature or value of goods;

(iii) issuing a receipt for goods;

(iv) confirming that goods have been loaded;

(b) (i) notifying a person of terms and conditions of the contract;

(ii) giving instructions to a carrier;

(c) (i) claiming delivery of goods;

(ii) authorizing release of goods;

(iii) giving notice of loss of, or damage to, goods;

(d) giving any other notice or statement in connection with the performance of the contract;

(e) undertaking to deliver goods to a named person or a person authorized to claim delivery;

(f) granting, acquiring, renouncing, surrendering, transferring or negotiating rights in goods;

(g) acquiring or transferring rights and obligations under the contract.

Article 17. Transport documents

(1) Subject to paragraph (3), where the law requires that any action referred to in article 16 be carried out in writing or by using a paper document, that requirement is met if the action is carried out by using one or more data messages.

(2) Paragraph (1) applies whether the requirement therein is in the form of an obligation or whether the law simply provides consequences for failing either to carry out the action in writing or to use a paper document.

(3) If a right is to be granted to, or an obligation is to be acquired by, one person and no other person, and if the law requires that, in order to effect this, the right or obligation must be conveyed to that person by the transfer, or use of, a paper document, that requirement is met if the right or obligation is conveyed by using one or more data messages, provided that a reliable method is used to render such data message or messages unique.

(4) For the purposes of paragraph (3), the standard of reliability required shall be assessed in the light of the purpose for which the right or obligation was conveyed and in the light of all the circumstances, including any relevant agreement.

(5) Where one or more data messages are used to effect any action in subparagraphs *(f)* and *(g)* of article 16, no paper document used to effect any such action is valid unless the use of data messages has been terminated and replaced by the use of paper documents. A paper document issued in these circumstances shall contain a statement of such termination. The replacement of data messages by paper documents shall not affect the rights or obligations of the parties involved.

(6) If a rule of law is compulsorily applicable to a contract of carriage of goods which is in, or is evidenced by, a paper document, that rule shall not be inapplicable to such a contract of carriage of goods which is evidenced by one or more data messages by reason of the fact that the contract is evidenced by such data message or messages instead of by a paper document.

(7) The provisions of this article do not apply to the following: [...].

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Annex II: 2001 UNCITRAL Model Law on Electronic Signatures

Chapter 1 of the 2001 UNCITRAL Model Law on Electronic Signatures follows. The full document is accessible at:
http://www.uncitral.org/uncitral/en/uncitral_texts/electronic_commerce/2001Model_signatures.html

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UNCITRAL Model Law on Electronic Signatures with Guide to Enactment 2001

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Contents

Page

Resolution adopted by the General Assembly vii

Part One

UNCITRAL MODEL LAW ON ELECTRONIC SIGNATURES (2001)

Article 1. Sphere of application 1
Article 2. Definitions 1
Article 3. Equal treatment of signature technologies 2
Article 4. Interpretation 2
Article 5. Variation by agreement 2
Article 6. Compliance with a requirement for a signature 2
Article 7. Satisfaction of article 6 3
Article 8. Conduct of the signatory 3
Article 9. Conduct of the certification service provider 4
Article 10. Trustworthiness 5
Article 11. Conduct of the relying party 5
Article 12. Recognition of foreign certificates and electronic signatures . . 6

Part Two

GUIDE TO ENACTMENT OF THE UNCITRAL MODEL LAW ON ELECTRONIC SIGNATURES (2001)

Purpose of this Guide 7

Chapter I. Introduction to the Model Law 8

I. PURPOSE AND ORIGIN OF THE MODEL LAW 8

A. Purpose 8

B. Background 9

C. History 11

II. THE MODEL LAW AS A TOOL FOR HARMONIZING LAWS . . . 18

III. GENERAL REMARKS ON ELECTRONIC SIGNATURES 19

A. Functions of signatures 19

B. Digital signatures and other electronic signatures 20

1. Electronic signatures relying on techniques other than public-key cryptography 21

Page

2. Digital signatures relying on public-key cryptography 22
(a) Technical notions and terminology 22
(i) Cryptography 22
(ii) Public and private keys 22
(iii) Hash function 23
(iv) Digital signature 24
(v) Verification of digital signature 24
(b) Public-key infrastructure and suppliers of certification services 25
(i) Public-key infrastructure 26
(ii) Certification service provider 27
(c) Summary of the digital signature process 30

IV. MAIN FEATURES OF THE MODEL LAW 31
A. Legislative nature of the Model Law 31
B. Relationship with the UNCITRAL Model Law on Electronic Commerce 32
1. New Model Law as a separate legal instrument 32
2. New Model Law fully consistent with the UNCITRAL Model Law on Electronic Commerce 32
3. Relationship with article 7 of the UNCITRAL Model Law on Electronic Commerce 33
C. "Framework" rules to be supplemented by technical regulations and contract 34
D. Added certainty as to the legal effects of electronic signatures . . 34
E. Basic rules of conduct for the parties involved 36
F. A technology-neutral framework 38
G. Non-discrimination of foreign electronic signatures 38

V. ASSISTANCE FROM THE UNCITRAL SECRETARIAT 38
A. Assistance in drafting legislation 38
B. Information on the interpretation of legislation based on the Model Law 39

Chapter II. Article-by-article remarks 39
Title 39
Article 1. Sphere of application 40
Article 2. Definitions 42
Article 3. Equal treatment of signature technologies 47

		Page
Article 4.	Interpretation	48
Article 5.	Variation by agreement	50
Article 6.	Compliance with a requirement for a signature	51
Article 7.	Satisfaction of article 6	57
Article 8.	Conduct of the signatory	60
Article 9.	Conduct of the certification service provider	63
Article 10.	Trustworthiness	66
Article 11.	Conduct of the relying party	67
Article 12.	Recognition of foreign certificates and electronic signatures	69

Resolution adopted by the General Assembly

[on the report of the Sixth Committee (A/56/588)]

56/80 Model Law on Electronic Signatures adopted by the United Nations Commission on International Trade Law

The General Assembly,

Recalling its resolution 2205 (XXI) of 17 December 1966, by which it established the United Nations Commission on International Trade Law, with a mandate to further the progressive harmonization and unification of the law of international trade and in that respect to bear in mind the interests of all peoples, and particularly those of developing countries, in the extensive development of international trade,

Noting that an increasing number of transactions in international trade are carried out by means of communication commonly referred to as electronic commerce, which involves the use of alternatives to paper-based forms of communication, storage and authentication of information,

Recalling the recommendation on the legal value of computer records adopted by the Commission at its eighteenth session, in 1985, and paragraph 5 *(b)* of General Assembly resolution 40/71 of 11 December 1985, in which the Assembly called upon Governments and international organizations to take action, where appropriate, in conformity with the recommendation of the Commission,[1] so as to ensure legal security in the context of the widest possible use of automated data processing in international trade,

Recalling also the Model Law on Electronic Commerce adopted by the Commission at its twenty-ninth session, in 1996,[2] complemented by an additional article 5 bis adopted by the Commission at its thirty-first session, in 1998,[3] and paragraph 2 of General Assembly resolution 51/162 of 16 December 1996, in which the Assembly recommended that all States should give favourable consideration to the Model Law when enacting or revising their laws, in view of the need for uniformity of the law applicable to alternatives to paper-based methods of communication and storage of information,

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[1] *Official Records of the Genreal Assembly, Fortieth Session, Supplement No. 17* (A/40/17), chap. VI, sect. B.

[2] Ibid., Fifty-first Session, Supplement No. 17 (A/51/17), para. 209.

[3] Ibid., Fifty-third Session, Supplement No. 17 (A/53/17), chap. III, B.

Convinced that the Model Law on Electronic Commerce is of significant assistance to States in enabling or facilitating the use of electronic commerce, as demonstrated by the enactment of that Model Law in a number of countries and its universal recognition as an essential reference in the field of electronic commerce legislation,

Mindful of the great utility of new technologies used for personal identification in electronic commerce and commonly referred to as electronic signatures,

Desiring to build on the fundamental principles underlying article 7 of the Model Law on Electronic Commerce[4] with respect to the fulfilment of the signature function in an electronic environment, with a view to promoting reliance on electronic signatures for producing legal effect where such electronic signatures are functionally equivalent to handwritten signatures,

Convinced that legal certainty in electronic commerce will be enhanced by the harmonization of certain rules on the legal recognition of electronic signatures on a technologically neutral basis and by the establishment of a method to assess in a technologically neutral manner the practical reliability and the commercial adequacy of electronic signature techniques,

Believing that the Model Law on Electronic Signatures will constitute a useful addition to the Model Law on Electronic Commerce and significantly assist States in enhancing their legislation governing the use of modern authentication techniques and in formulating such legislation where none currently exists,

Being of the opinion that the establishment of model legislation to facilitate the use of electronic signatures in a manner acceptable to States with different legal, social and economic systems could contribute to the development of harmonious international economic relations,

1. *Expresses its appreciation* to the United Nations Commission on International Trade Law for completing and adopting the Model Law on Electronic Signatures contained in the annex to the present resolution, and for preparing the Guide to Enactment of the Model Law;

2 *Recommends* that all States give favourable consideration to the Model Law on Electronic Signatures, together with the Model Law on Electronic Commerce adopted in 1996 and complemented in 1998, when they enact or revise their laws, in view of the need for uniformity of the law applicable to alternatives to paper-based forms of communication, storage and authentication of information;

3 *Recommends* also that all efforts be made to ensure that the Model Law on Electronic Commerce and the Model Law on Electronic Signatures, together with their respective Guides to Enactment, become generally known and available.

85th plenary meeting
12 December 2001

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[4]General Assembly resolution 51/162, annex.

Part One

UNCITRAL Model Law on Electronic Signatures (2001)

Article 1. Sphere of application

This Law applies where electronic signatures are used in the context* of commercial** activities. It does not override any rule of law intended for the protection of consumers.

Article 2. Definitions

For the purposes of this Law:

(a) "Electronic signature" means data in electronic form in, affixed to or logically associated with, a data message, which may be used to identify the signatory in relation to the data message and to indicate the signatory's approval of the information contained in the data message;

(b) "Certificate" means a data message or other record confirming the link between a signatory and signature creation data;

(c) "Data message" means information generated, sent, received or stored by electronic, optical or similar means including, but not limited to, electronic data interchange (EDI), electronic mail, telegram, telex or telecopy; and acts either on its own behalf or on behalf of the person it represents;

(d) "Signatory" means a person that holds signature creation data and acts either on its own behalf or on behalf of the person it represents;

---

*The Commission suggests the following text for States that might wish to extend the applicability of this Law:

"This Law applies where electronic signatures are used, except in the following situations: [...]."

**The term "commercial" should be given a wide interpretation so as to cover matters arising from all relationships of a commercial nature, whether contractual or not. Relationships of a commercial nature include, but are not limited to, the following transactions: any trade transaction for the supply or exchange of goods or services; distribution agreement; commercial representation or agency; factoring; leasing; construction of works; consulting; engineering; licensing; investment; financing; banking; insurance; exploitation agreement or concession; joint venture and other forms of industrial or business cooperation; carriage of goods or passengers by air, sea, rail or road.

(e) "Certification service provider" means a person that issues certificates and may provide other services related to electronic signatures;

(f) "Relying party" means a person that may act on the basis of a certificate or an electronic signature.

Article 3. Equal treatment of signature technologies

Nothing in this Law, except article 5, shall be applied so as to exclude, restrict or deprive of legal effect any method of creating an electronic signature that satisfies the requirements referred to in article 6, paragraph 1, or otherwise meets the requirements of applicable law.

Article 4. Interpretation

1. In the interpretation of this Law, regard is to be had to its international origin and to the need to promote uniformity in its application and the observance of good faith.

2. Questions concerning matters governed by this Law which are not expressly settled in it are to be settled in conformity with the general principles on which this Law is based.

Article 5. Variation by agreement

The provisions of this Law may be derogated from or their effect may be varied by agreement, unless that agreement would not be valid or effective under applicable law.

Article 6. Compliance with a requirement for a signature

1. Where the law requires a signature of a person, that requirement is met in relation to a data message if an electronic signature is used that is as reliable as was appropriate for the purpose for which the data message was generated or communicated, in the light of all the circumstances, including any relevant agreement.

2. Paragraph 1 applies whether the requirement referred to therein is in the form of an obligation or whether the law simply provides consequences for the absence of a signature.

3. An electronic signature is considered to be reliable for the purpose of satisfying the requirement referred to in paragraph 1 if:

(a) The signature creation data are, within the context in which they are used, linked to the signatory and to no other person;

(b) The signature creation data were, at the time of signing, under the control of the signatory and of no other person;

(c) Any alteration to the electronic signature, made after the time of signing, is detectable; and

(d) Where a purpose of the legal requirement for a signature is to provide assurance as to the integrity of the information to which it relates, any alteration made to that information after the time of signing is detectable.

4. Paragraph 3 does not limit the ability of any person:

(a) To establish in any other way, for the purpose of satisfying the requirement referred to in paragraph 1, the reliability of an electronic signature; or

(b) To adduce evidence of the non-reliability of an electronic signature.

5. The provisions of this article do not apply to the following: [...].

Article 7. Satisfaction of article 6

1. *[Any person, organ or authority, whether public or private, specified by the enacting State as competent]* may determine which electronic signatures satisfy the provisions of article 6 of this Law.

2. Any determination made under paragraph 1 shall be consistent with recognized international standards.

3. Nothing in this article affects the operation of the rules of private international law.

Article 8. Conduct of the signatory

1. Where signature creation data can be used to create a signature that has legal effect, each signatory shall:

(a) Exercise reasonable care to avoid unauthorized use of its signature creation data;

(b) Without undue delay, utilize means made available by the certification service provider pursuant to article 9 of this Law, or otherwise use reasonable efforts, to notify any person that may reasonably be expected by the signatory to rely on or to provide services in support of the electronic signature if:

(i) The signatory knows that the signature creation data have been compromised; or

(ii) The circumstances known to the signatory give rise to a substantial risk that the signature creation data may have been compromised;

(c) Where a certificate is used to support the electronic signature, exercise reasonable care to ensure the accuracy and completeness of all material representations made by the signatory that are relevant to the certificate throughout its life cycle or that are to be included in the certificate.

2. A signatory shall bear the legal consequences of its failure to satisfy the requirements of paragraph 1.

Article 9. Conduct of the certification service provider

1. Where a certification service provider provides services to support an electronic signature that may be used for legal effect as a signature, that certification service provider shall:

(a) Act in accordance with representations made by it with respect to its policies and practices;

(b) Exercise reasonable care to ensure the accuracy and completeness of all material representations made by it that are relevant to the certificate throughout its life cycle or that are included in the certificate;

(c) Provide reasonably accessible means that enable a relying party to ascertain from the certificate:

(i) The identity of the certification service provider;

(ii) That the signatory that is identified in the certificate had control of the signature creation data at the time when the certificate was issued;

(iii) That signature creation data were valid at or before the time when the certificate was issued;

(d) Provide reasonably accessible means that enable a relying party to ascertain, where relevant, from the certificate or otherwise:

(i) The method used to identify the signatory;

(ii) Any limitation on the purpose or value for which the signature creation data or the certificate may be used;

(iii) That the signature creation data are valid and have not been compromised;

(iv) Any limitation on the scope or extent of liability stipulated by the certification service provider;

(v) Whether means exist for the signatory to give notice pursuant to article 8, paragraph 1 *(b)*, of this Law;

(vi) Whether a timely revocation service is offered;

(e) Where services under subparagraph *(d)* (v) are offered, provide a means for a signatory to give notice pursuant to article 8, paragraph 1 *(b)*, of this Law and, where services under subparagraph *(d)* (vi) are offered, ensure the availability of a timely revocation service;

(f) Utilize trustworthy systems, procedures and human resources in performing its services.

2. A certification service provider shall bear the legal consequences of its failure to satisfy the requirements of paragraph 1.

Article 10. Trustworthiness

For the purposes of article 9, paragraph 1 *(f)*, of this Law in determining whether, or to what extent, any systems, procedures and human resources utilized by a certification service provider are trustworthy, regard may be had to the following factors:

(a) Financial and human resources, including existence of assets;

(b) Quality of hardware and software systems;

(c) Procedures for processing of certificates and applications for certificates and retention of records;

(d) Availability of information to signatories identified in certificates and to potential relying parties;

(e) Regularity and extent of audit by an independent body;

(f) The existence of a declaration by the State, an accreditation body or the certification service provider regarding compliance with or existence of the foregoing; or

(g) Any other relevant factor.

Article 11. Conduct of the relying party

A relying party shall bear the legal consequences of its failure:

(a) To take reasonable steps to verify the reliability of an electronic signature; or

(b) Where an electronic signature is supported by a certificate, to take reasonable steps:

(i) To verify the validity, suspension or revocation of the certificate; and

(ii) To observe any limitation with respect to the certificate.

Article 12. Recognition of foreign certificates and electronic signatures

1. In determining whether, or to what extent, a certificate or an electronic signature is legally effective, no regard shall be had:

(a) To the geographic location where the certificate is issued or the electronic signature created or used; or

(b) To the geographic location of the place of business of the issuer or signatory.

2. A certificate issued outside *[the enacting State]* shall have the same legal effect in *[the enacting State]* as a certificate issued in *[the enacting State]* if it offers a substantially equivalent level of reliability.

3. An electronic signature created or used outside *[the enacting State]* shall have the same legal effect in *[the enacting State]* as an electronic signature created or used in *[the enacting State]* if it offers a substantially equivalent level of reliability.

4. In determining whether a certificate or an electronic signature offers a substantially equivalent level of reliability for the purposes of paragraph 2 or 3, regard shall be had to recognized international standards and to any other relevant factors.

5. Where, notwithstanding paragraphs 2, 3 and 4, parties agree, as between themselves, to the use of certain types of electronic signatures or certificates, that agreement shall be recognized as sufficient for the purposes of cross-border recognition, unless that agreement would not be valid or effective under applicable law.

Annex III: Selections from Draft Kenya Information Communication Technology (ICT) Bill (2006)

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48. Legal recognition of electronic Records

48. Where the law provides that information or other matter shall be in writing then, notwithstanding anything contained in such a law, such requirement shall be deemed to have been satisfied if such information or matter is:-

(a) rendered or made available in an electronic form; and

(b) accessible so as to be usable for a subsequent reference.

49. Retention of Electronic Records

49(1)Where any law provides that documents, records or information shall be retained for any specific period, then, that requirement shall be deemed to have been satisfied if such documents, records or information are retained in electronic form, and if:

(a) the information contained therein remains accessible so as to be usable for subsequent reference;

(b) the electronic record is retained in the format in which it was originally generated, sent or received or in a format which can be demonstrated to represent accurately the information originally generated, sent or received; and

(c) The details which will facilitate the identification of the original destination, date and time of dispatch or receipt of such electronic record are available in the electronic record.

Provided that this clause does not apply to any information, which is automatically generated solely for the purpose of enabling an electronic record to be dispatched or received.

50. Retention of information in original form

50(1) Where the law requires information to be presented or retained in its original form, that requirement is met by electronic record if:

(a) there exists a reliable assurance as to the integrity of the information from the time when it was first generated in its final form, as a electronic message or otherwise; and

(b) where it is required that information be presented, that information is capable of being displayed to the person to whom it is to be presented.

(2) subsection (1) applies whether the requirement therein is in the form of an obligation or whether the law simply provides consequences for the information not being presented or retained in its original form.

(3) For the purposes of (a) of subsection (1):

(a) the criteria for assessing integrity shall be whether the information has remained complete and unaltered, apart from the addition of any endorsement and any change which arises in the normal course of communication, storage and display; and

(b) the standard of reliability required shall be assessed in the light of the purpose for which the information was generated and in the light of all the relevant circumstances.

Comments:
If any law provides that documents, records or information are required to be retained for any specific period then, that requirement shall be deemed to have been satisfied if the same is retained in electronic form.

55. Secure Electronic Record

55. Where any security procedure has been applied to an electronic record at a specific point of time, then such record shall be deemed to be a secure electronic record from that point of time to verification.

56. Compliance with Requirement for a Signature

56(1) Where the law requires a signature of a person, that requirement is met in relation to a electronic message if an electronic signature is used that is as reliable as was appropriate for the purpose for which the electronic message was generated or communicated, in the light of all the circumstances, including any relevant agreement.

(2)Sub-section (1) applies whether the requirement referred to therein is in the form of an obligation or whether the law simply provides consequences for the absence of a signature.

(3) An electronic signature is considered to be reliable for the purpose of satisfying the requirement referred to in sub-section (1) if:

(a) the signature creation data are, within the context in which they are used, linked to the signatory and to no other person;

(b) the signature creation data were, at the time of signing, under the control of the signatory and of no other person;

(c) any alteration to the electronic signature, made after the time of signing, is detectable; and

(d) where the purpose of the legal requirement for a signature is to provide assurance as to the integrity of the information to which it relates, any alteration made to that information after the time of signing is detectable.

57. Legal recognition of Electronic signatures

57. Where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person, then, notwithstanding anything contained in the law, such requirement shall be deemed to have been satisfied, if such information is authenticated by means of an electronic signature affixed in such a manner as may be prescribed by the Minister.

Comment:
This section provides for the recognition of electronic signatures according to the provisions of the UNCITRAL model law on electronic signatures adopted by the UN Assembly on

58. Protected Systems

58. (1) The Minister may, by notification in the Kenya Gazette, declare that any computer system or computer network is a protected system.

(2) The Minister may, by order in writing, authorise the persons who are authorised to access protected systems notified under sub-section (1).

Comment:
As the government will start relying more on its information technology resources, certain resources will require legal protection against unauthorized entry due to the sensitivity and dependence of the country on such resources.

59. Regulations for Electronic Signatures

59. The Minister may, for the purposes of this Act, prescribe regulation on:

(a) the type of electronic signature;

(b) the manner and format in which the electronic signature shall be affixed;

(c) the manner and procedure which facilitates identification of the person affixing the electronic signature;

(d) control of the processes and procedures to ensure adequate integrity, security and confidentiality of electronic records or payments; and

(e) any other matter which is necessary to give legal effect to electronic signatures.

Comment:
As digital technology advances, so will the type and complexity of electronic signatures change. The minister following advice by the Commission shall have powers to prescribe the type and form of electronic signatures.

60. Use of electronic records and electronic signatures in Government and its agencies

60(1) Where the law provides for:

(a) the filling of any form, application or any other document with any office, authority, body or agency owned or controlled by the Government in a particular manner;

(b) the issue or grant of any licence, permit, sanction or approval by whatever name called in a particular manner; and

(c) the receipt of payment of money in a particular manner;

then notwithstanding anything contained in any law for the time being in force, such requirement shall be deemed to have been satisfied if such filing, issue, grant, receipt or payment, as the case may be, is effected by means of

such electronic form as may be prescribed by the Minister in consultation with the Commission.

(2) The Minister may, for the purposes of sub-section (1) by regulations prescribe:-

(a) the manner and format in which such electronic records shall be filled, created or used;

(b) the manner or method of payment of any fee or charges for filling, creation or issue of any electronic record under clause (a).

Comments:
This clause allows the use electronic transactions to support e-government services, i.e Government-to-citizen and government-to-business.

62. Tampering with Computer Source Documents

62. Whoever knowingly or intentionally conceals, destroys or alters or intentionally or knowingly causes another to conceal, destroy, or alter any computer source code used for a computer, computer programme, computer system or computer network, when the computer source code is required to be kept or maintained by law for the time being in force, shall be guilty of an offence punishable with imprisonment for a period not exceeding three years, or a fine not exceeding three hundred thousand shillings or both.

63. Hacking into Computer system

63 (1) Whoever with the intent to cause or knowing that he is likely to cause loss or damage to the public or any person destroys or deletes or alters any information in a computer resource or diminishes its value or utility or affects it injuriously by any means, commits hacking.

(2) A person who hacks into a computer system commits an offence and shall be liable on conviction to a fine not exceeding three hundred thousand shillings or imprisonment for a term not exceeding three years, or to both.

66. Unauthorized access to protected systems

66. Any person who secures access or attempts to secure access to a protected system in contravention of the provisions of this Part shall be guilty of an offence punishable with imprisonment for a term not exceeding five years or a fine not exceeding one million shillings or both.

ANNEX I

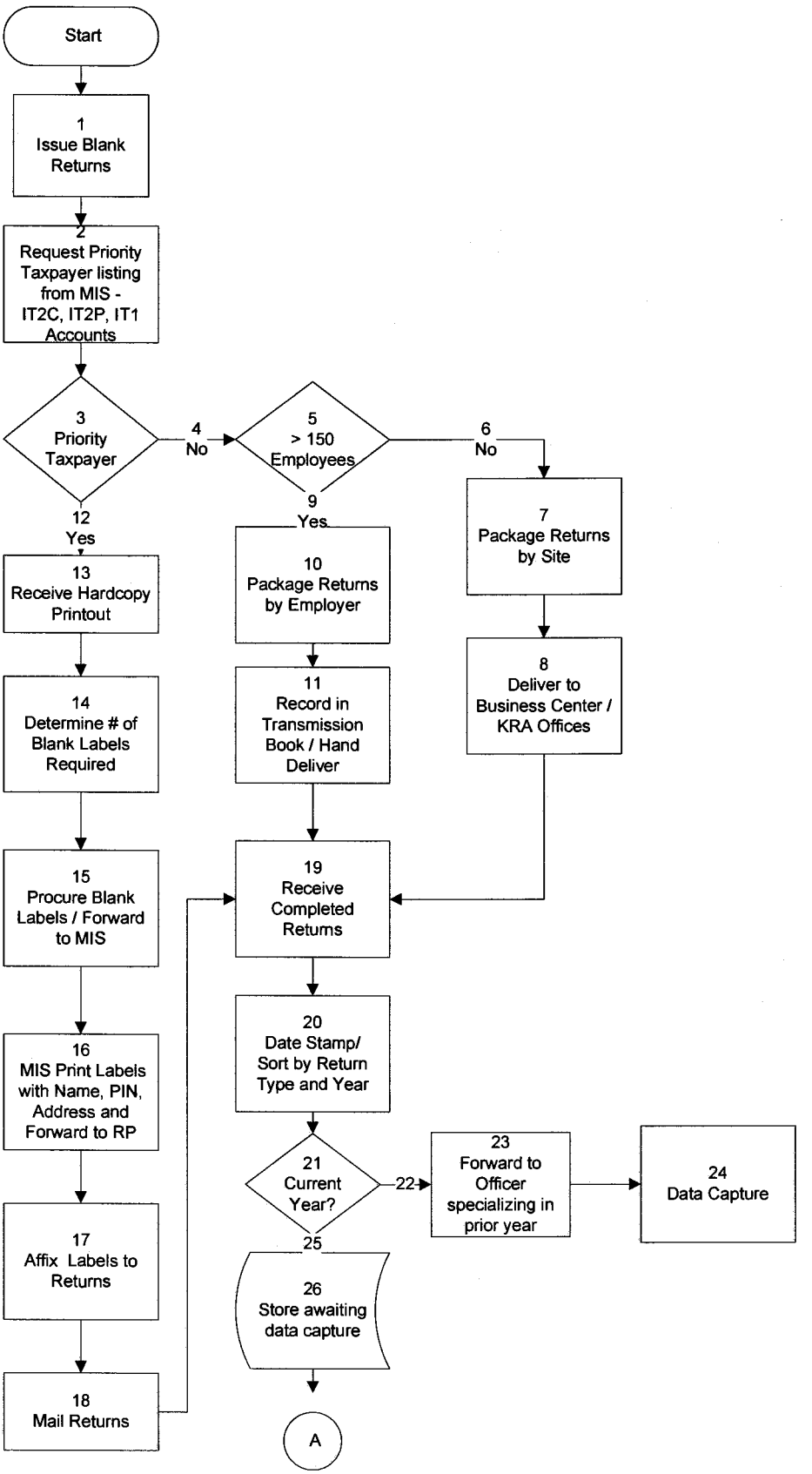
CURRENT PROCESSES

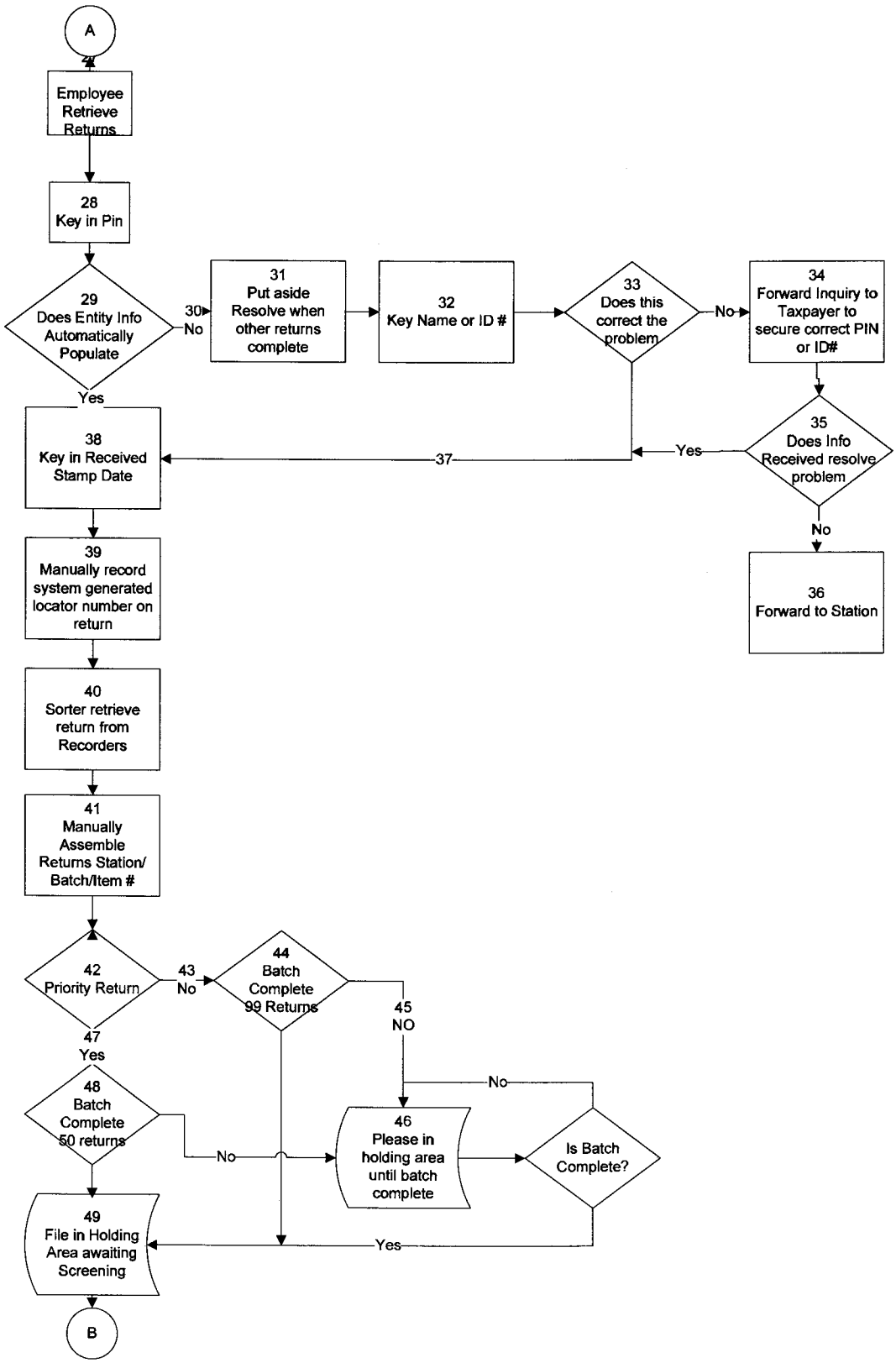
Sequences and Flow Diagrams

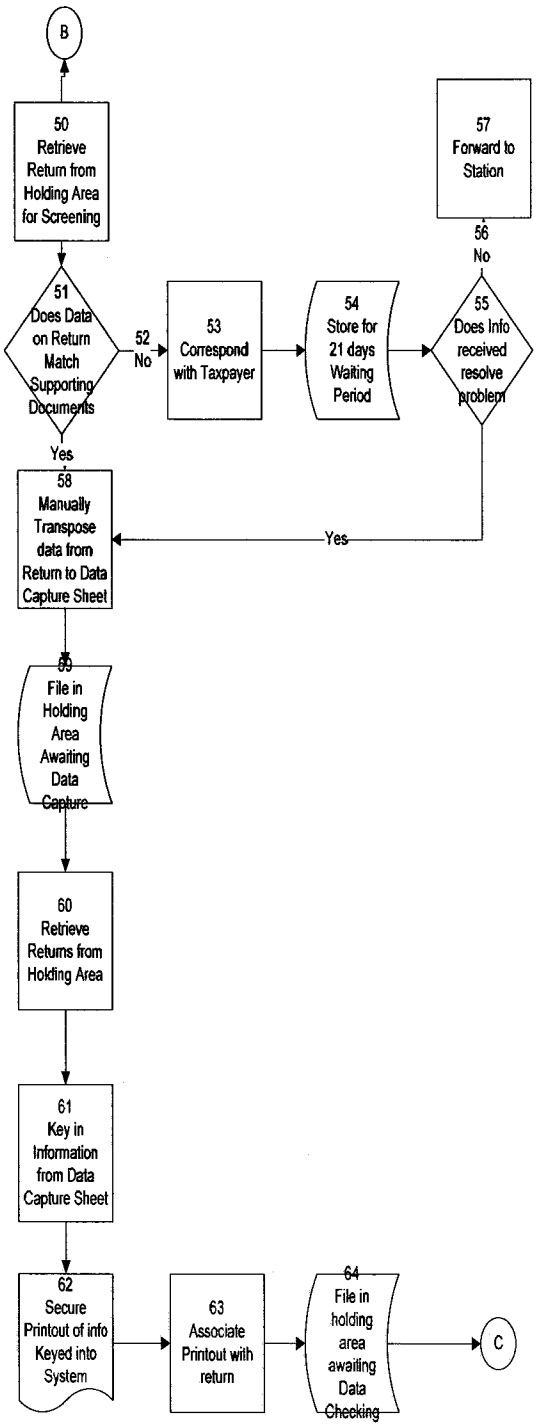
Returns Processing – Income Tax
Current Process

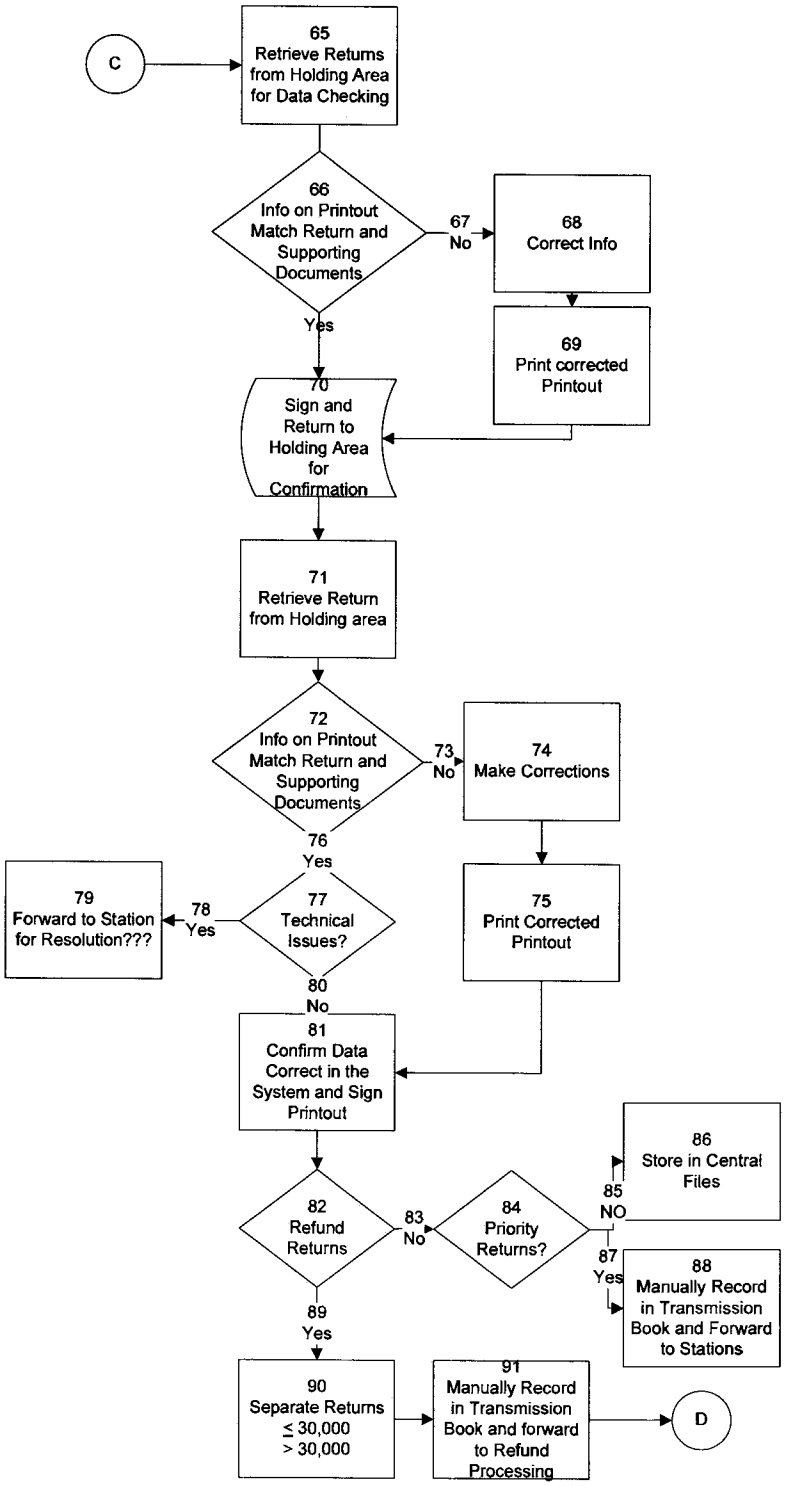
1. Issue blank returns
2. Request priority taxpayer listing from MIS – IT2C, IT2P, IT1 Accounts
3. *Priority Taxpayer*
4. No –
5. >150 Employees
6. No
7. Package Returns by site
8. Deliver to Business Centers / KRA Offices
9. 150 Employees - Yes
10. Package Returns by Employer
11. Record in Transmission Book / Hand Deliver
12. *Priority Taxpayer* -Yes
13. Receive Hardcopy Printout
14. Determine # of Blank Labels Required
15. Procure Blank labels / Forward to MIS
16. MIS Print Labels with Name, PIN, Address and forward to RP
17. Affix Labels to Returns
18. Mail Returns
19. Receive Completed Retuns
20. Date Stamp / Sort by Return Type and Year
21. *Current Year*
22. No
23. Forward to Officer specializing in prior year
24. Capture Data
25. *Current Year* - Yes
26. Store Awaiting Data Capture
27. Employee Retrieve Returns
28. Key in PIN
29. *Does data Entity Info Automatically Populate*
30. No
31. Put Aside – Resolve when other returns complete
32. Key Name or ID #
33. *Does this correct the problem*
34. No - Forward inquiry to taxpayer to secure correct PIN or ID#
35. *Does this resolve the problem*
36. No - Forward to Station
37. *Does this correct the problem* - Yes
38. Key in Received Stamp Data
39. Manually record system generated locator number of return
40. Sorter retrieve return from Recorders
41. Manually Assemble Returns Station / Batch / Item #
42. *Priority Return*
43. No
44. *Batch Complete 99 Returns*
45. No
46. Place in holding area until batch complete

47. Priority Return - Yes
48. Batch Complete 50 returns
49. File in holding area awaiting screening
50. Retrieve return from holding area for screening
51. *Does data on return match supporting documents*
52. No
53. Correspond with taxpayer
54. Store for 21 days waiting period
55. *Does information received resolve problem*
56. No
57. Forward to Station
58. *Does data on return match supporting documents Yes* - Manually transpose data from return to data capture sheet
59. File in holding area awaiting Data Capture
60. Retrieve returns from holding area
61. Key in information from Data Capture sheet
62. Secure printout of info keyed into system
63. Associate printout with return
64. File in holding area awaiting data checking
65. Retrieve Returns from holding area for data checking
66. *Info on printout match return and supporting documents*
67. No
68. Correct Info
69. Print corrected Printouts
70. Sign and return to holding area for confirmation
71. Retrieve return from holding area
72. *Info on Printout Match Return and Supporting Documents*
73. No
74. Make corrections
75. Print corrected printouts
76. *Info on Printout Match Return and Supporting Documents* - Yes
77. *Technical Issues*
78. Yes
79. Forward to the Stations for Resolution
80. Technical Issues - No
81. Confirm Data correct in the system and sign printout
82. *Refund Return*
83. No
84. *Priority Return*
85. No
86. Store in Central files
87. Priority Return - Yes
88. Manually Record in Transmission Book and Forward to Stations
89. *Refund Returns* -Yes
90. Separate Returns $\leq$ 30,000 and > 30,000
91. Manually Record in Transmission book and forward to Refund Processing


Start
1
Issue Blank Returns
2
Request Priority Taxpayer listing from MIS - IT2C, IT2P, IT1 Accounts
3
Priority Taxpayer
4
No
5
> 150 Employees
6
No
7
Package Returns by Site
8
Deliver to Business Center / KRA Offices
9
Yes
10
Package Returns by Employer
11
Record in Transmission Book / Hand Deliver
12
Yes
13
Receive Hardcopy Printout
14
Determine # of Blank Labels Required
15
Procure Blank Labels / Forward to MIS
16
MIS Print Labels with Name, PIN, Address and Forward to RP
17
Affix Labels to Returns
18
Mail Returns
19
Receive Completed Returns
20
Date Stamp/ Sort by Return Type and Year
21
Current Year?
22
23
Forward to Officer specializing in prior year
24
Data Capture
25
26
Store awaiting data capture
A

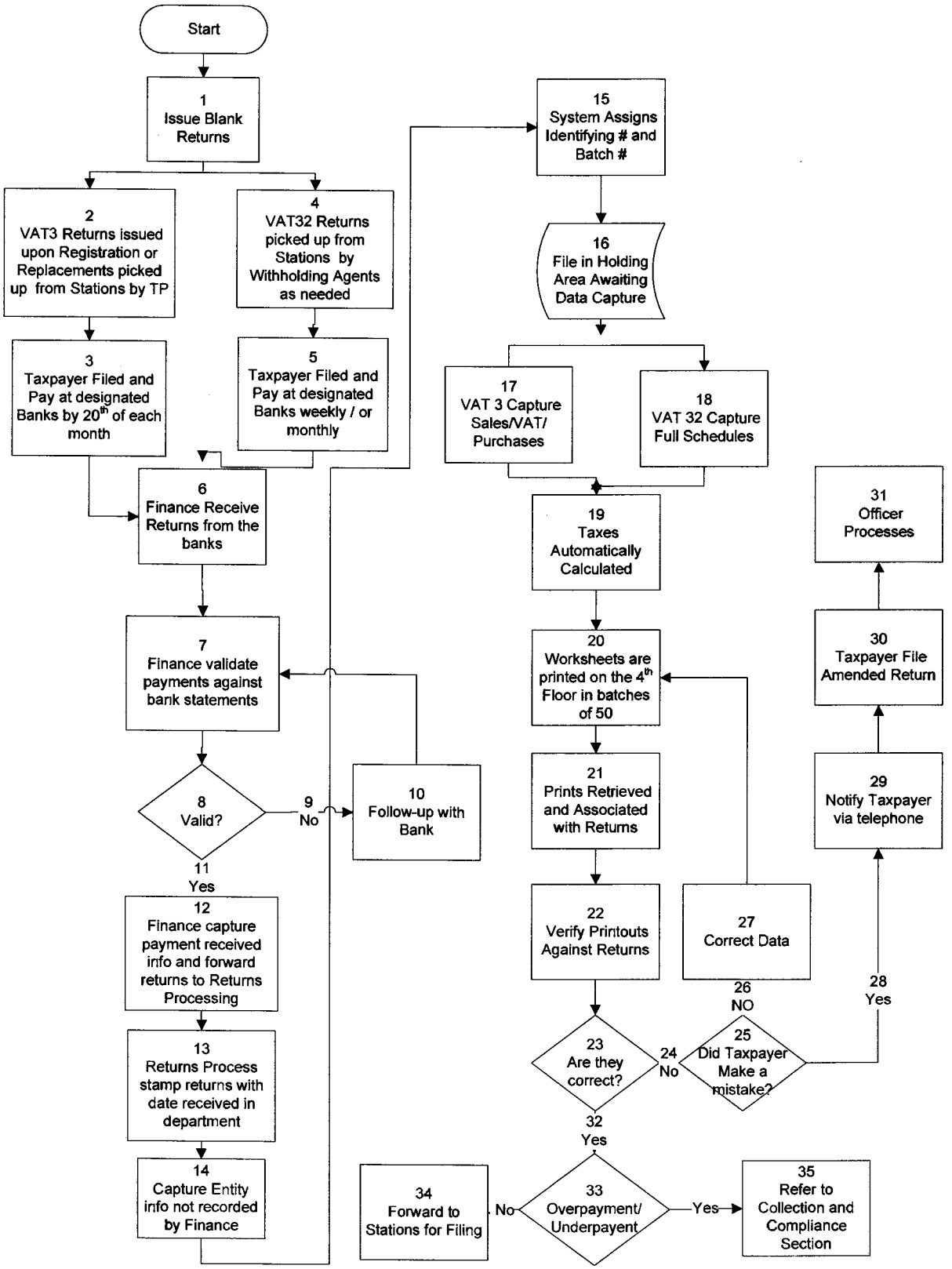

A
27
Employee Retrieve Returns
28
Key in Pin
29
Does Entity Info Automatically Populate
30
No
31
Put aside Resolve when other returns complete
32
Key Name or ID #
33
Does this correct the problem
No
34
Forward Inquiry to Taxpayer to secure correct PIN or ID#
35
Does Info Received resolve problem
Yes
No
36
Forward to Station
Yes
38
Key in Received Stamp Date
37
39
Manually record system generated locator number on return
40
Sorter retrieve return from Recorders
41
Manually Assemble Returns Station/ Batch/Item #
42
Priority Return
43
No
44
Batch Complete 99 Returns
45
NO
47
Yes
48
Batch Complete 50 returns
No
46
Please in holding area until batch complete
No
Is Batch Complete?
Yes
49
File in Holding Area awaiting Screening
B


B
50 Retrieve Return from Holding Area for Screening
51 Does Data on Return Match Supporting Documents
52 No
53 Correspond with Taxpayer
54 Store for 21 days Waiting Period
55 Does Info received resolve problem
56 No
57 Forward to Station
Yes
58 Manually Transpose data from Return to Data Capture Sheet
Yes
59 File in Holding Area Awaiting Data Capture
60 Retrieve Returns from Holding Area
61 Key in Information from Data Capture Sheet
62 Secure Printout of info Keyed into System
63 Associate Printout with return
64 File in holding area awaiting Data Checking
C


C
65
Retrieve Returns from Holding Area for Data Checking
66
Info on Printout Match Return and Supporting Documents
67
No
68
Correct Info
69
Print corrected Printout
Yes
70
Sign and Return to Holding Area for Confirmation
71
Retrieve Return from Holding area
72
Info on Printout Match Return and Supporting Documents
73
No
74
Make Corrections
76
Yes
77
Technical Issues?
78
Yes
79
Forward to Station for Resolution???
75
Print Corrected Printout
80
No
81
Confirm Data Correct in the System and Sign Printout
82
Refund Returns
83
No
84
Priority Returns?
85
NO
86
Store in Central Files
87
Yes
88
Manually Record in Transmission Book and Forward to Stations
89
Yes
90
Separate Returns
≤ 30,000
> 30,000
91
Manually Record in Transmission Book and forward to Refund Processing
D

Returns Processing – VAT
Current Process

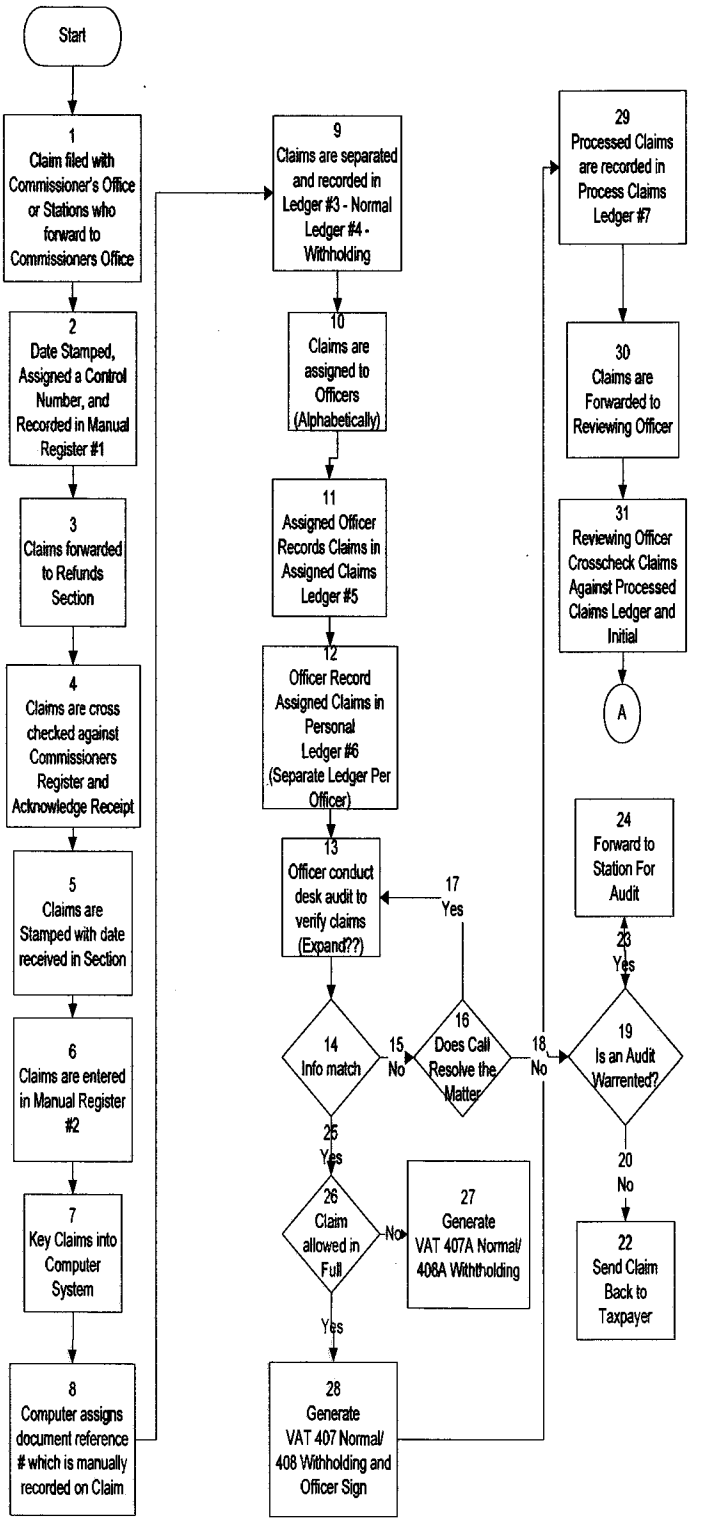
1. Issue Blank returns
2. VAT3 Returns issued upon registration or replacements picked up from stations
3. Taxpayer file and pay at designated banks by the 20th of each month
4. VAT 32 returns picked up from stations by withholding agents as needed
5. Taxpayer file and pay at designated banks weekly or monthly
6. Finance receive returns from the banks
7. Finance validate payments against bank statements
8. *Valid?*
9. No
10. Follow-up with bank
11. *Valid?* Yes
12. Finance capture payment received info and forward returns to Returns processing
13. Returns process stamp returns with date received in department
14. Capture entity info not recorded by Finance
15. System Assigns Identifying # and Batch #
16. File in holding area awaiting data capture
17. VAT 3 Returns – capture Sales/VAT/Purchases
18. VAT 32 Capture Full Schedule
19. Taxes automatically calculated
20. Worked sheets printed on another floor in batches of 50
21. Prints retrieved and associated with returns
22. Verify printouts against returns
23. *Info Correct*
24. No
25. *Did Taxpayer make a mistake*
26. No
27. Correct data - Worksheets printed on another floor
28. Did Taxpayer make a mistake - Yes
29. Notify taxpayer via telephone / writing
30. Taxpayer file Amended Return
31. Officer Processes amended return
32. Info Correct - Yes
33. *Overpayment/Underpayment*
34. No - Forward to Station for Filing
35. Yes - Refer to Collection and Compliance Section

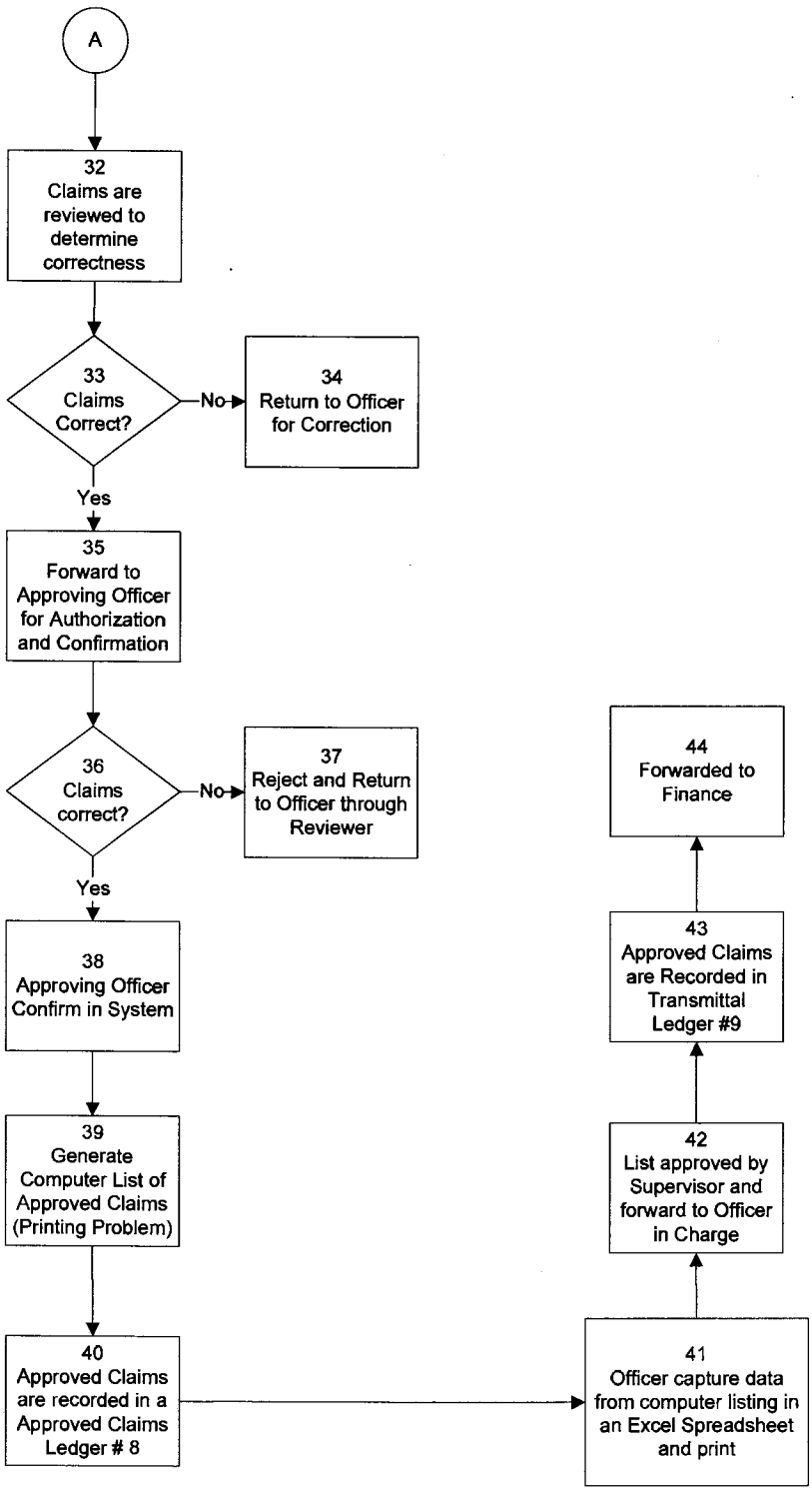

Start
1 Issue Blank Returns
2 VAT3 Returns issued upon Registration or Replacements picked up from Stations by TP
3 Taxpayer Filed and Pay at designated Banks by 20th of each month
4 VAT32 Returns picked up from Stations by Withholding Agents as needed
5 Taxpayer Filed and Pay at designated Banks weekly / or monthly
6 Finance Receive Returns from the banks
7 Finance validate payments against bank statements
8 Valid?
9 No
10 Follow-up with Bank
11 Yes
12 Finance capture payment received info and forward returns to Returns Processing
13 Returns Process stamp returns with date received in department
14 Capture Entity info not recorded by Finance
15 System Assigns Identifying # and Batch #
16 File in Holding Area Awaiting Data Capture
17 VAT 3 Capture Sales/VAT/ Purchases
18 VAT 32 Capture Full Schedules
19 Taxes Automatically Calculated
20 Worksheets are printed on the 4th Floor in batches of 50
21 Prints Retrieved and Associated with Returns
22 Verify Printouts Against Returns
23 Are they correct?
24 No
25 Did Taxpayer Make a mistake?
26 NO
27 Correct Data
28 Yes
29 Notify Taxpayer via telephone
30 Taxpayer File Amended Return
31 Officer Processes
32 Yes
33 Overpayment/ Underpayent
34 Forward to Stations for Filing
No
Yes
35 Refer to Collection and Compliance Section

Refunds Processing – VAT
Current Process

1. Claim filed with Commissioner's Office or Stations who forward to Commissioner's Office
2. Date stamp, assign a control number and record in manual Register #1
3. Claims forwarded to Refund section
4. Claims are cross checked against Commissioner's Office register and acknowledge receipt
5. Claims are stamped with date received in section
6. Claims are entered in manual register #2
7. Key claims into computer system
8. Computer assigns document reference # which is manually recorded on Claim
9. Claims are separated and recorded in Ledger #3 – Normal ; Ledger # 4 – Withholding
10. Claims are assigned to Officers (alphabetically)
11. Assigned Officer records claims in Ledger #5
12. Officer records assigned claims in personal Ledger # 6 (separate ledgers per officer)
13. Officer conduct desk audit to verify claims
14. *Does Info Match?*
15. No
16. *Does call resolve the matter*
17. Yes
18. Officer Conduct desk audit
19. *Does call resolve the matter*
20. No
21. *Is an audit warranted*
22. No
23. Send Claim back to taxpayer
24. Does call resolve the matter
25. Yes
26. *Forward to station for audit*
27. Does Info Match?
28. Yes
29. Claim allowed in full
30. No
31. Generate VAT 407A Normal / 408A withholding
32. Yes
33. Generate VAT 407 Normal / 408 Withholding and Officer Sign
34. Processed Claims are recorded in Process claims – Ledger #7
35. Claims are forwarded to reviewing Officer
36. Reviewing officer crosscheck claims against processed claims ledger and initial
37. Claims are reviewed to determine correctness
38. Claim correct
39. No
40. Return to officer for correction
41. Claim correct
42. Yes
43. forward to approving officer for authorization and confirmation
44. Claims correct
45. No
46. Reject and return to officer through reviewer

47. Claims correct
48. Yes
49. Approving Officer confirm in system
50. Generate computer list of approved claims (printing problems)
51. Approved Claims are recorded in a approved claims Ledger # 8
52. Officer capture data from computer listing in an Excel Spreadsheet and print
53. List approved by supervisor and forward to officer in charge
54. Approved claims are recorded in transmittal ledger # 9
55. Forwarded to Finance


Start
1 Claim filed with Commissioner's Office or Stations who forward to Commissioners Office
2 Date Stamped, Assigned a Control Number, and Recorded in Manual Register #1
3 Claims forwarded to Refunds Section
4 Claims are cross checked against Commissioners Register and Acknowledge Receipt
5 Claims are Stamped with date received in Section
6 Claims are entered in Manual Register #2
7 Key Claims into Computer System
8 Computer assigns document reference # which is manually recorded on Claim
9 Claims are separated and recorded in Ledger #3 - Normal Ledger #4 - Withholding
10 Claims are assigned to Officers (Alphabetically)
11 Assigned Officer Records Claims in Assigned Claims Ledger #5
12 Officer Record Assigned Claims in Personal Ledger #6 (Separate Ledger Per Officer)
13 Officer conduct desk audit to verify claims (Expand??)
14 Info match
15 No
16 Does Call Resolve the Matter
17 Yes
18 No
19 Is an Audit Warrented?
20 No
22 Send Claim Back to Taxpayer
23 Yes
24 Forward to Station For Audit
25 Yes
26 Claim allowed in Full
No
27 Generate VAT 407A Normal/ 408A Withtholding
Yes
28 Generate VAT 407 Normal/ 408 Withholding and Officer Sign
29 Processed Claims are recorded in Process Claims Ledger #7
30 Claims are Forwarded to Reviewing Officer
31 Reviewing Officer Crosscheck Claims Against Processed Claims Ledger and Initial
A

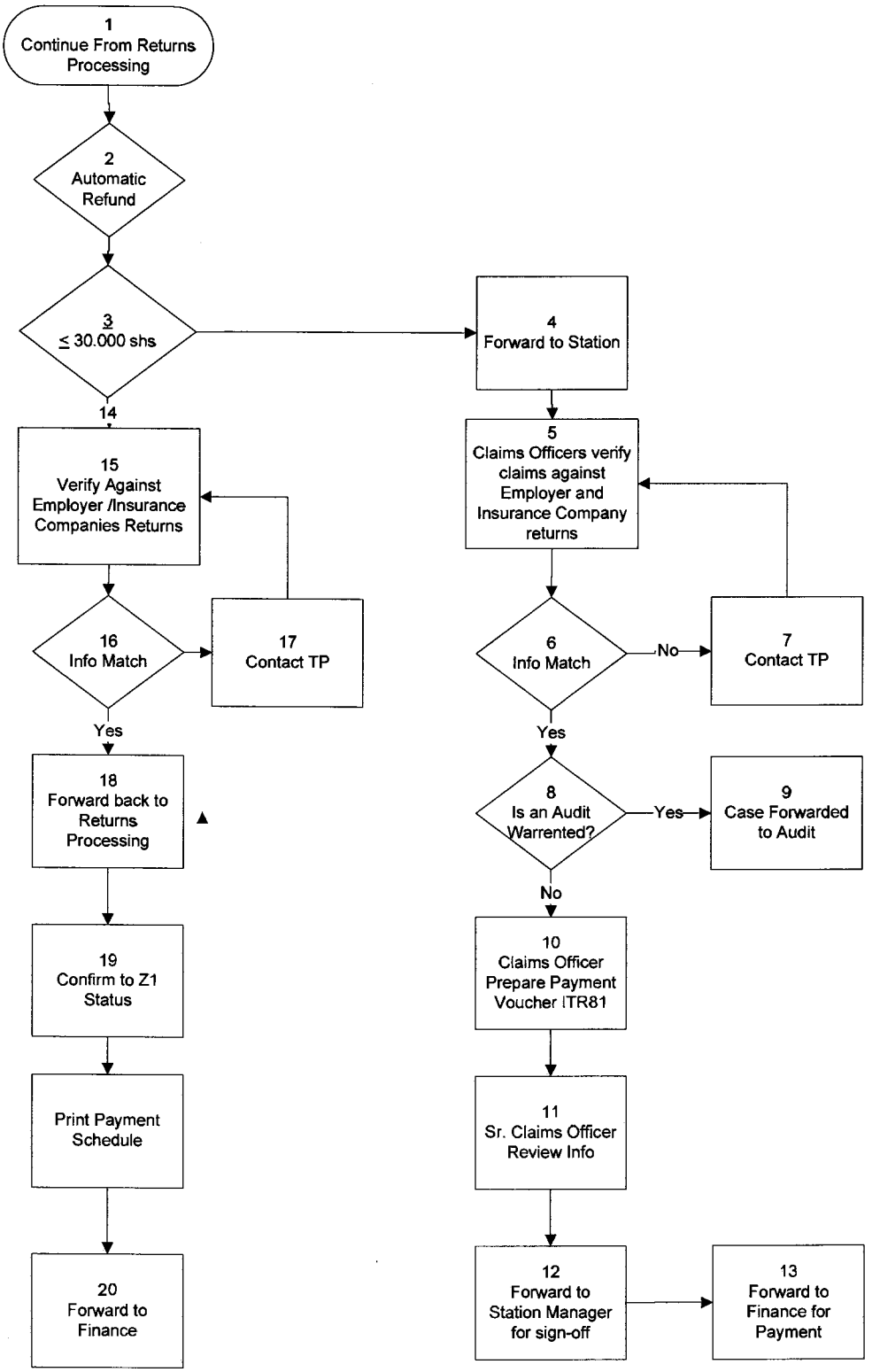

A
32
Claims are reviewed to determine correctness
33
Claims Correct?
No
34
Return to Officer for Correction
Yes
35
Forward to Approving Officer for Authorization and Confirmation
36
Claims correct?
No
37
Reject and Return to Officer through Reviewer
Yes
38
Approving Officer Confirm in System
39
Generate Computer List of Approved Claims (Printing Problem)
40
Approved Claims are recorded in a Approved Claims Ledger # 8
41
Officer capture data from computer listing in an Excel Spreadsheet and print
42
List approved by Supervisor and forward to Officer in Charge
43
Approved Claims are Recorded in Transmittal Ledger #9
44
Forwarded to Finance

Refunds Processing – Income Tax – Automatic Refund
Current Process

1. Continue from Return Processing Cycle
2. *Automatic refund*
3. *< 30,000 KSh*
4. No - Forward to station
5. Claims Officers verify claims against Employer and Insurance Company returns
6. Info match
7. No - Contact Taxpayer
8. *Info Match – Yes - Is an audit warranted?*
9. Yes - Forward to Audit
10. Is an audit warranted? - No - Claims Officer prepare payment Voucher ITR 81
11. Sr. Claims Officer Review Info
12. Forward to Station manager for sign-off
13. Forward to Finance for Payment
14. *< 30,000 KSh - Yes*
15. Verify against employer / Insurance companies returns
16. *Info Match*
17. No - Contact TP
18. Info match – Yes - Forward back to Returns Processing
19. Confirm to Z1 Status
20. Print Payment Schedule
21. Forward to Finance

Please note that there are no recommended changes to the overall process. However, risk assessment criteria should be developed to determine which cases would be subjected to review.

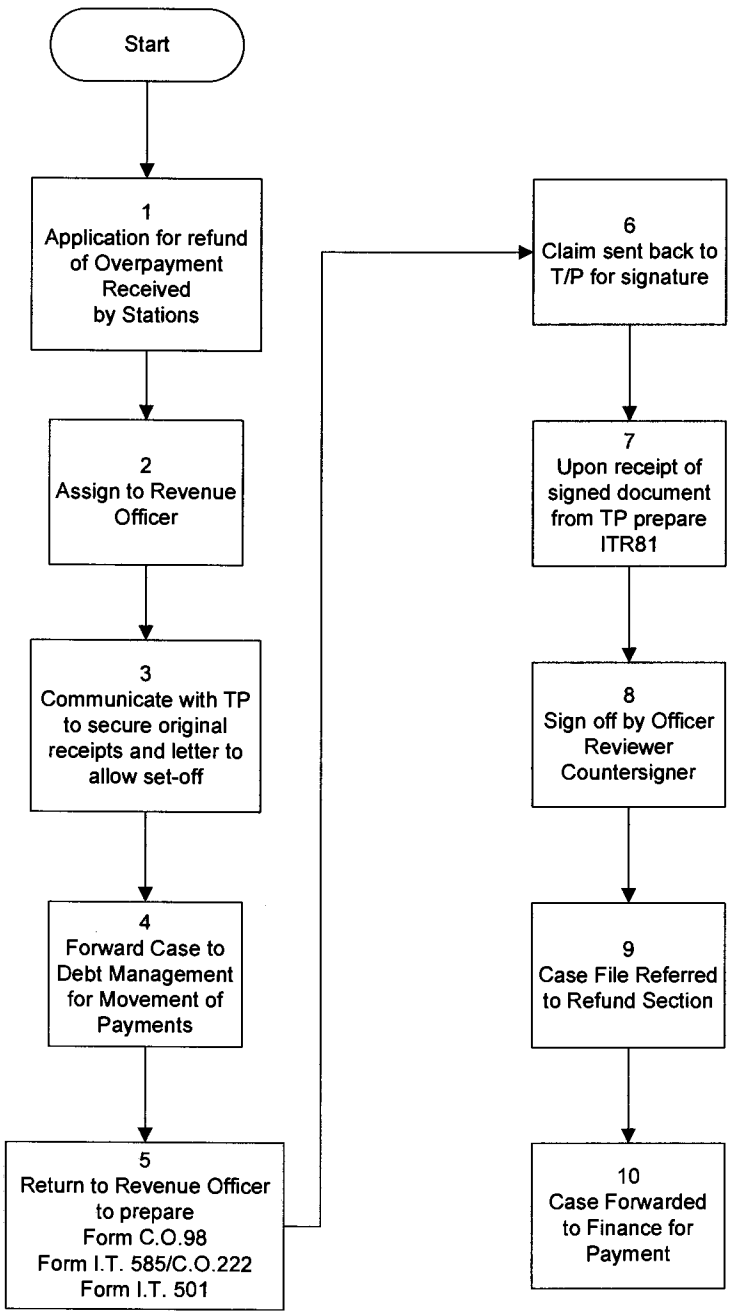
Refunds Processing – Income Tax – Automatic Refund – Current Process



Refunds Processing – Income Tax Overpayment
Current Process

1. Application for refund of overpayment received by stations
2. Assign to Revenue officer
3. Communicate with TP to secure original receipts and letter to allow set-off
4. Forward case to Debt Management for movement of payment
5. Return to Revenue Officer to prepare Form C.O. 98, Form I.T. 585, C.O. 222, Form I.T. 501
6. Claim sent back to T/P for signature
7. Upon receipt of signed document from TP prepare ITR 81
8. Sign off by Officer, Reviewer, and Counter signer
9. Case file referred to Refund Section
10. Case forwarded to Finance for Payment

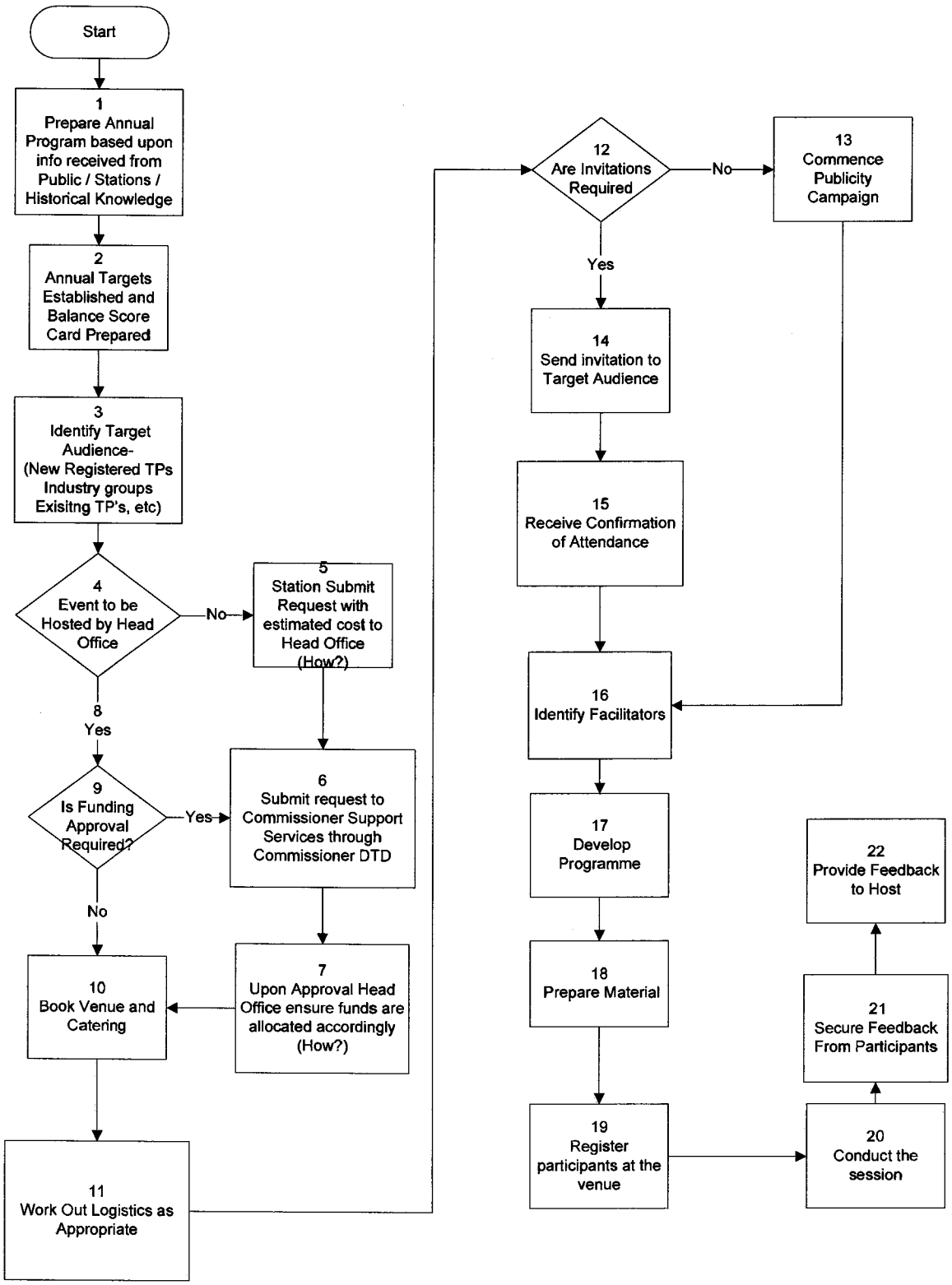
Refunds Processing – Income Tax Overpayment
Current Process



Taxpayer Education Services
Current Process

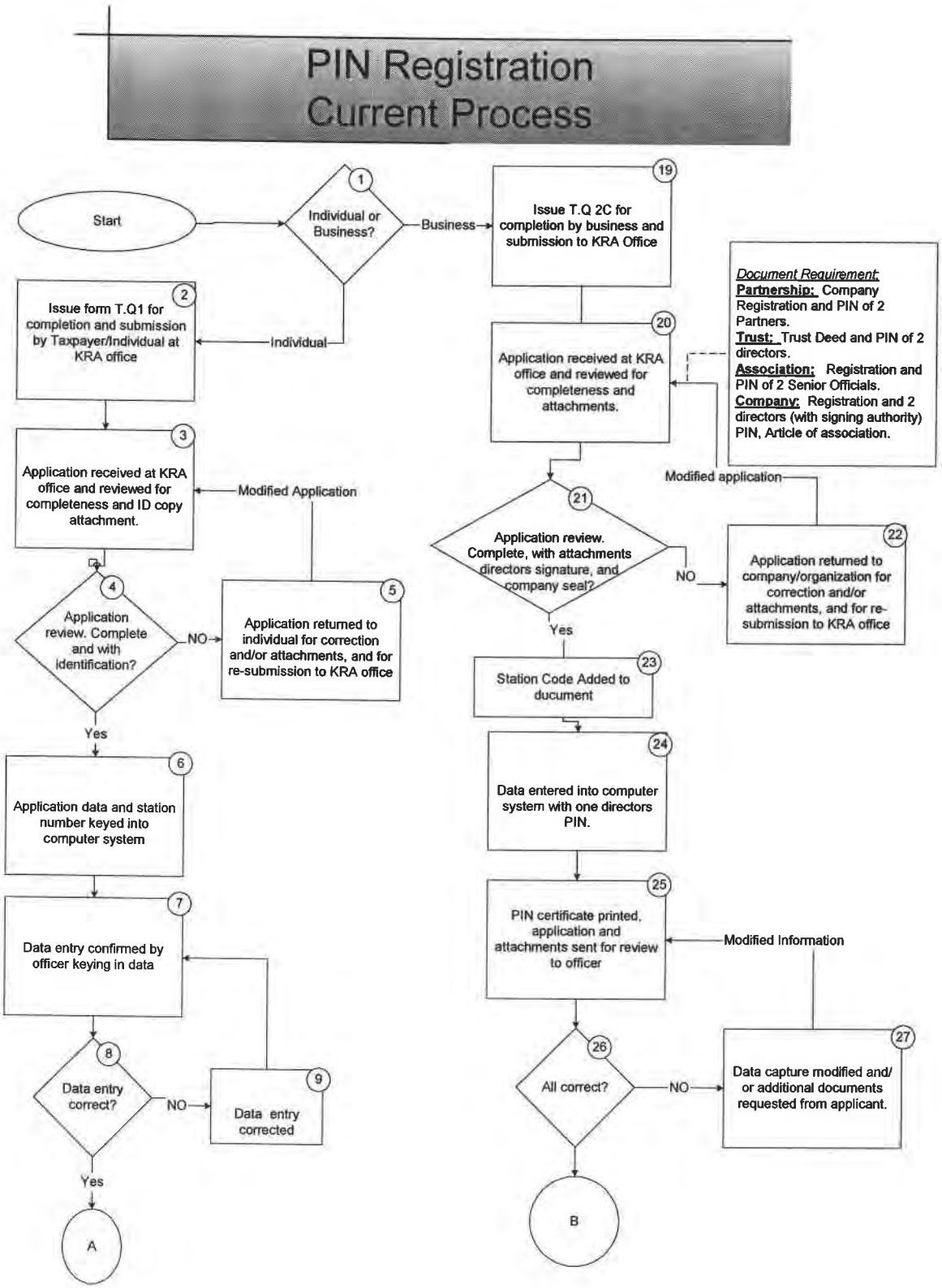
1. Prepare annual program based upon info received from public, stations, historical knowledge
2. Annual Targets established and balance scorecard prepared
3. Identify Target audience (New registered TP's, industry groups, existing TP's, etc.)
4. *Event to be hosted by head office*
5. No
6. Station submit request with estimated cost to head office
7. Submit request to Commissioner Support Services through Commissioner DTD
8. Upon approval Head Office ensure funds are allocated accordingly
9. *Event to be hosted by head office*
10. Yes
11. *Is funding approval required*
12. No
13. Book venue and catering
14. Work out logistics as appropriate
15. *Are invitations required*
16. No
17. Commence publicity campaign
18. *Are invitations required*
19. Yes
20. Send invitation to target audience
21. Receive confirmation of attendance
22. Identify facilitators
23. Develop program
24. Prepare material
25. Register participants at the venue
26. Conduct the session
27. Secure feedback from participants
28. Provide feedback to host

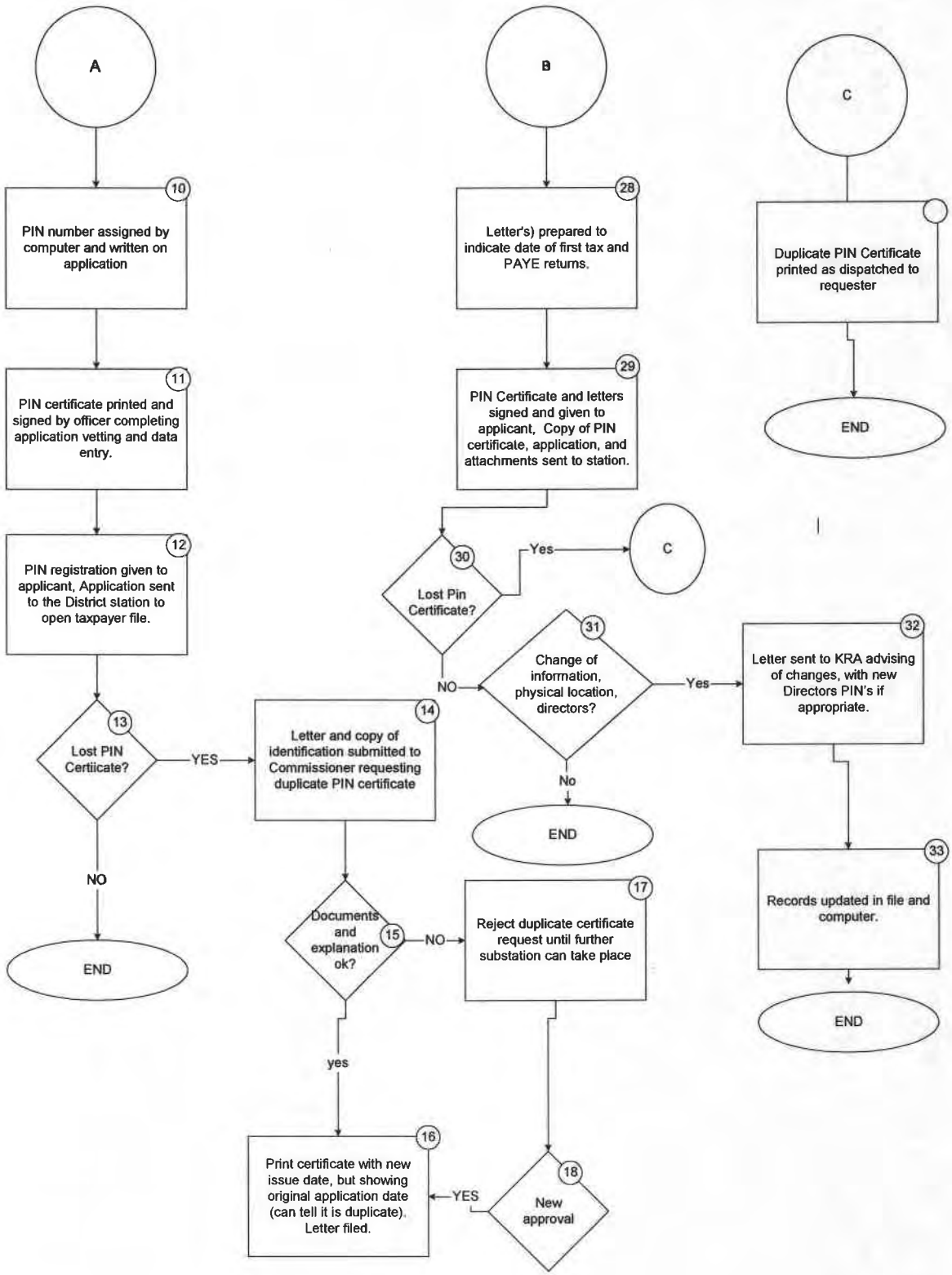
Taxpayer Education Services -Current Process



PIN Registration
Current Process

1. Individual or Business?
2. Individual? Issue form T.Q1 for completion and submission by Taxpayer/Individual at KRA office
3. Application received at KRA office and reviewed for completeness and ID copy attachment.
4. *Application review. Complete and with identification?*
5. Application returned to individual for correction and/or attachments, and for re-submission to KRA office
6. Application data and Station number keyed into computer system
7. Data entry confirmed by officer keying in data
8. *Data entry correct?*
9. No? Data entry corrected
10. PIN number assigned by computer and written on application
11. PIN certificate printed and signed by officer completing application vetting and data entry.
12. PIN registration given to applicant, Application sent to the District station to open taxpayer file.
13. *Lost PIN Certificate?*
14. Letter and copy of identification submitted to Commissioner requesting duplicate PIN certificate
15. *Documents and explanation ok?*
16. If yes, Print certificate with new issue date, but showing original application date (can tell it is duplicate). Letter filed.
17. No? Reject duplicate certificate request until further substantiation can take place
18. New approval?
19. Business? Issue T.Q 2C for completion by business and submission to KRA Office
20. Application received at KRA office and reviewed for completeness and attachments.
21. *Application review. Complete, with attachments directors signature, and company seal?*
22. No? Application returned to company/organization for correction and/or attachments, and for re-submission to KRA office
23. Station Code Added to document
24. Data entered into computer system with one director's PIN.
25. PIN certificate printed, application and attachments sent to officer for review
26. *All correct?*
27. No? Data capture modified and/or additional documents requested from applicant.
28. Yes? Letter's prepared to indicate date of first tax and PAYE returns.
29. PIN Certificate and letters signed and given to applicant, Copy of PIN certificate, application, and attachments sent to station.
30. *Lost Pin Certificate?*
31. No? Change of information, physical location, directors?
32. Letter sent to KRA advising of changes, with new Director's PIN if appropriate.
33. Records updated in file and computer.

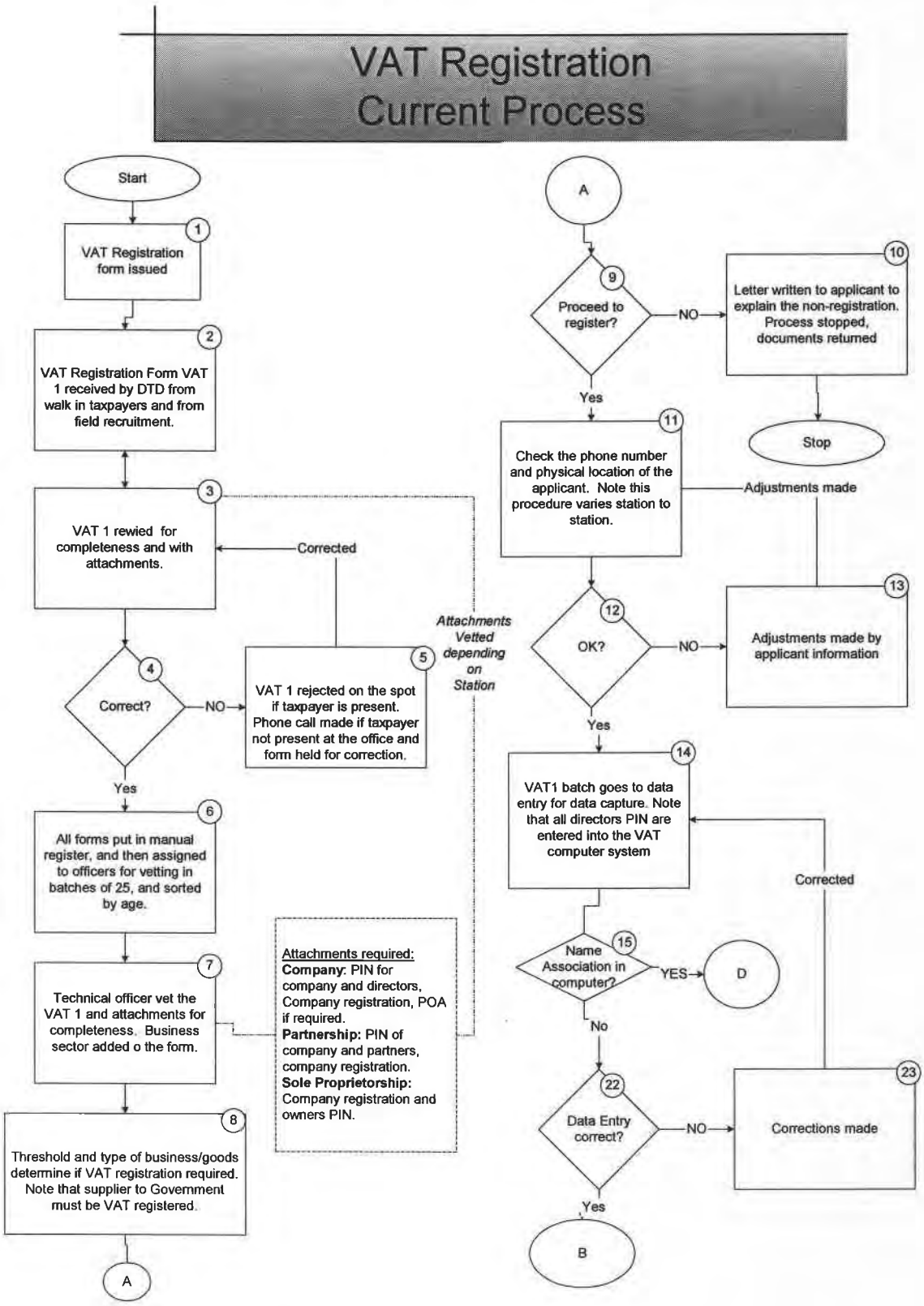

PIN Registration
Current Process
Start
1
Individual or Business?
Business
Individual
2
Issue form T.Q1 for completion and submission by Taxpayer/Individual at KRA office
3
Application received at KRA office and reviewed for completeness and ID copy attachment.
Modified Application
4
Application review. Complete and with identification?
NO
5
Application returned to individual for correction and/or attachments, and for re-submission to KRA office
Yes
6
Application data and station number keyed into computer system
7
Data entry confirmed by officer keying in data
8
Data entry correct?
NO
9
Data entry corrected
Yes
A
19
Issue T.Q 2C for completion by business and submission to KRA Office
20
Application received at KRA office and reviewed for completeness and attachments.
Document Requirement:
Partnership: Company Registration and PIN of 2 Partners.
Trust: Trust Deed and PIN of 2 directors.
Association: Registration and PIN of 2 Senior Officials.
Company: Registration and 2 directors (with signing authority) PIN, Article of association.
Modified application
21
Application review. Complete, with attachments directors signature, and company seal?
NO
22
Application returned to company/organization for correction and/or attachments, and for re-submission to KRA office
Yes
23
Station Code Added to ducument
24
Data entered into computer system with one directors PIN.
25
PIN certificate printed, application and attachments sent for review to officer
Modified Information
26
All correct?
NO
27
Data capture modified and/ or additional documents requested from applicant.
B

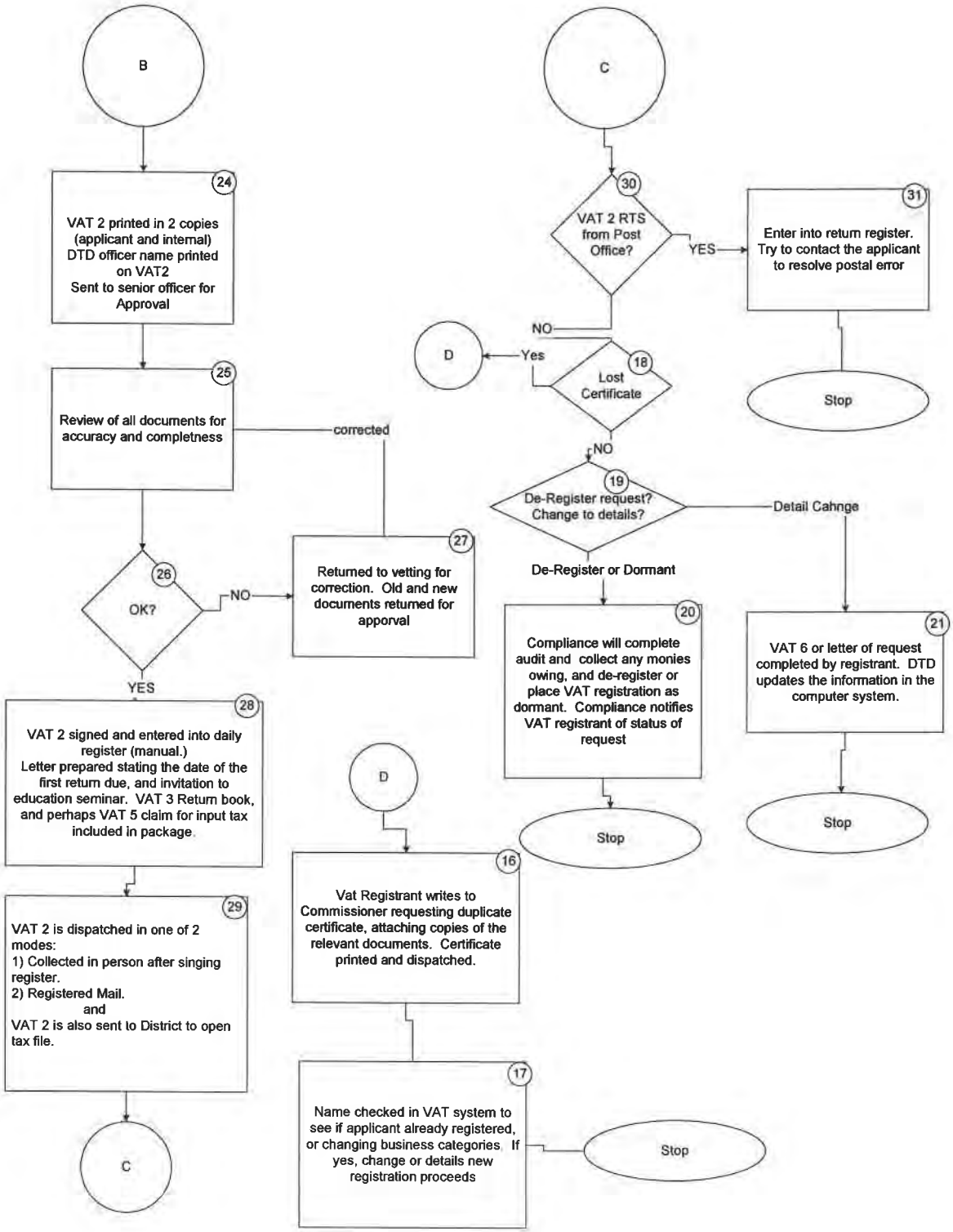

A
B
C
10
PIN number assigned by computer and written on application
11
PIN certificate printed and signed by officer completing application vetting and data entry.
12
PIN registration given to applicant, Application sent to the District station to open taxpayer file.
13
Lost PIN Certiicate?
YES
NO
END
14
Letter and copy of identification submitted to Commissioner requesting duplicate PIN certificate
15
Documents and explanation ok?
NO
yes
16
Print certificate with new issue date, but showing original application date (can tell it is duplicate). Letter filed.
17
Reject duplicate certificate request until further substation can take place
18
New approval
YES
28
Letter's) prepared to indicate date of first tax and PAYE returns.
29
PIN Certificate and letters signed and given to applicant, Copy of PIN certificate, application, and attachments sent to station.
30
Lost Pin Certificate?
Yes
C
NO
31
Change of information, physical location, directors?
Yes
No
END
32
Letter sent to KRA advising of changes, with new Directors PIN's if appropriate.
33
Records updated in file and computer.
END
Duplicate PIN Certificate printed as dispatched to requester
END

VAT Registration
Current Process

1. VAT Registration form issued
2. VAT Registration Form VAT 1 received by DTD from walk in taxpayers and from field recruitment.
3. VAT 1 reviewed for completeness and with attachments.
4. *Correct?*
5. VAT 1 rejected on the spot if taxpayer is present. Phone call made if taxpayer not present at the office and form held for correction.
6. All forms put in manual register, and then assigned to officers for vetting in batches of 25, and sorted by age.
7. Technical officer vets the VAT 1 and attachments for completeness. Business sector added to the form.
8. Threshold and type of business/ goods determine if VAT registration required. Note that supplier to Government must be VAT registered.
9. Proceed to register?
10. No? Letter written to applicant to explain the non-registration. Process stopped, documents returned
11. Yes? Check the phone number and physical location of the applicant. Note this procedure varies station to station.
12. *OK?*
13. No? Adjustments made by applicant information
14. VAT1 batch goes to data entry for data capture. Note that all directors' PIN are entered into the VAT computer system
15. *Name Association in computer?*
16. Yes? Vat Registrant writes to Commissioner requesting duplicate certificate, attaching copies of the relevant documents. Certificate printed and dispatched.
17. Name checked in VAT system to see if applicant already registered, or changing business categories. If yes, change or details new registration proceeds
18. Lost Certificate?
19. De-Register request? Change to details?
20. Compliance will complete audit and collect any monies owing, and de-register or place VAT registration as dormant. Compliance notifies VAT registrant of status of request
21. VAT 6 or letter of request completed by registrant. DTD updates the information in the computer system.
22. *No? Data Entry correct?*
23. No? Corrections made
24. If Yes, VAT 2 printed in 2 copies (applicant and internal) DTD officer name printed on VAT2. Sent to senior officer for Approval
25. Review of all documents for accuracy and completeness
26. OK?
27. No? Returned to vetting for correction. Old and new documents returned for approval
28. If yes, VAT 2 signed and entered into daily register (manual.) Letter prepared stating the date of the first return due, and invitation to education seminar. VAT 3 Return book, and perhaps VAT 5 claim for input tax included in package.
29. VAT 2 is dispatched in one of 2 modes:
30. 1) Collected in person after singing register.
31. 2) Registered Mail. And

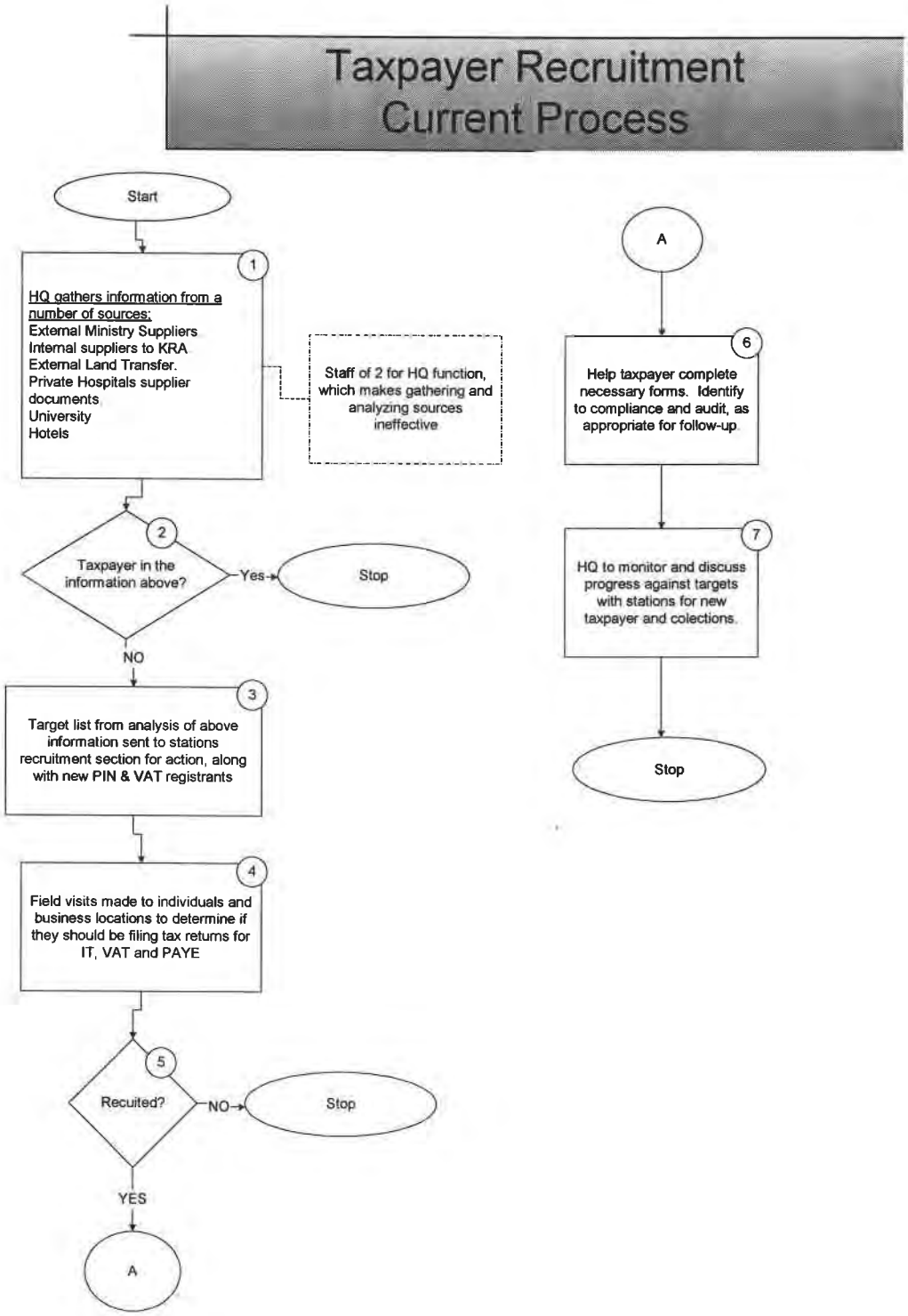
32. 3) VAT 2 is also sent to District to open tax file.
33. *VAT 2 RTS from Post Office?*
34. Yes? Enter into return register. Try to contact the applicant to resolve postal error


VAT Registration
Current Process
Start
1
VAT Registration form issued
2
VAT Registration Form VAT 1 received by DTD from walk in taxpayers and from field recruitment.
3
VAT 1 rewied for completeness and with attachments.
Corrected
4
Correct?
NO
5
VAT 1 rejected on the spot if taxpayer is present. Phone call made if taxpayer not present at the office and form held for correction.
Yes
6
All forms put in manual register, and then assigned to officers for vetting in batches of 25, and sorted by age.
7
Technical officer vet the VAT 1 and attachments for completeness. Business sector added o the form.
Attachments required:
Company: PIN for company and directors, Company registration, POA if required.
Partnership: PIN of company and partners, company registration.
Sole Proprietorship: Company registration and owners PIN.
Attachments Vetted depending on Station
8
Threshold and type of business/goods determine if VAT registration required. Note that supplier to Government must be VAT registered.
A
A
9
Proceed to register?
NO
10
Letter written to applicant to explain the non-registration. Process stopped, documents returned
Stop
Yes
11
Check the phone number and physical location of the applicant. Note this procedure varies station to station.
Adjustments made
12
OK?
NO
13
Adjustments made by applicant information
Yes
14
VAT1 batch goes to data entry for data capture. Note that all directors PIN are entered into the VAT computer system
Corrected
15
Name Association in computer?
YES
D
No
22
Data Entry correct?
NO
23
Corrections made
Yes
B


B
24
VAT 2 printed in 2 copies (applicant and internal) DTD officer name printed on VAT2 Sent to senior officer for Approval
25
Review of all documents for accuracy and completness
corrected
26
OK?
NO
27
Returned to vetting for correction. Old and new documents returned for apporval
YES
28
VAT 2 signed and entered into daily register (manual.) Letter prepared stating the date of the first return due, and invitation to education seminar. VAT 3 Return book, and perhaps VAT 5 claim for input tax included in package.
29
VAT 2 is dispatched in one of 2 modes:
1) Collected in person after singing register.
2) Registered Mail.
and
VAT 2 is also sent to District to open tax file.
C
C
30
VAT 2 RTS from Post Office?
YES
31
Enter into return register. Try to contact the applicant to resolve postal error
Stop
NO
D
Yes
18
Lost Certificate
NO
19
De-Register request? Change to details?
Detail Cahnge
De-Register or Dormant
20
Compliance will complete audit and collect any monies owing, and de-register or place VAT registration as dormant. Compliance notifies VAT registrant of status of request
Stop
21
VAT 6 or letter of request completed by registrant. DTD updates the information in the computer system.
Stop
D
16
Vat Registrant writes to Commissioner requesting duplicate certificate, attaching copies of the relevant documents. Certificate printed and dispatched.
17
Name checked in VAT system to see if applicant already registered, or changing business categories. If yes, change or details new registration proceeds
Stop

Taxpayer Recruitment
Current Process

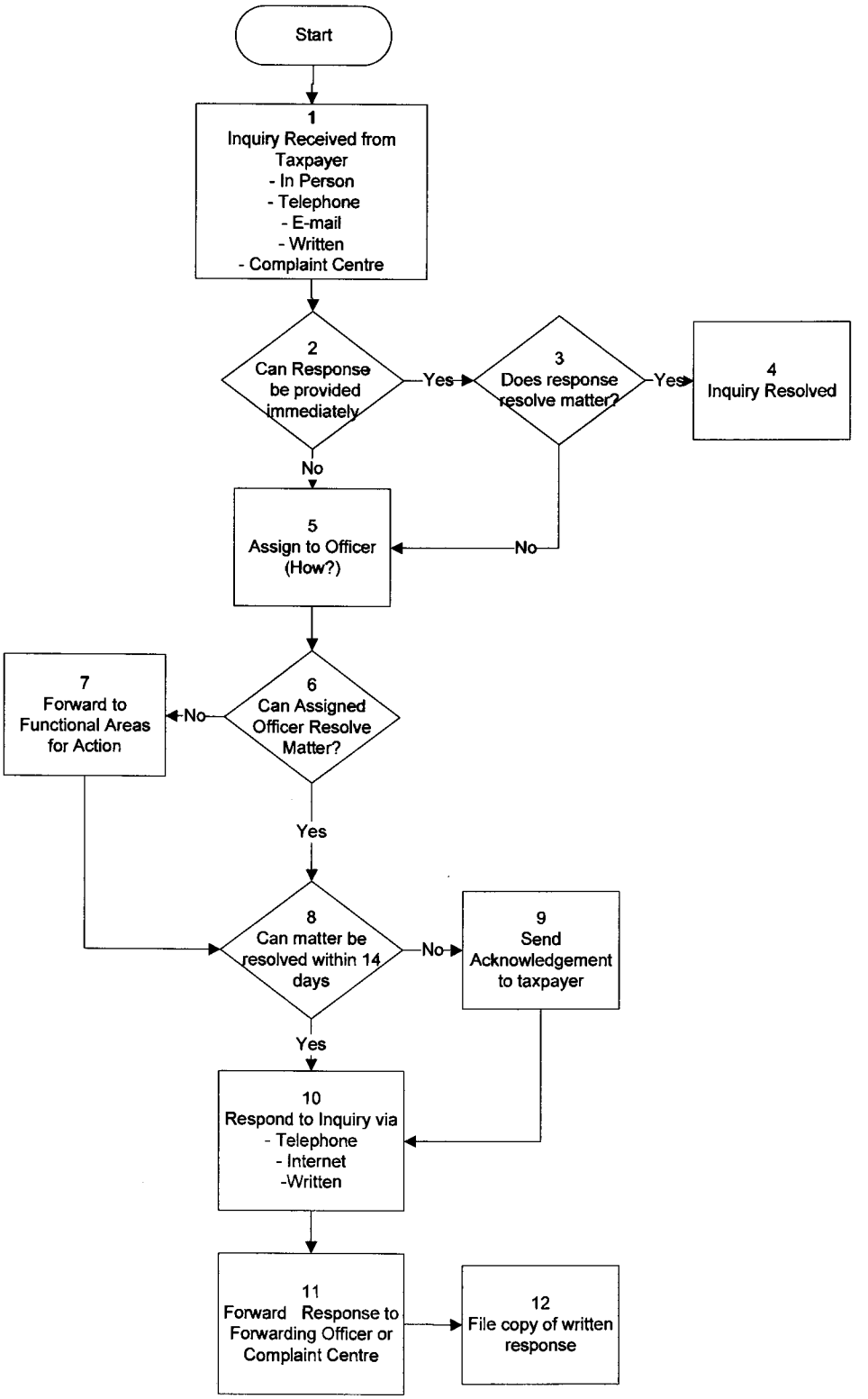
1. HQ gathers information from a number of sources:
    a. External Ministry Suppliers.
    b. Internal suppliers to KRA.
    c. External Land Transfer.
    d. Private Hospitals supplier documents.
    e. University
    f. Hotels
2. *Taxpayer in the information above?*
3. No? Target list from analysis of above information sent to stations recruitment section for action, along with new PIN & VAT registrants
4. Field visits made to individuals and business locations to determine if they should be filing tax returns for IT, VAT and PAYE
5. *Recruited?*
6. Yes? Help taxpayer complete necessary forms. Identify to compliance and audit, as appropriate for follow-up.
7. HQ to monitor and discuss progress against targets with stations for new taxpayer and collections.


Taxpayer Recruitment
Current Process
Start
1
HQ gathers information from a number of sources:
External Ministry Suppliers
Internal suppliers to KRA
External Land Transfer.
Private Hospitals supplier documents
University
Hotels
Staff of 2 for HQ function, which makes gathering and analyzing sources ineffective
2
Taxpayer in the information above?
Yes
Stop
NO
3
Target list from analysis of above information sent to stations recruitment section for action, along with new PIN & VAT registrants
4
Field visits made to individuals and business locations to determine if they should be filing tax returns for IT, VAT and PAYE
5
Recuited?
NO
Stop
YES
A
A
6
Help taxpayer complete necessary forms. Identify to compliance and audit, as appropriate for follow-up.
7
HQ to monitor and discuss progress against targets with stations for new taxpayer and colections.
Stop

Taxpayer Inquiry & Advisory
Current Process

1. Inquiry received from taxpayer: In-person, Telephone, e-mail, written, complaint centre
2. *Can response be provided immediately*
3. Yes
4. *Does response resolve matter?*
5. Yes
6. Inquiry Resolved
7. *Can response be provided immediately*
8. No
9. Assign to officer
10. *Can assigned officer resolve matter?*
11. No
12. Forward to functional areas for action
13. *Can assigned officer resolve matter?*
14. Yes
15. *Can matter be resolved within 14 days*
16. No
17. Send Acknowledgement to taxpayer
18. *Can matter be resolved within 14 days*
19. Yes
20. Respond to inquiry via: Telephone, Internet, written
21. Forward response to forwarding officer of complaint center
22. File copy of written response

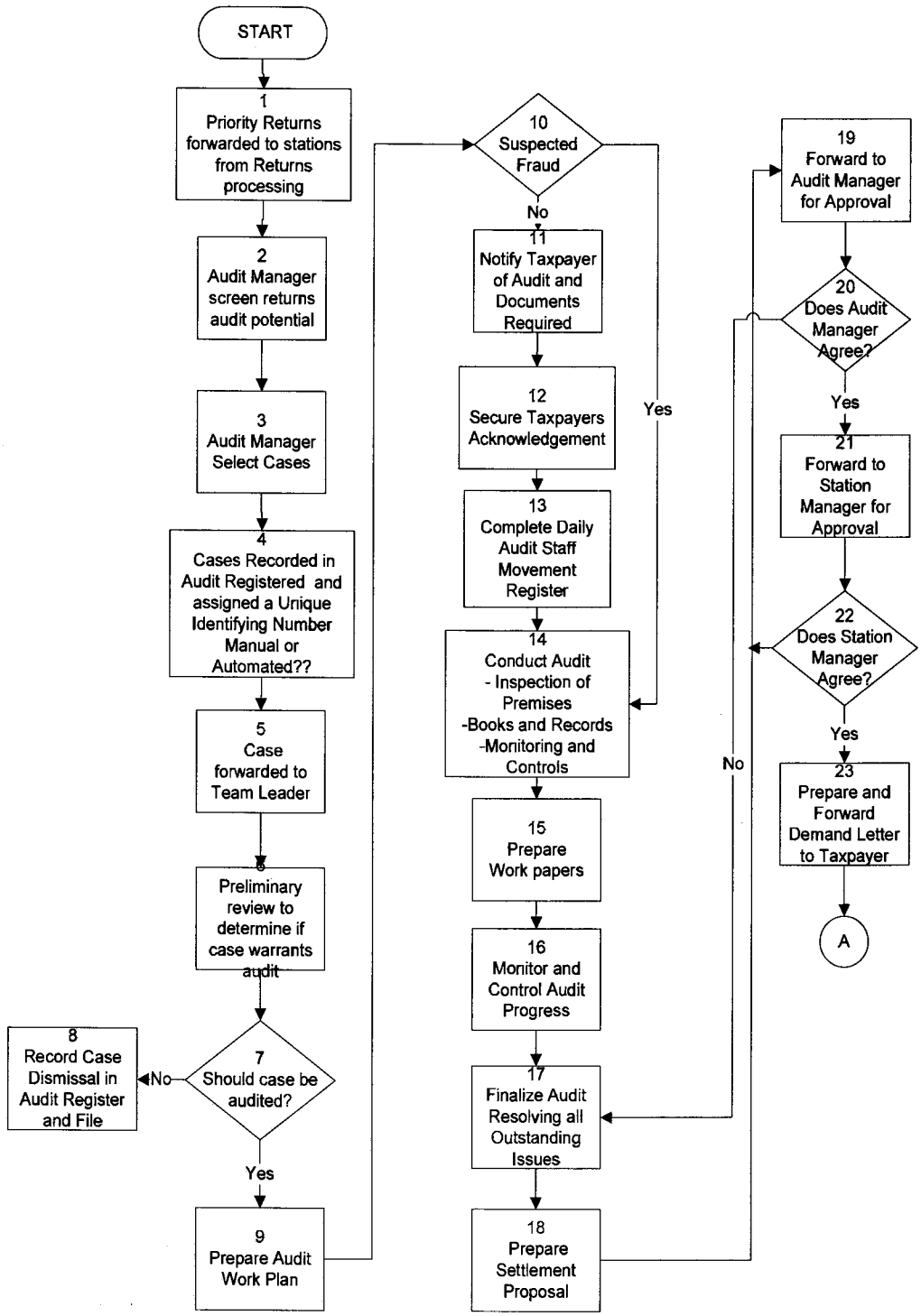
Taxpayer Inquiry & Advisory - Current Process

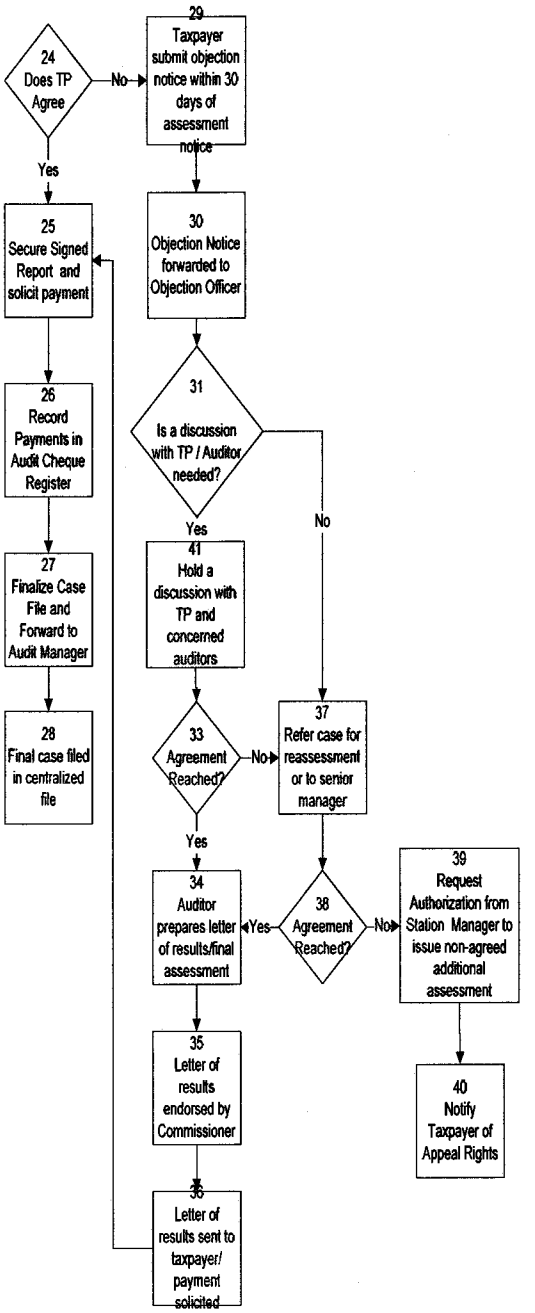


Audit
Current Process

1. Priority returns are forwarded to respective stations after processing cycle completed
2. Audit Manager screened returns for Audit potential
3. Audit Manager select cases
4. Cases recorded in Audit register and assigned a unique identifying number
5. Case forwarded to Team leader
6. Preliminary review to determine if case warrants audit
7. *Should case be audited?*
8. No - Record case dismissal in Audit Register and file
9. Should case be audited? Yes - Prepare Audit work plan
10. *Suspected fraud*
11. No - Notify taxpayer of audit and documents required
12. Secure taxpayers acknowledgement
13. Complete daily audit staff movement register
14. Conduct audit: Inspection of premises, books and records, monitoring and controls
15. Prepare work papers
16. Monitor and control audit progress
17. Finalize audit resolving all outstanding issues
18. Prepare settlement proposal
19. Forward to Audit Manager for approval
20. *Does Audit Manager agree?*
21. Yes - Forward to Station Manager Agree
22. *Does Station Manager Agree*
23. Yes - Prepare and forward demand letter/assessment notice to taxpayer
24. *Does taxpayer agree?*
25. Yes - Secure Signed report and solicit payment
26. Record payments in Audit Check Register
27. Finalize case file and forward to audit manager
28. File completed returns in centralized file
29. Does Taxpayer Agree? No – Taxpayer submit objection notice within 30 days of assessment notice
30. Objection notice forwarded to Objection Officer
31. *Is a discussion with TP / Auditor Required?*
32. Hold discussion with TP and all concerned auditors
33. *Agreement reached?*
34. Auditor prepares letter of results/final assessment
35. Letter of results endorsed by Commissioner
36. Letter of results sent to taxpayer / payment solicited
37. Agreement Reached? No – refer case for reassessment or to senior manager
38. *Agreement Reached?*
39. No – Request Authorization from station manager to issue non-agreed additional assessment
40. Notify taxpayer of Appeal Rights

Audit - Current Process



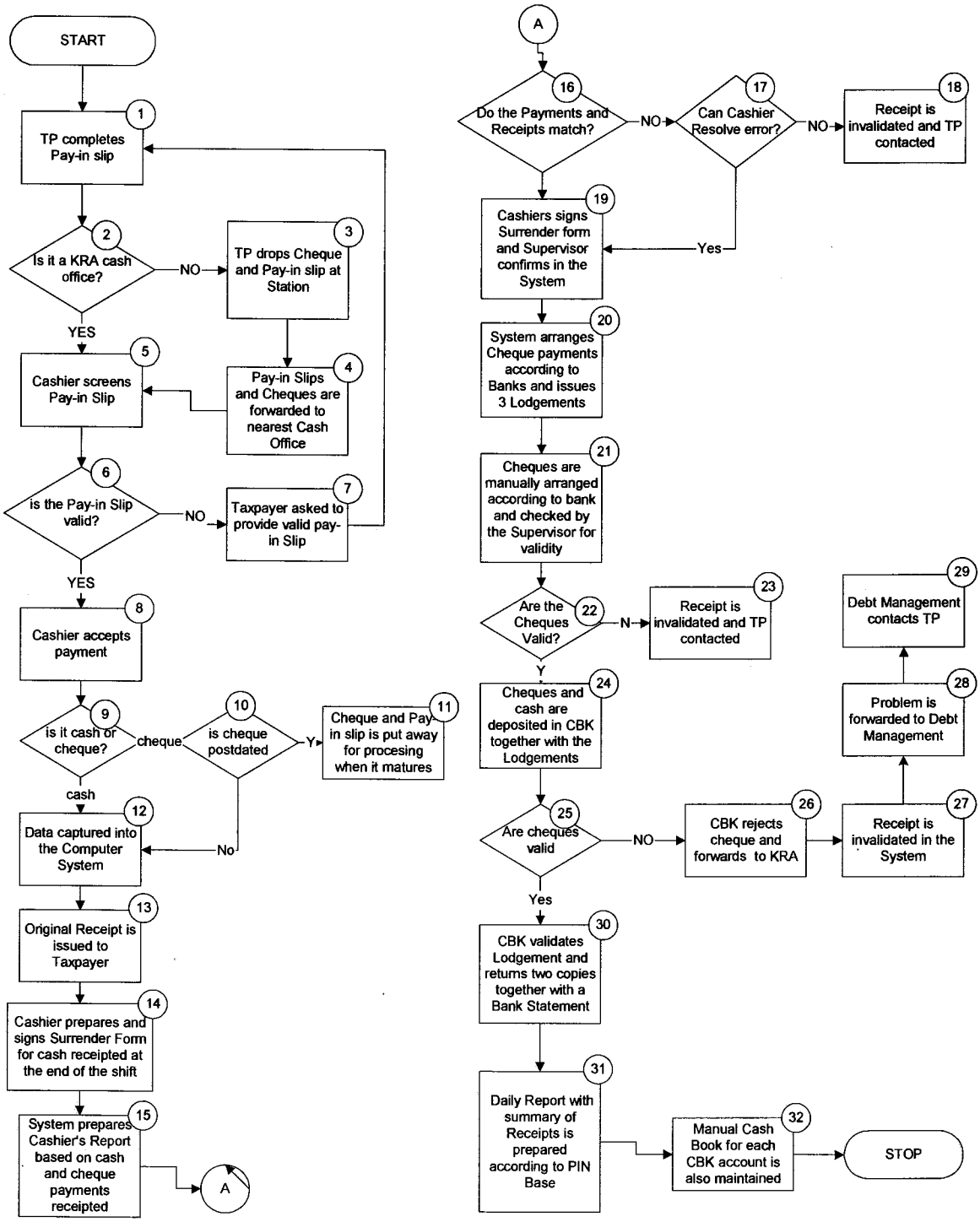

24
Does TP Agree
No
Yes
29
Taxpayer submit objection notice within 30 days of assessment notice
25
Secure Signed Report and solicit payment
30
Objection Notice forwarded to Objection Officer
26
Record Payments in Audit Cheque Register
31
Is a discussion with TP / Auditor needed?
Yes
No
27
Finalize Case File and Forward to Audit Manager
41
Hold a discussion with TP and concerned auditors
28
Final case filed in centralized file
33
Agreement Reached?
No
37
Refer case for reassessment or to senior manager
Yes
34
Auditor prepares letter of results/final assessment
Yes
38
Agreement Reached?
No
39
Request Authorization from Station Manager to issue non-agreed additional assessment
35
Letter of results endorsed by Commissioner
40
Notify Taxpayer of Appeal Rights
36
Letter of results sent to taxpayer/ payment solicited

Cash Office Receipts
Current Process

1. TP completes Pay-in slip
2. *Is it a KRA cash office?*
3. TP drops Check and Pay-in slip at Station
4. Cashier screens Pay-in Slip
5. Pay-in Slips and Checks are forwarded to nearest Cash Office
6. *Is the Pay-in Slip valid?*
7. Taxpayer asked to provide valid pay-in Slip
8. Cashier accepts payment
9. *Is it cash or check?*
10. *Is check postdated?*
11. Check and Pay-in slip is put away for processing when it matures
12. Data captured into the Computer System
13. Original Receipt is issued to Taxpayer
14. Cashier prepares and signs Surrender Form for cash receipted at the end of the shift
15. System prepares Cashier's Report based on cash and check payments receipted
16. *Do the Payments and Receipts match?*
17. *Can Cashier Resolve error?*
18. Receipt is invalidated and TP contacted
19. Cashiers signs Surrenders form and Supervisor confirms in the System
20. System arranges Check payments according to Banks and issues 3 Lodgements
21. Checks are manually arranged according to bank and checked by the Supervisor for validity
22. *Are the Checks Valid?*
23. Receipt is invalidated and TP contacted
24. Checks and cash are deposited in CBK together with the Lodgements
25. *Are checks valid?*
26. CBK rejects check and forwards to KRA
27. Receipt is invalidated in the System
28. Problem is forwarded to Debt Management
29. Debt Management contacts TP
30. CBK validates Lodgement and returns two copies together with a Bank Statement
31. Daily Report with summary of Receipts is prepared according to PIN Base
32. Manual Cash Book for each CBK account is also maintained

FINANCE - CASH OFFICE RECEIPTS

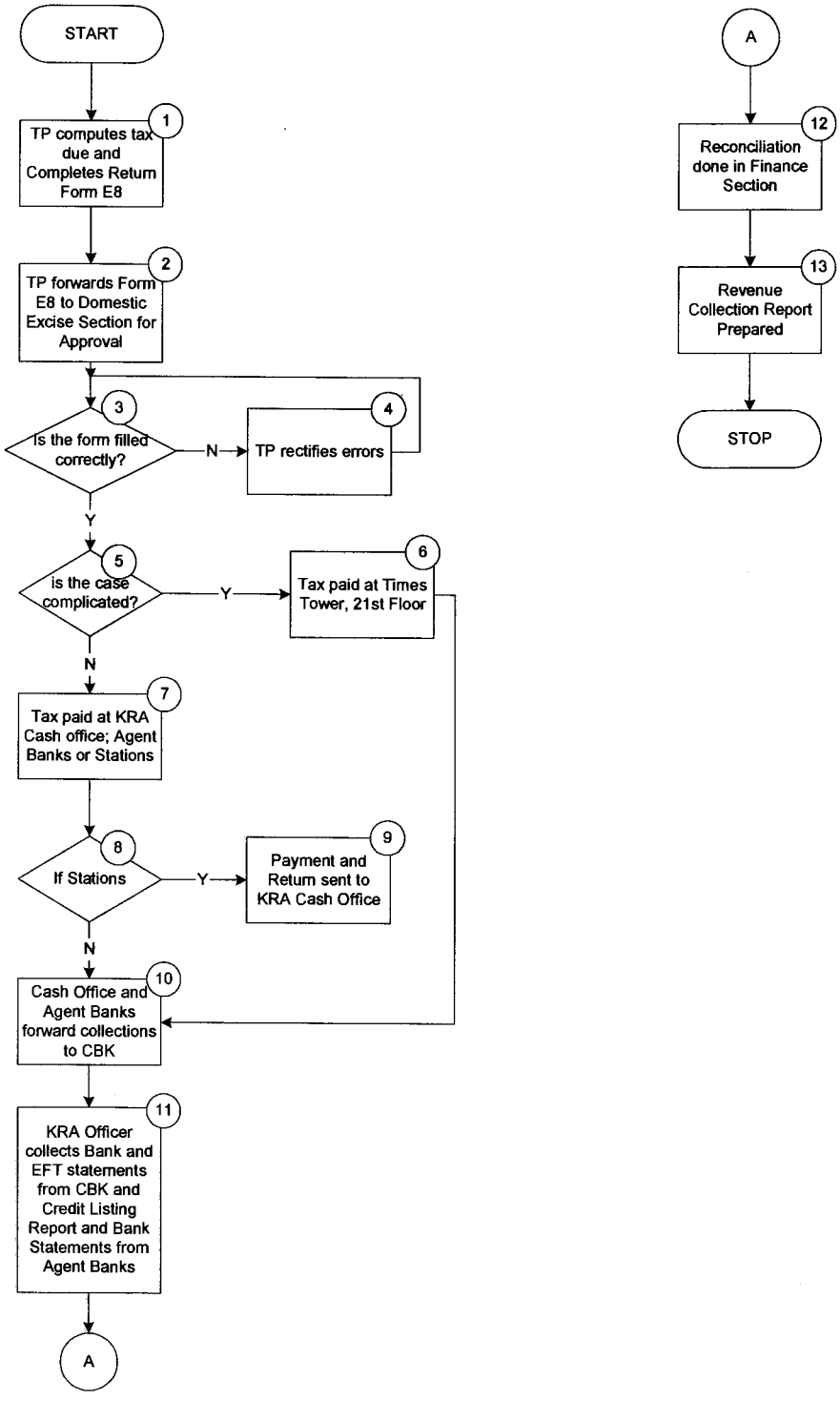
CURRENT PROCESS



Excise Duty Domestic Collections
Current Process

1. TP computes tax due and Completes Return Form E8
2. TP forwards Form E8 to Domestic Excise Section for Approval
3. *Is the form filled correctly?*
4. TP rectifies errors
5. *is the case complicated?*
6. Tax paid at Times Tower, 21st Floor
7. Tax paid at KRA Cash office; Agent Banks or Stations
8. If Stations
9. Payment and Return sent to KRA Cash Office
10. Cash Office and Agent Banks forward collections to CBK
11. KRA Officer collects Bank and EFT statements from CBK and Credit Listing Report and Bank Statements from Agent Banks
12. Reconciliation done in Finance Section
13. Revenue Collection Report Prepared

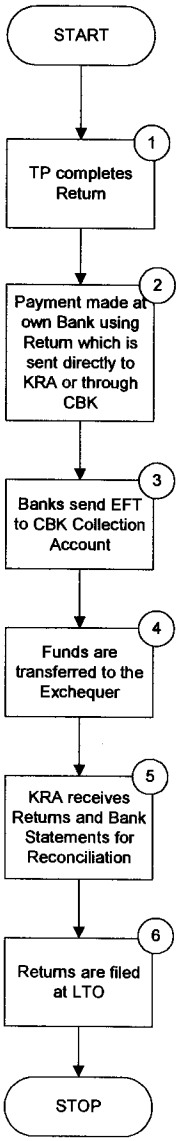
FINANCE - EXCISE DUTY DOMESTIC COLLECTIONS
CURRENT PROCESS



Excise Duty on Mobile Cellular Phone Service Collections
Current Process

1. TP completes Return
2. Payment made at own Bank using Return which is sent directly to KRA or through CBK
3. Banks send EFT to CBK Collection Account
4. Funds are transferred to the Excheckr
5. KRA receives Returns and Bank Statements for Reconciliation
6. Returns are filed at LTO

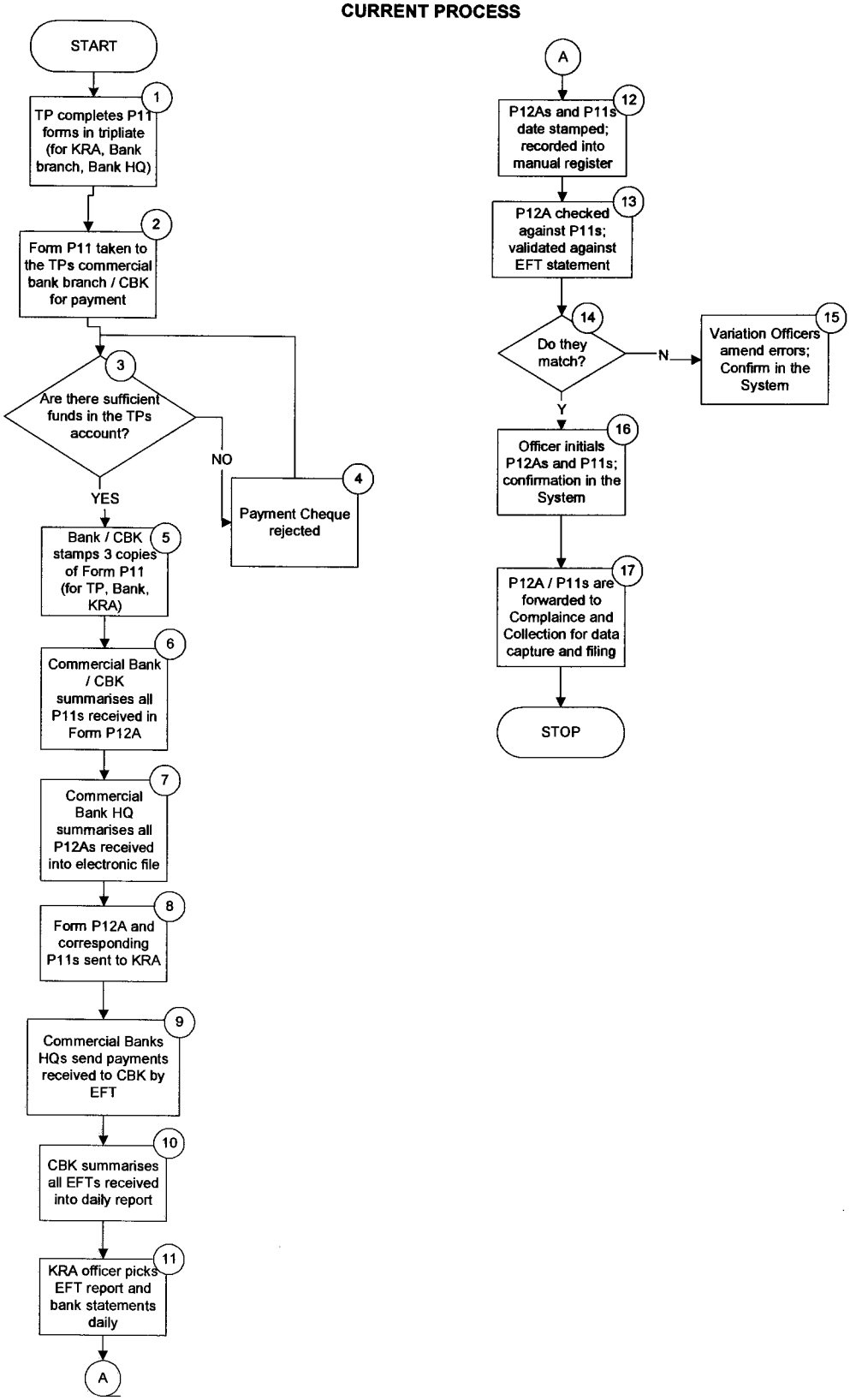
FINANCE - EXCISE DUTY ON MOBILE CELLULAR PHONE SERVICE
CURRENT PROCESS



Pay As You Earn Collections
Current Process

1. TP completes P11 forms in triplicate (for KRA, Bank branch, Bank HQ)
2. Form P11 taken to the TPs commercial bank branch / CBK for payment
3. *Are there sufficient funds in the TPs account?*
4. Payment Check rejected
5. Bank / CBK stamps 3 copies of Form P11 (for TP, Bank, KRA)
6. Commercial Bank / CBK summarises all P11s received in Form P12A
7. Commercial Bank HQ summarises all P12As received into electronic file
8. Form P12A and corresponding P11s sent to KRA
9. Commercial Banks HQs send payments received to CBK by EFT
10. CBK summarises all EFTs received into daily report
11. KRA officer picks EFT report and bank statements daily
12. P12As and P11s date stamped; recorded into manual register
13. P12A checked against P11s; validated against EFT statement
14. *Do they match?*
15. Variation Officers amend errors; Confirm in the System
16. Officer initials P12As and P11s; confirmation in the System
17. P12A / P11s are forwarded to Compliance and Collection for data capture and filing

FINANCE - PAY AS YOU EARN
CURRENT PROCESS

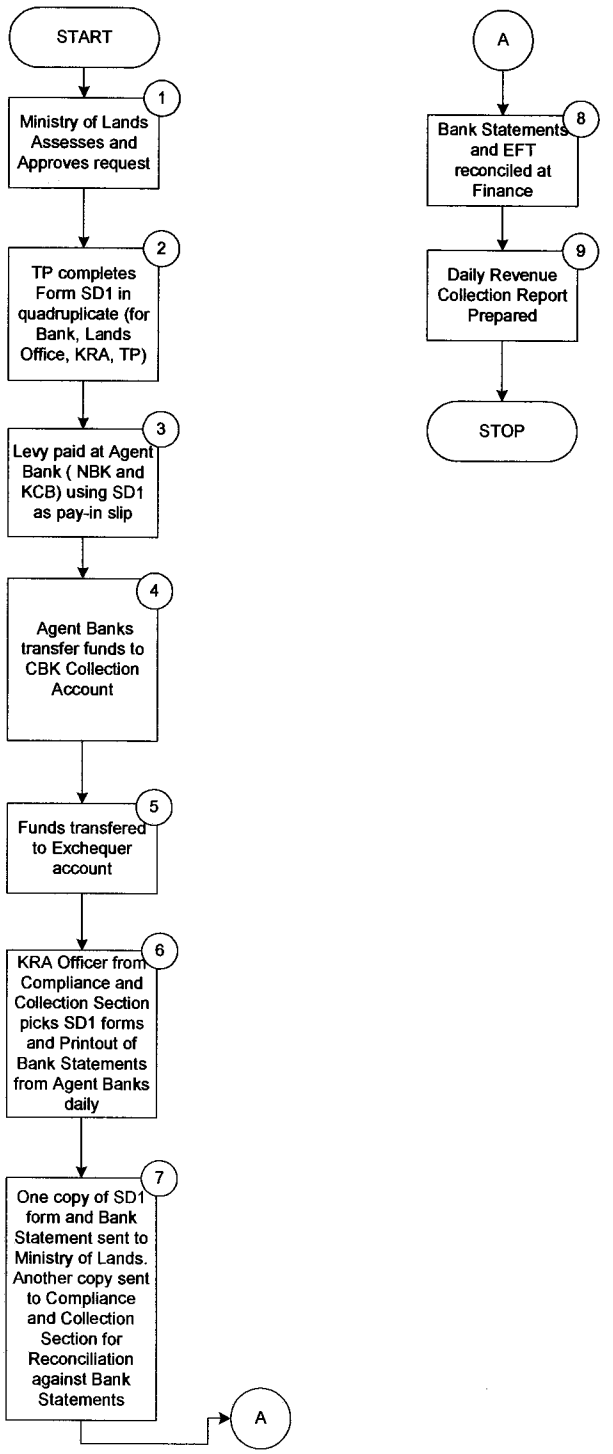


Stamp Duty Collections
Current Process

1. Ministry of Lands Assesses and Approves request
2. TP completes Form SD1 in quadruplicate (for Bank, Lands Office, KRA, TP)
3. Levy paid at Agent Bank (NBK and KCB) using SD1 as pay-in slip
4. Agent Banks transfer funds to CBK Collection Account
5. Funds transferred to Excheckr account
6. KRA Officer from Compliance and Collection Section picks SD1 forms and Printout of Bank Statements from Agent Banks daily
7. One copy of SD1 form and Bank Statement sent to Ministry of Lands. Another copy sent to Compliance and Collection Section for Reconciliation against Bank Statements
8. Bank Statements and EFT reconciled at Finance
9. Daily Revenue Collection Report Prepared

FINANCE - STAMP DUTY COLLECTIONS

CURRENT PROCESS

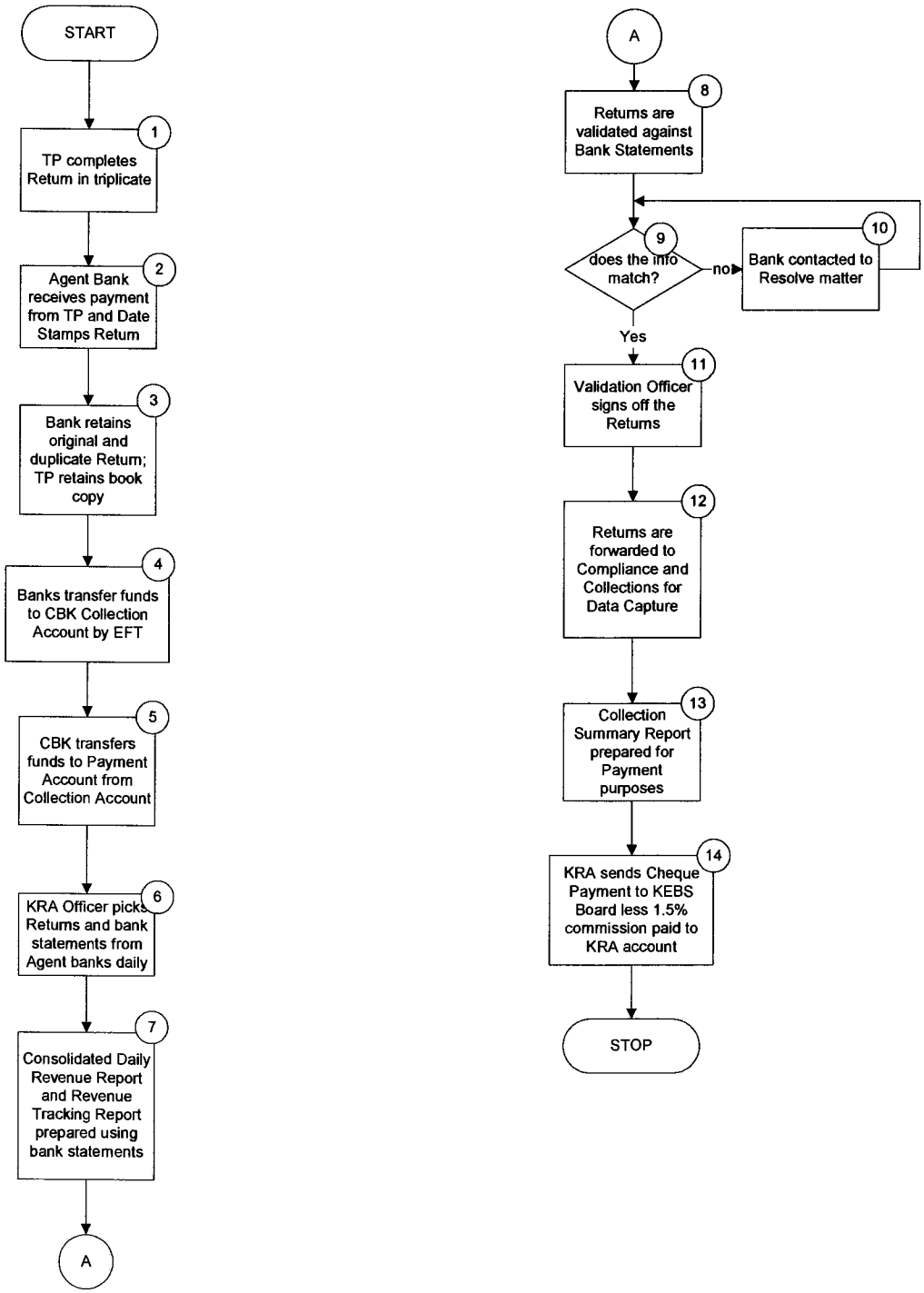


Standards Levy Collections
Current Process

1. TP completes Return in triplicate
2. Agent Bank receives payment from TP and Date Stamps Return
3. Bank retains original and duplicate Return; TP retains book copy
4. Banks transfer funds to CBK Collection Account by EFT
5. CBK transfers funds to Payment Account from Collection Account
6. KRA Officer picks Returns and bank statements from Agent banks daily
7. Consolidated Daily Revenue Report and Revenue Tracking Report prepared using bank statements
8. Returns are validated against Bank Statements
9. *Does the info match?*
10. Bank contacted to Resolve matter
11. Validation Officer signs off the Returns
12. Returns are forwarded to Compliance and Collections for Data Capture
13. Collection Summary Report prepared for Payment purposes
14. KRA sends Check Payment to KEBS Board less 1.5% commission paid to KRA account

FINANCE - STANDARDS LEVY

CURRENT PROCESS

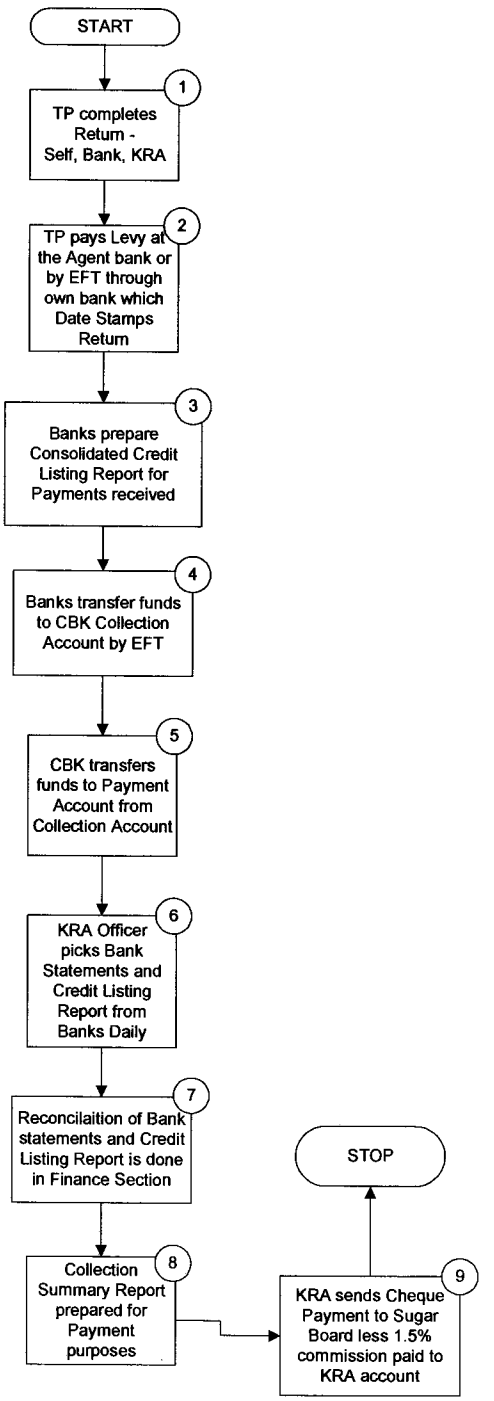


Sugar Development Levy Collections
Current Process

1. TP completes Return - Self, Bank, KRA
2. TP pays Levy at the Agent bank or by EFT through own bank which Date Stamps Return
3. Banks prepare Consolidated Credit Listing Report for Payments received
4. Banks transfer funds to CBK Collection Account by EFT
5. CBK transfers funds to Payment Account from Collection Account
6. KRA Officer picks Bank Statements and Credit Listing Report from Banks Daily
7. Reconciliation of Bank statements and Credit Listing Report is done in Finance Section
8. Collection Summary Report prepared for Payment purposes
9. KRA sends Check Payment to Sugar Board less 1.5% commission paid to KRA account

FINANCE - SUGAR DEVELOPMENT LEVY

CURRENT PROCESS

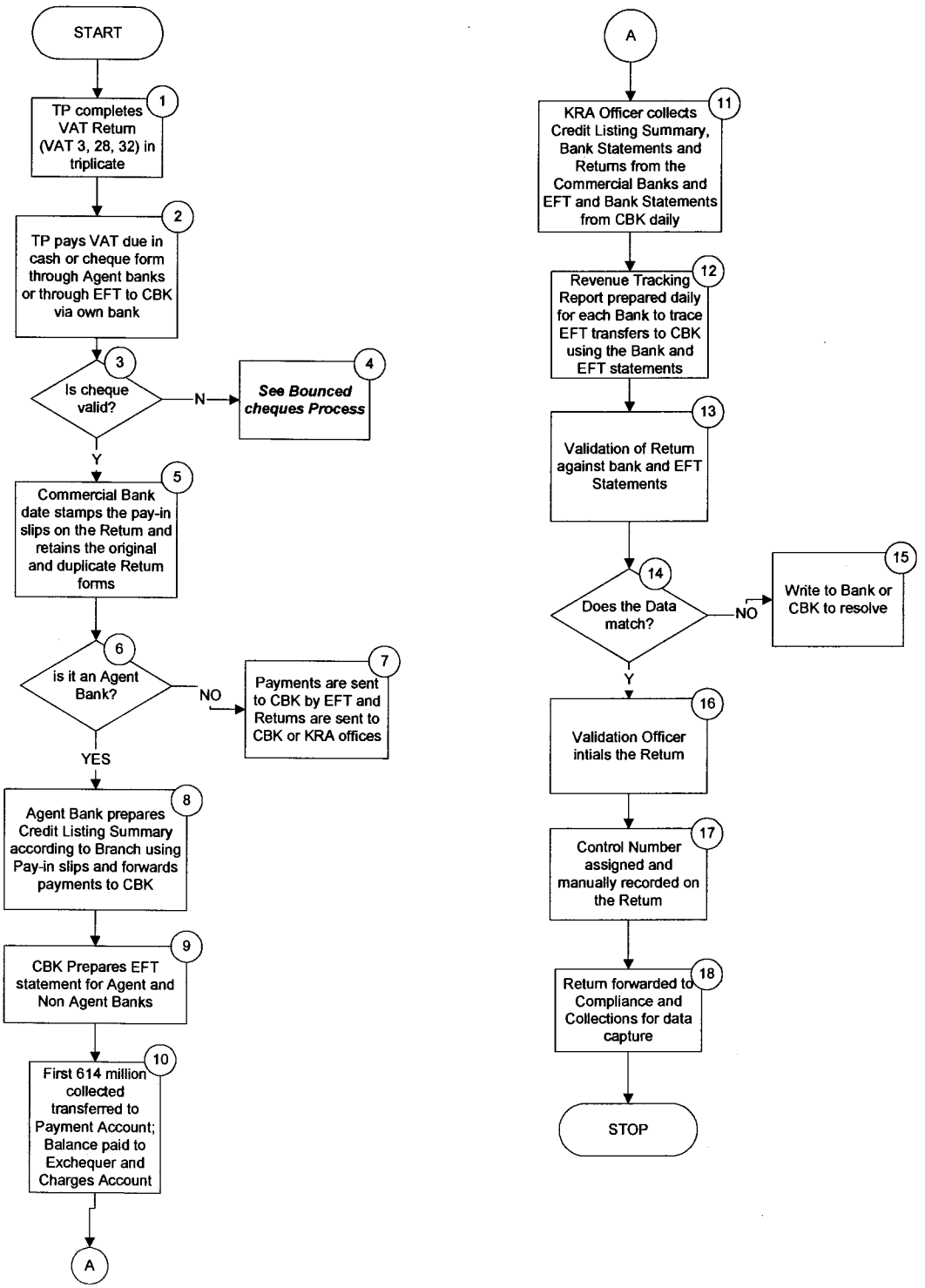


VAT Collections
Current Process

1. TP completes VAT Return (VAT 3, 28, 32) in triplicate
2. TP pays VAT due in cash or cheque form through Agent banks or through EFT to CBK via own bank
3. Is cheque valid?
4. See Bounced cheques Process
5. Commercial Bank date stamps the pay-in slips on the Return and retains the original and duplicate Return forms
6. Is it an Agent Bank?
7. Payments are sent to CBK by EFT and Returns are sent to CBK or KRA offices
8. Agent Bank prepares Credit Listing Summary according to Branch using Pay-in slips and forwards payments to CBK
9. CBK Prepares EFT statement for Agent and Non Agent Banks
10. First 614 million collected transferred to Payment Account; Balance paid to Exchequer and Charges Account
11. KRA Officer collects Credit Listing Summary, Bank Statements and Returns from the Commercial Banks and EFT and Bank Statements from CBK daily
12. Revenue Tracking Report prepared daily for each Bank to trace EFT transfers to CBK using the Bank and EFT statements
13. Validation of Return against bank and EFT Statements
14. Does the Data match?
15. Write to Bank or CBK to resolve
16. Validation Officer initials the Return
17. Control Number assigned and manually recorded on the Return
18. Return forwarded to Compliance and Collections for data capture
19.

FINANCE - VAT COLLECTIONS

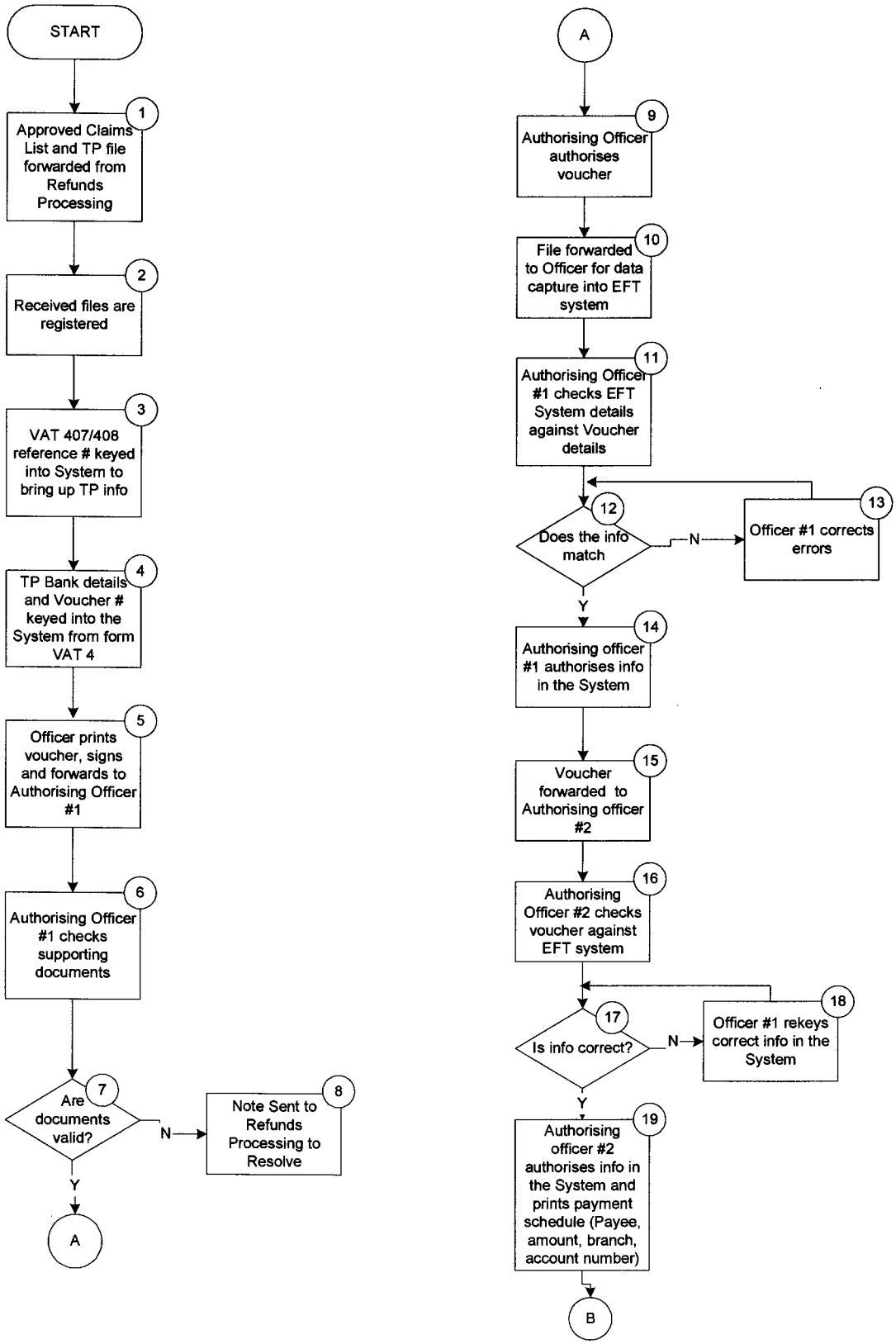
CURRENT PROCESS



VAT Refunds
Current Process

1. Approved Claims List and TP file forwarded from Refunds Processing
2. Received files are registered
3. VAT 407/408 reference # keyed into System to bring up TP info
4. TP Bank details and Voucher # keyed into the System from form VAT 4
5. Officer prints voucher, signs and forwards to Authorising Officer #1
6. Authorising Officer #1 checks supporting documents
7. Are documents valid?
8. Note Sent to Refunds Processing to Resolve
9. Authorising Officer authorises voucher
10. File forwarded to Officer for data capture into EFT system
11. Authorising Officer #1 checks EFT System details against Voucher details
12. Does the info match
13. Officer #1 corrects errors
14. Authorising officer #1 authorises info in the System
15. Voucher forwarded to Authorising officer #2
16. Authorising Officer #2 checks voucher against EFT system
17. Is info correct?
18. Officer #1 rekeys correct info in the System
19. Authorising officer #2 authorises info in the System and prints payment schedule (Payee, amount, branch, account number)
20. Authoriser #1 and #2 sign each page of payment schedule
21. A summary of payments per bank is prepared from System; also saved on diskette
22. Instruction Letter authorising CBK to disburse funds into TPs account prepared
23. Schedule, Summary, Diskette and Letter are delivered to CBK by KRA Authorised Endorser
24. Have funds been debited into TP's Account?
25. Funds sent back to CBK account with Reversal Letter and reason for rejection
26. KRA investigates cause of error
27. Can it be resolved internally
28. TP contacted to send Bank details again
29. KRA Resolves error; Resends EFT to TP
30. CBK Bank Statement collected after 1 or 2 days
31. Reconciliation carried out and Cash book updated
32.

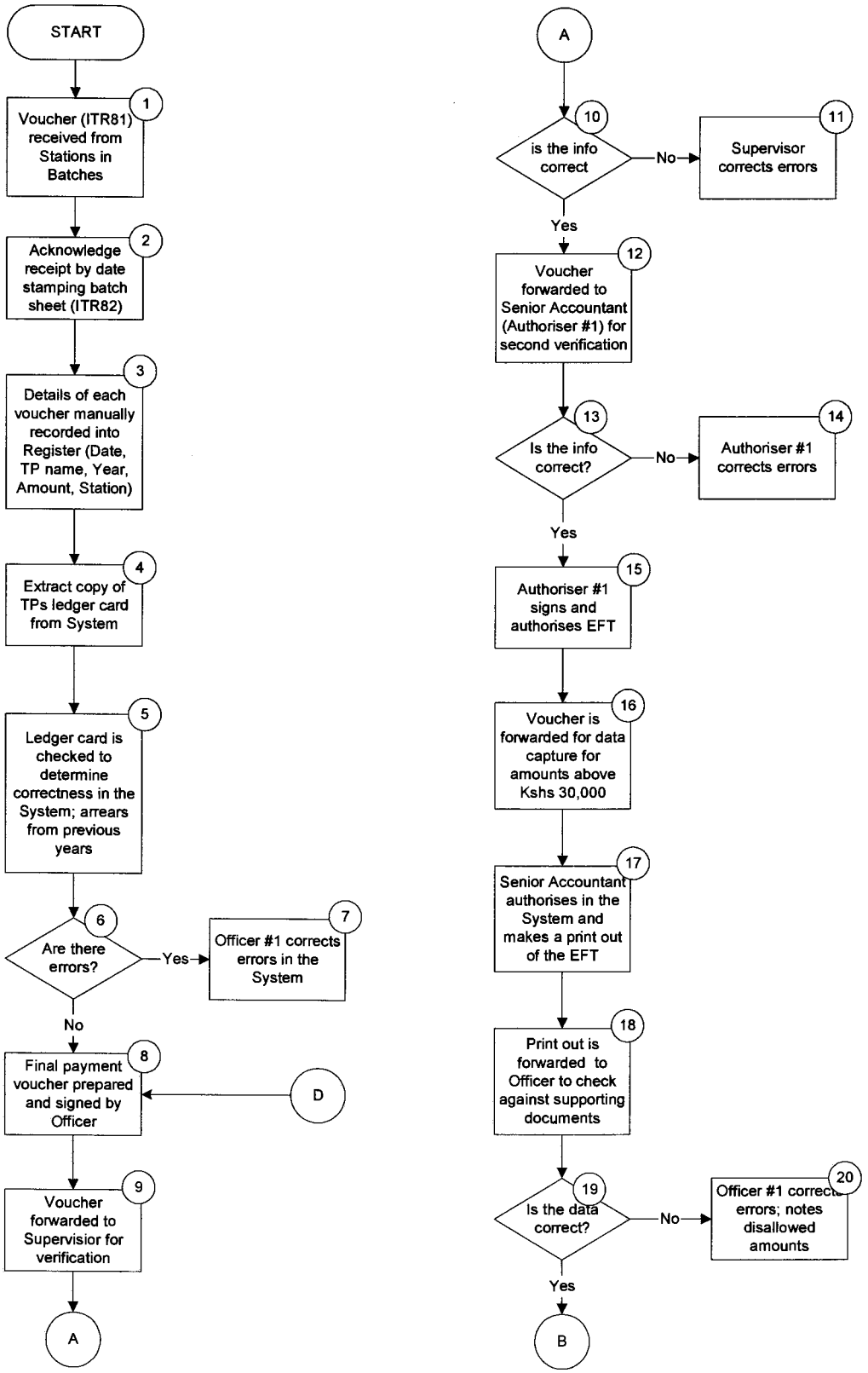
FINANCE - VAT REPAYMENTS
CURRENT PROCESS

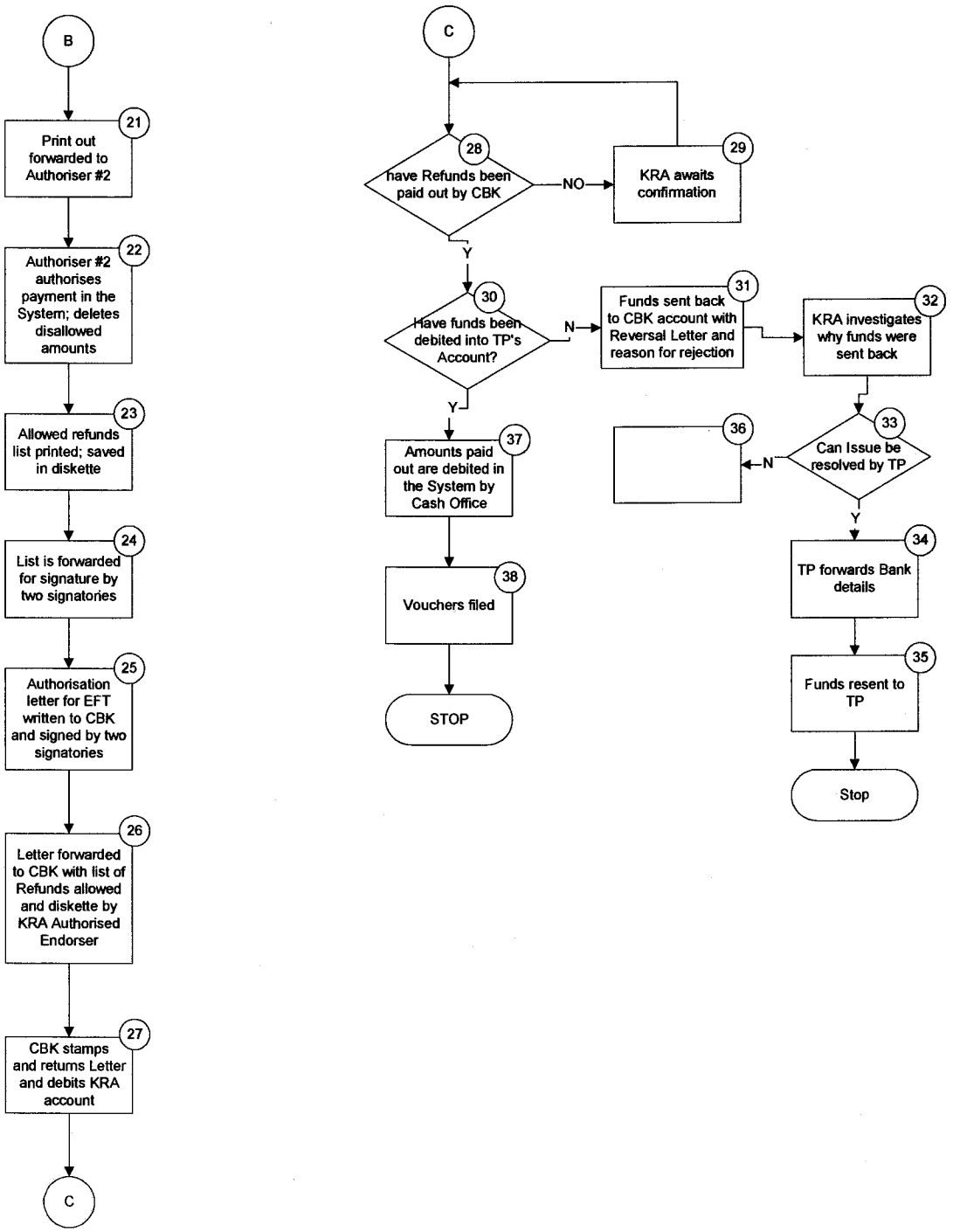


Income Tax Automatic Large Refunds
Current Process

1. Voucher (ITR81) received from Stations in Batches
2. Receipt of the Vouchers is acknowledge by date stamping the Batch sheet (ITR82)
3. Details of each Voucher is manually recorded into Register - Date, Tax Payer's name, Year of Refund, Amount, Station.
4. A copy of the Tax Payer's ledger card is extracted from the System
5. The Ledger card is checked to determine correctness in the System or for any arrears from previous years
6. Are there errors?
7. Officer #1 corrects errors in the System
8. If none, a Final payment voucher is prepared and signed by Officer
9. The Voucher is forwarded to the Supervisor for verification
10. Is the information in the Voucher correct?
11. If not, the Supervisor corrects the errors
12. If yes, the Voucher is forwarded to the Senior Accountant (Authoriser #1) for second verification
13. Is the information correct?
14. If not, Authoriser #1 corrects errors
15. If the information is correct, Authoriser #1 signs and authorises EFT
16. The Voucher is forwarded for data capture for amounts above Kshs 30,000
17. The Senior Accountant then authorises in the System and makes a print out of the EFT
18. The Print out is forwarded to the Officer to check against supporting documents
19. Is the data correct?
20. No? Officer #1 corrects errors; notes disallowed amounts
21. Yes? Print out forwarded to Authoriser #2
22. Authoriser #2 authorises payment in the System; deletes disallowed amounts
23. Allowed refunds list printed and saved on a diskette
24. List is forwarded for signature by two signatories
25. Authorisation letter for EFT written to CBK and signed by two signatories
26. Letter forwarded to CBK with list of Refunds allowed and the diskette by a KRA Authorised Endorser
27. CBK stamps and returns Letter and debits KRA account
28. Have Refunds been paid out by CBK?
29. If no, KRA awaits confirmation from CBK
30. Have funds been debited into TP's Account?
31. If the Funds have not been credited into the Tax Payer's account, they are sent back to the CBK account with a Reversal Letter and reason for rejection
32. KRA investigates why funds were sent back
33. Can Issue be resolved by TP?
34. If yes, TP forwards new Bank details
35. Funds resent to TP
36. If no, Amounts paid out are debited in the System by Cash Office
37. Vouchers are filed

FINANCE - INCOME TAX AUTOMATIC LARGE REFUNDS
CURRENT PROCESS

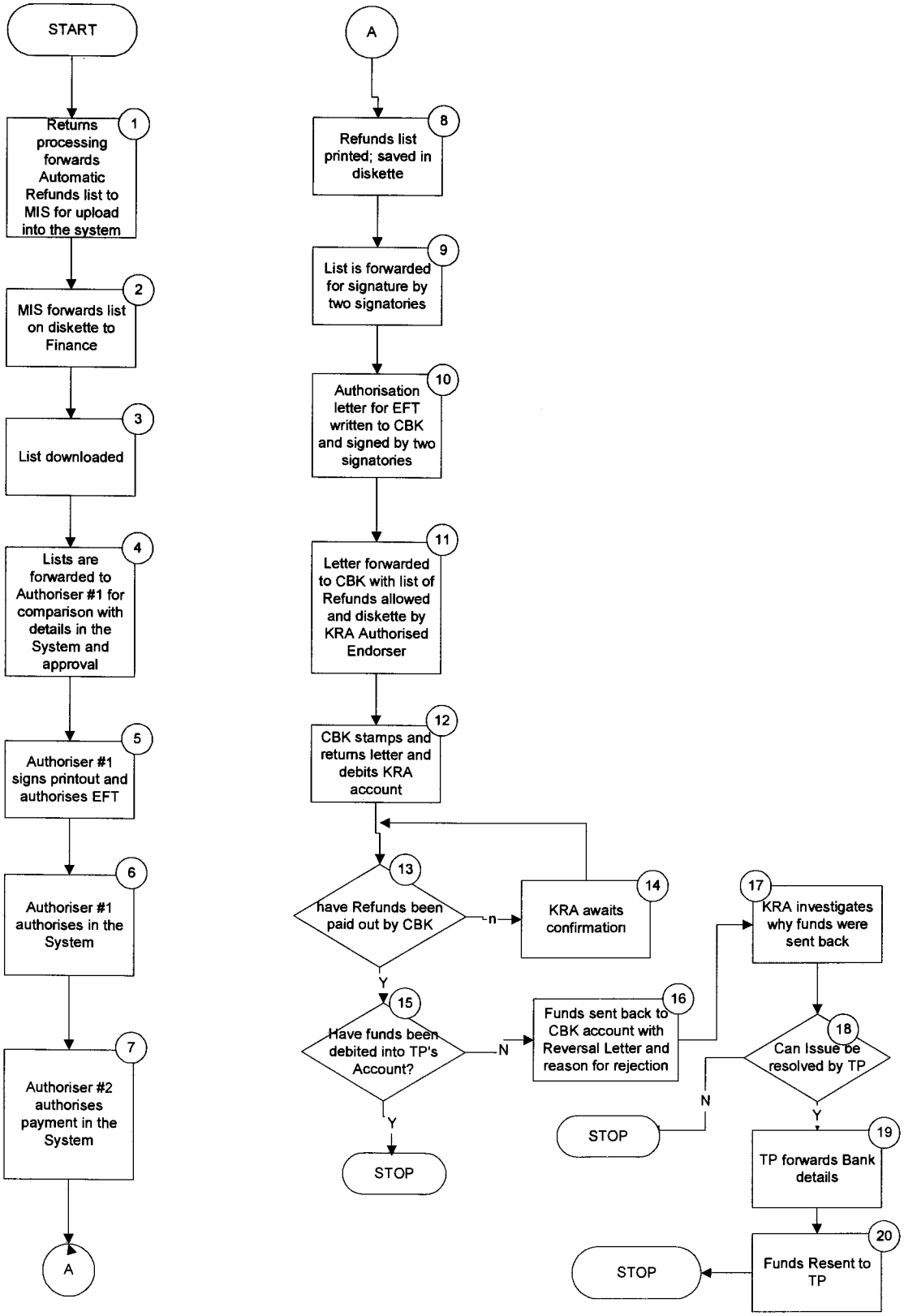



B
21
Print out forwarded to Authoriser #2
22
Authoriser #2 authorises payment in the System; deletes disallowed amounts
23
Allowed refunds list printed; saved in diskette
24
List is forwarded for signature by two signatories
25
Authorisation letter for EFT written to CBK and signed by two signatories
26
Letter forwarded to CBK with list of Refunds allowed and diskette by KRA Authorised Endorser
27
CBK stamps and returns Letter and debits KRA account
C
C
28
have Refunds been paid out by CBK
NO
29
KRA awaits confirmation
Y
30
Have funds been debited into TP's Account?
N
31
Funds sent back to CBK account with Reversal Letter and reason for rejection
32
KRA investigates why funds were sent back
Y
37
Amounts paid out are debited in the System by Cash Office
36
33
Can Issue be resolved by TP
N
Y
34
TP forwards Bank details
38
Vouchers filed
35
Funds resent to TP
STOP
Stop

Income Tax Small Refunds
Current Process:

1. Returns processing forwards Automatic Refunds list to MIS for upload into the System
2. MIS forwards list on diskette to Finance
3. List is downloaded
4. Lists are forwarded to Authoriser #1 for comparison with details in the System and if correct they are approved.
5. Authoriser #1 signs printout and authorises EFT
6. Authoriser #1 authorises in the System
7. Authoriser #2 authorises payment in the System
8. Refunds list is printed and saved on a diskette
9. List is forwarded for signature by two signatories
10. Authorisation letter for EFT is written to CBK and signed by the two signatories
11. The Letter is forwarded to CBK with the list of Refunds allowed and the diskette by a KRA Authorised Endorser
12. CBK stamps and returns letter and debits KRA account
13. Have Refunds been paid out by CBK?
14. If not, KRA awaits confirmation
15. Have funds been debited into TP's Account?
16. If not, Funds are sent back to CBK account with Reversal Letter and reason for rejection
17. KRA investigates why funds were sent back
18. Can Issue be resolved by the Tax Payer?
19. If yes, the Tax Payer forwards new Bank details
20. Funds resent to the new Tax Payer account

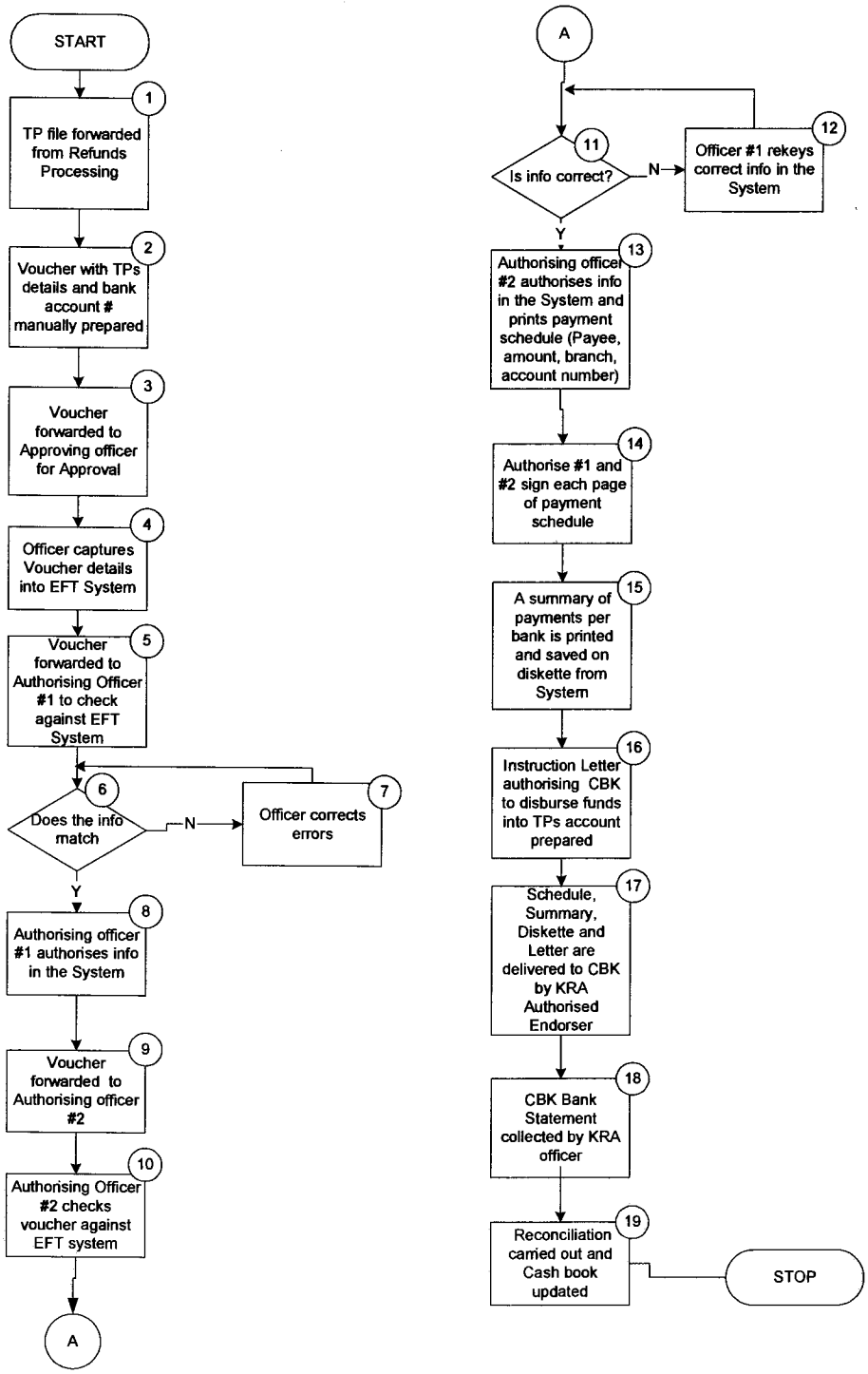
FINANCE - INCOME TAX AUTOMATIC SMALL REFUNDS
CURRENT PROCESS



Excise Duty Domestic and Stamp Duty Refunds
Current Process:

1. TP file forwarded from Refunds Processing
2. Voucher with Tax Payer's details and bank account number manually prepared
3. The Voucher is forwarded to Approving officer for Approval
4. Officer #1 captures Voucher details into EFT System
5. Voucher forwarded to Authorising Officer #1 to check against EFT System
6. Does the info match?
7. Officer #1 corrects errors
8. Authorising officer #1 authorises information in the System
9. Voucher forwarded to Authorising officer #2
10. Authorising Officer #2 checks voucher against EFT system
11. Is the information correct?
12. Officer #1 rekeys correct information in the System
13. Authorising officer #2 authorises information in the System and prints payment schedule which shows Payee, amount being refunded, Bank branch, Tax Payer's account number
14. Authoriser #1 and #2 sign each page of the Payment schedule
15. A summary of payments per bank is printed and saved on diskette from the System
16. An Instruction Letter authorising CBK to disburse funds into Tax Payer's account is prepared
17. The Schedule, Summary of payments , Diskette and Letter are delivered to CBK by a KRA Authorised Endorser
18. CBK Bank Statement collected by KRA officer daily
    1. Reconciliation is carried out in Finance Section and Cash book updated

FINANCE - EXCISE DOMESTIC AND STAMP DUTY REPAYMENTS
CURRENT PROCESS

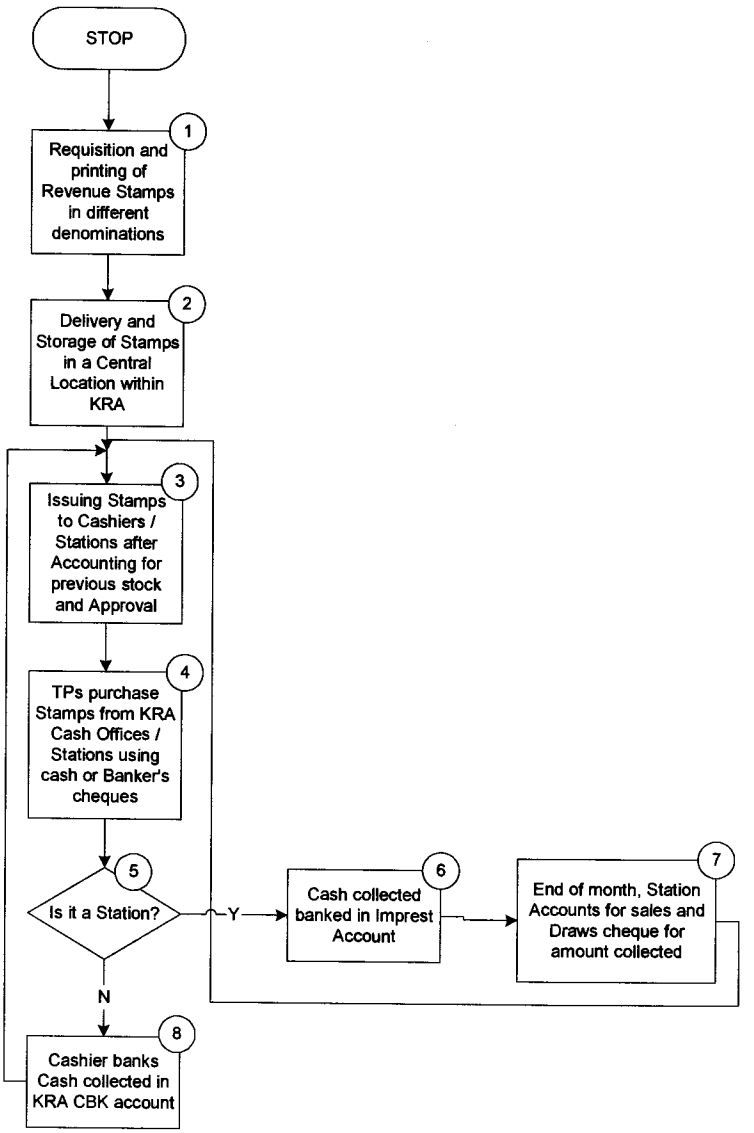


Revenue Stamps Collections
Current Process:

1. Requisition and printing of Revenue Stamps in different denominations is carried out
2. Stamps are delivered and Stored in a Central Location within KRA
3. Stamps are issued to Cashiers / Stations after Accounting for previous stock and approval
4. Tax Payers purchase Stamps from KRA Cash Offices / Stations using cash or Banker's cheques
5. If it is a Station, Cash collected is banked in the Imprest Account
6. A the end of the month, the Station accounts for sales and draws a cheque for amount collected
7. Cashiers banks Cash collected into KRA CBK account daily

FINANCE - REVENUE STAMPS COLLECTIONS

CURRENT PROCESS

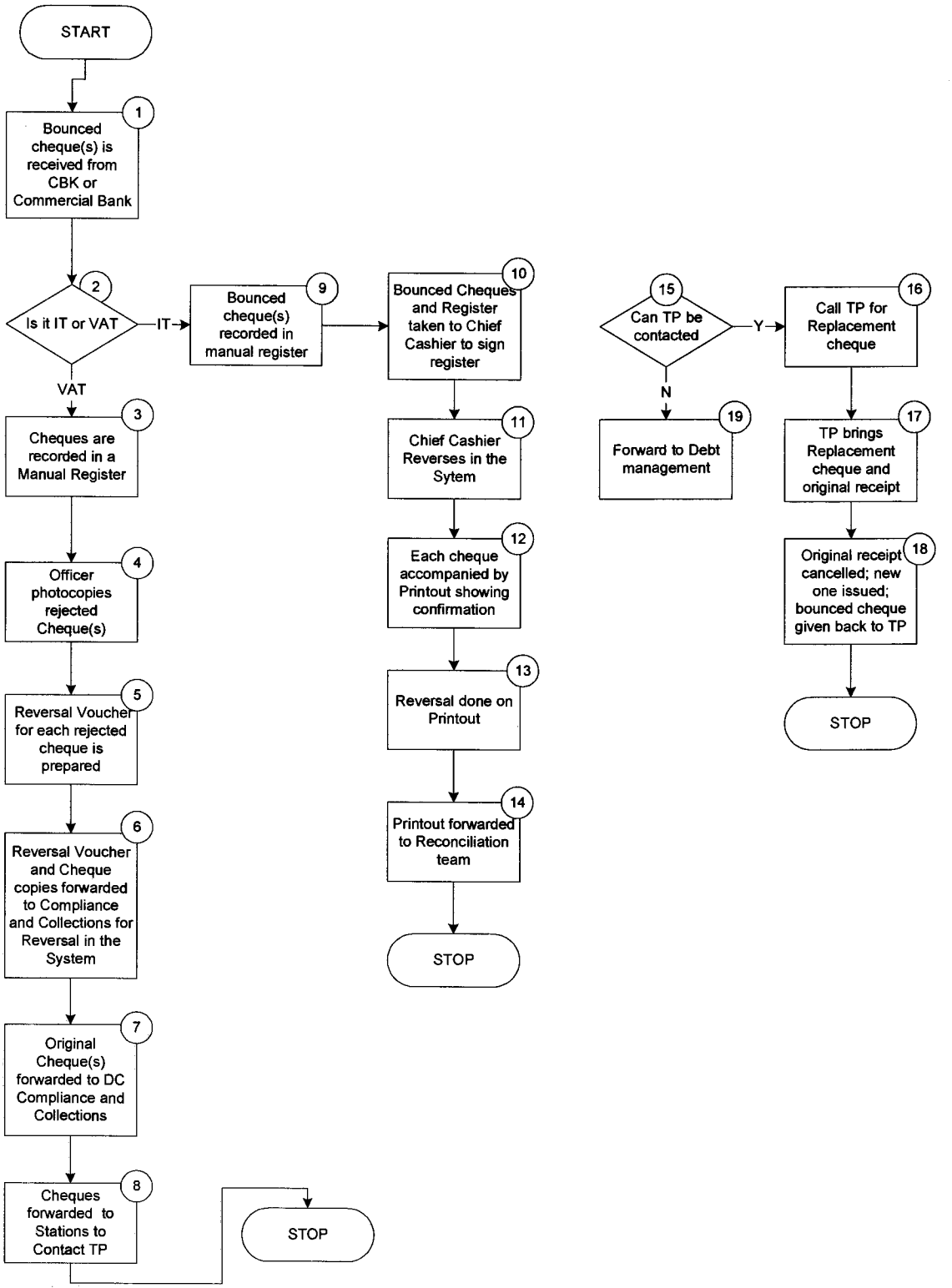


Bounced Cheques Process
Current Process

1. Bounced cheque(s) is received from CBK or Commercial Bank
2. Is it IT or VAT
3. VAT? Cheques are recorded in a Manual Register
4. Officer photocopies rejected Cheque(s)
5. Reversal Voucher for each rejected cheque is prepared
6. Reversal Voucher and Cheque copies forwarded to Compliance and Collections for Reversal in the System
7. Original Cheque(s) forwarded to DC Compliance and Collections
8. Cheques forwarded to Stations to Contact TP
9. Income Tax? Bounced cheque(s) recorded in manual register
10. Bounced Cheques and Register taken to Chief Cashier to sign register
11. Chief Cashier Reverses in the Sytem
12. Each cheque accompanied by Printout showing confirmation
13. Reversal done on Printout
14. Printout forwarded to Reconciliation team
15. Can TP be contacted?
16. Call TP for Replacement cheque
17. TP brings Replacement cheque and original receipt
18. Original receipt cancelled; new one issued; bounced cheque given back to TP
19. No? Forward to Debt management

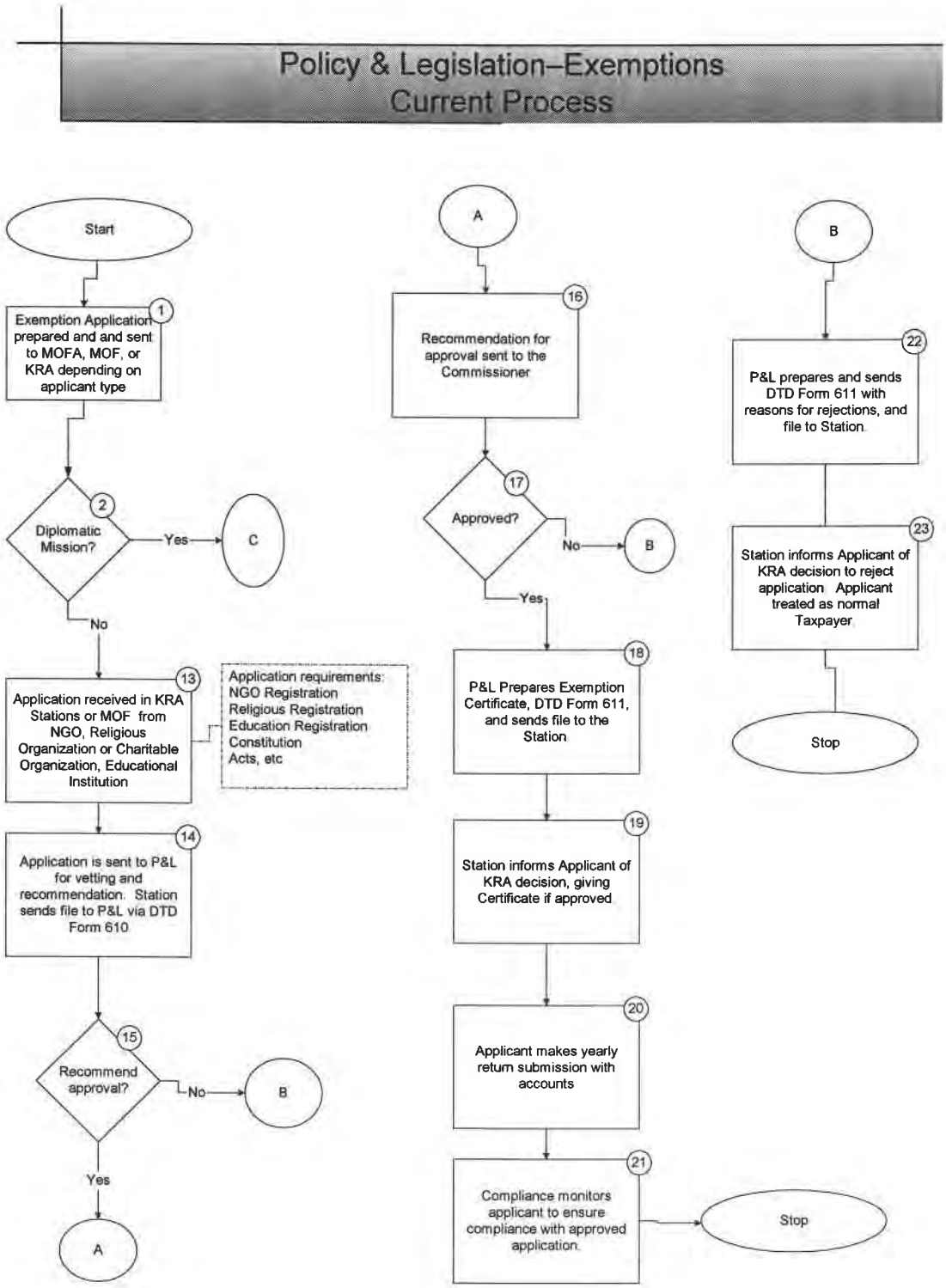
BOUNCED CHEQUES PROCESS

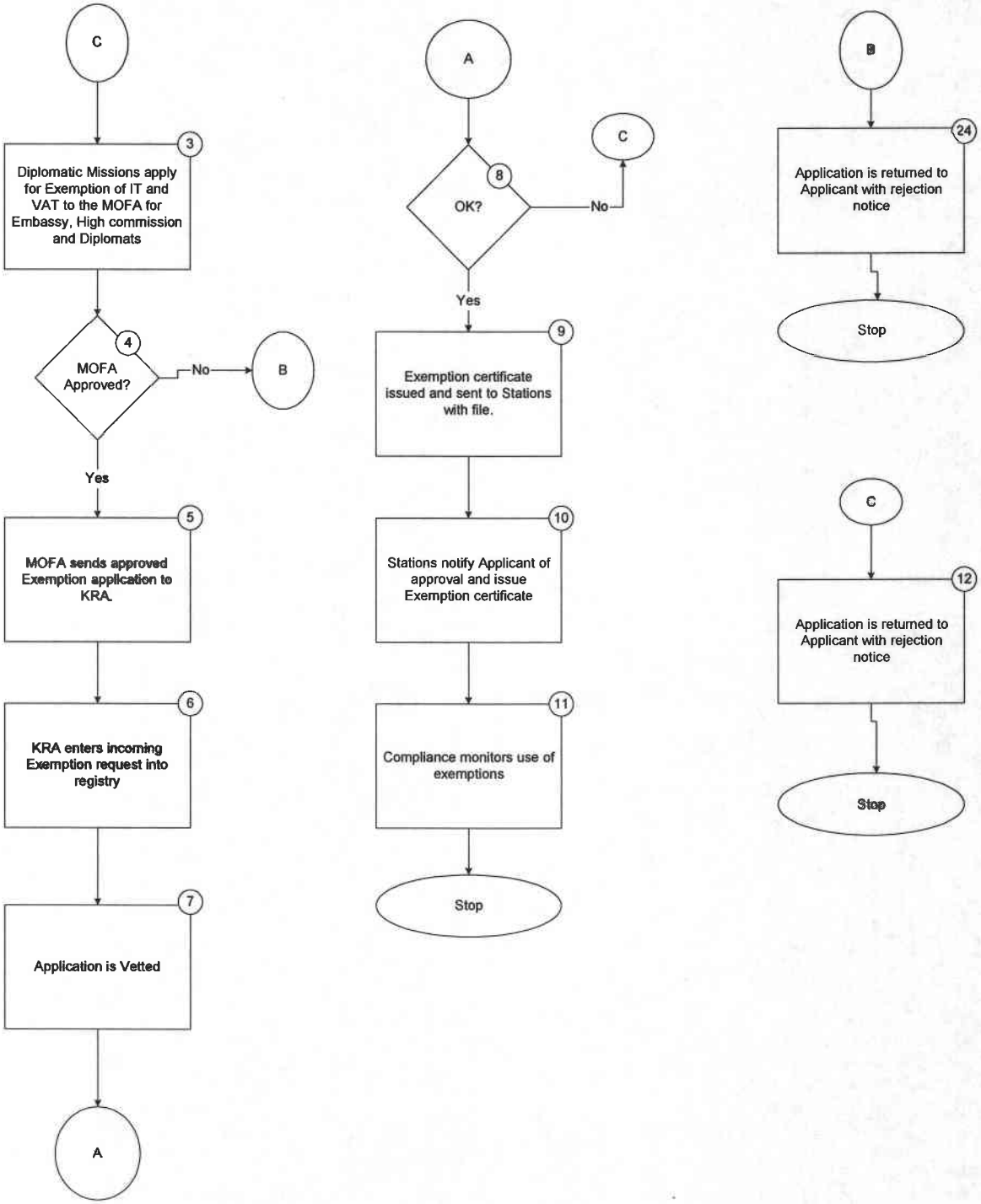
Current Process



Policy and Legislation - Exemptions
Current Process

1. Exemption Application prepared and sent to MOFA, MOF, or KRA depending on applicant type
2. *Diplomatic Mission?*
3. If yes, Diplomatic Missions apply for Exemption of IT and VAT to the MOFA for Embassy, High commission and Diplomats
4. *MOFA Approved?*
5. Yes? MOFA sends approved Exemption application to KRA.
6. KRA enters incoming Exemption request into registry
7. Application is Vetted
8. *OK?*
9. Yes? Exemption certificate issued and sent to Stations with file.
10. Stations notify Applicant of approval and issue Exemption certificate
11. Compliance monitors use of exemptions
12. If not, application is returned to Applicant with rejection notice
13. If it is not a Diplomatic Mission, application is received in KRA Stations or MOF from NGO, Religious Organization or Charitable Organization, Educational Institution
14. Application is sent to P&L for vetting and recommendation. Station sends file to P&L via DTD Form 610
15. *Recommend approval?*
16. Yes, Recommendation for approval sent to the Commissioner
17. *Approved?*
18. If yes, P&L Prepares Exemption Certificate, DTD Form 611, and sends file to the Station.
19. Station informs Applicant of KRA decision, giving Certificate if approved.
20. Applicant makes yearly return submission with accounts
21. Compliance monitors applicant to ensure compliance with approved application.
22. P&L prepares and sends DTD Form 611 with reasons for rejections, and file to Station.
23. Station informs Applicant of KRA decision to reject application. Applicant treated as normal Taxpayer.
24. If application is not approved, Application is returned to Applicant with rejection notice.


Policy & Legislation–Exemptions
Current Process
Start
1
Exemption Application prepared and and sent to MOFA, MOF, or KRA depending on applicant type
2
Diplomatic Mission?
Yes
C
No
13
Application received in KRA Stations or MOF from NGO, Religious Organization or Charitable Organization, Educational Institution
Application requirements:
NGO Registration
Religious Registration
Education Registration
Constitution
Acts, etc
14
Application is sent to P&L for vetting and recommendation. Station sends file to P&L via DTD Form 610
15
Recommend approval?
No
B
Yes
A
A
16
Recommendation for approval sent to the Commissioner
17
Approved?
No
B
Yes
18
P&L Prepares Exemption Certificate, DTD Form 611, and sends file to the Station
19
Station informs Applicant of KRA decision, giving Certificate if approved
20
Applicant makes yearly return submission with accounts
21
Compliance monitors applicant to ensure compliance with approved application.
Stop
B
22
P&L prepares and sends DTD Form 611 with reasons for rejections, and file to Station.
23
Station informs Applicant of KRA decision to reject application. Applicant treated as normal Taxpayer.
Stop

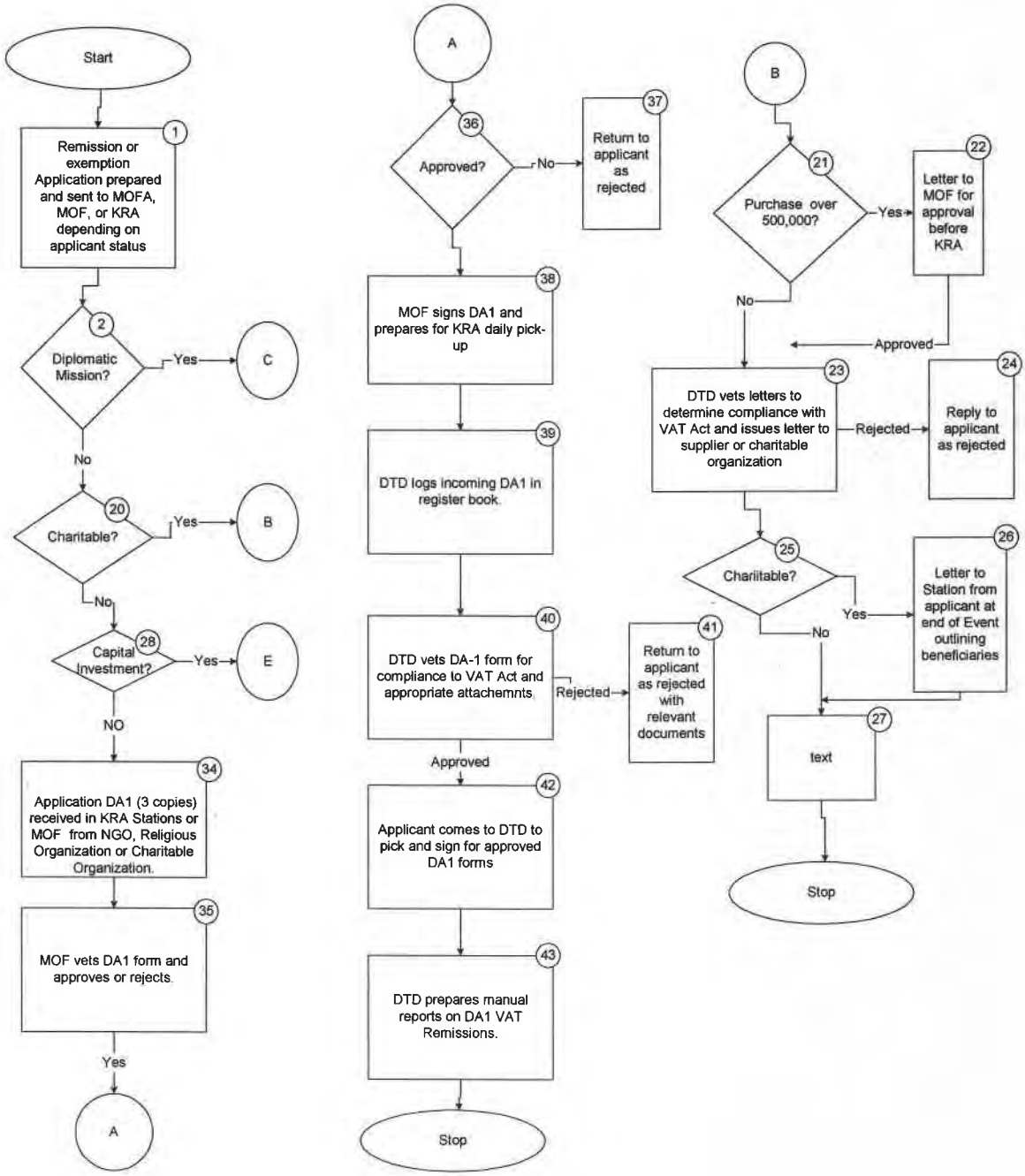

C
3
Diplomatic Missions apply for Exemption of IT and VAT to the MOFA for Embassy, High commission and Diplomats
4
MOFA Approved?
No
B
Yes
5
MOFA sends approved Exemption application to KRA
6
KRA enters incoming Exemption request into registry
7
Application is Vetted
A
A
8
OK?
No
C
Yes
9
Exemption certificate issued and sent to Stations with file.
10
Stations notify Applicant of approval and issue Exemption certificate
11
Compliance monitors use of exemptions
Stop
B
24
Application is returned to Applicant with rejection notice
Stop
C
12
Application is returned to Applicant with rejection notice
Stop

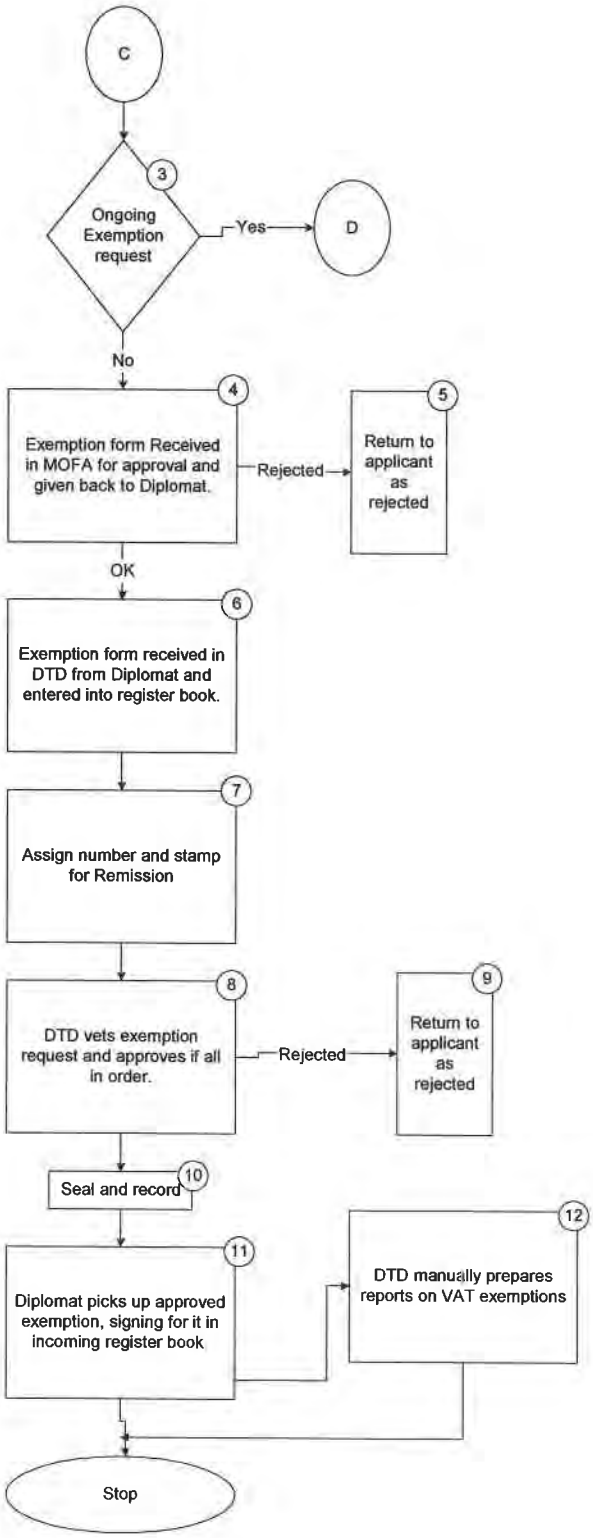
Policy and Legislation - Remissions
Current Process

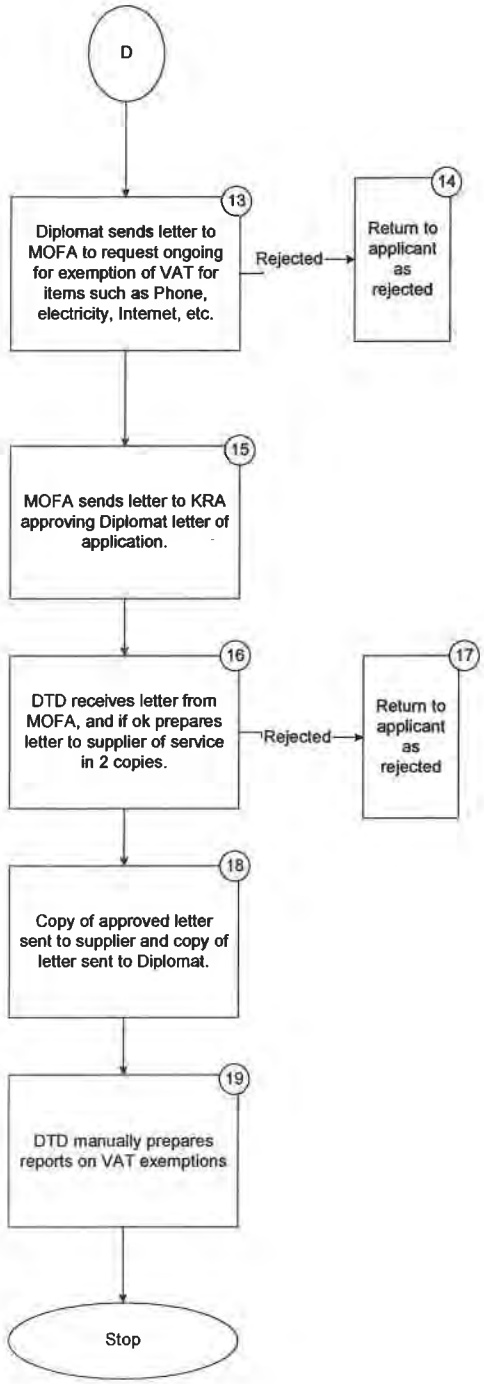
1. Remission or exemption application prepared and sent to MOFA, MOF, or KRA depending on applicant status
2. *Diplomatic Mission?*
3. *Yes? Ongoing Exemption request?*
4. If there is no Exemption request Exemption form received in MOFA for approval and given back to Diplomat.
5. Return to applicant as rejected
6. Exemption form received in DTD from Diplomat and entered into register book.
7. Assign number and stamp for Remission
8. DTD vets exemption request and approves if all in order.
9. Return to applicant as rejected
10. Seal and record
11. Diplomat picks up approved exemption, signing for it in incoming register book.
12. DTD manually prepares reports on VAT exemptions
13. Diplomat sends letter to MOFA to request ongoing for exemption of VAT for items such as Phone, electricity, Internet, etc.
14. Return to applicant as rejected
15. MOFA sends letter to KRA approving Diplomat letter of application.
16. DTD receives letter from MOFA, and if ok prepares letter to supplier of service in 2 copies.
17. Return to applicant as rejected
18. Copy of approved letter sent to supplier and copy of letter sent to Diplomat.
19. DTD manually prepares reports on VAT exemptions
20. *Charitable*?
21. If yes, is it a purchase of over 500,000?
22. Letter to MOF for approval before KRA
23. If not, DTD vets letters to determine compliance with VAT Act and issues letter to supplier or charitable organization
24. Reply to applicant as rejected
25. *Charitable?*
26. Yes, Letter to Station from applicant at end of Event outlining beneficiaries
27. If not Charitable, text
28. *Is it a Capital Investment?*
29. Yes, MOF approves application by investors for capital goods. Letter is sent DTD Commissioner.
30. Sent SAC Remissions for vetting.
31. Documents entered into register for capital goods letters
32. File created for capital remission and sent to Station for monitoring
33. Summary of remissions prepared each month from manual records.
34. Not a Capital Investment? Application DA1 (3 copies) received in KRA Stations or MOF from NGO, Religious Organization or Charitable Organization.
35. MOF vets DA1 form and approves or rejects.
36. Approved?
37. No? Return to applicant as rejected
38. Yes? MOF signs DA1 and prepares for KRA daily pick-up
39. DTD logs incoming DA1 in register book.
40. DTD vets DA-1 form for compliance to VAT Act and appropriate attachments.

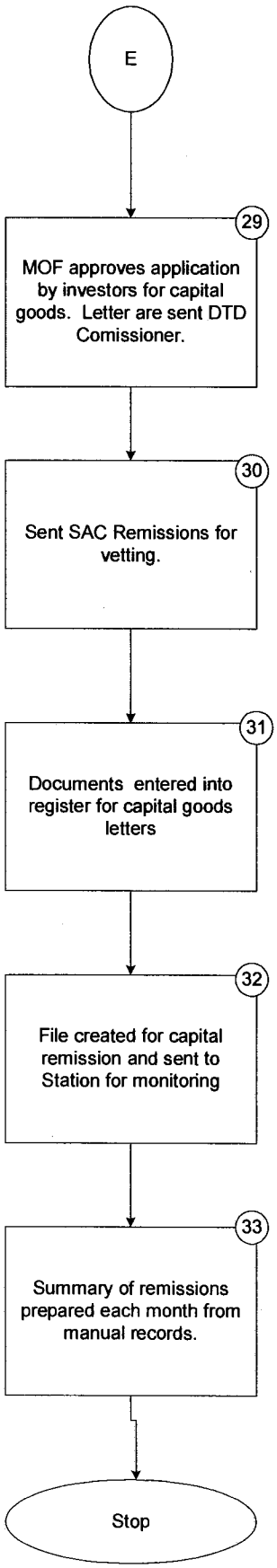
41. Return to applicant as rejected with relevant documents
42. Applicant comes to DTD to pick and sign for approved DA1 forms
43. DTD prepares manual reports on DA1 VAT Remissions.

Policy & Legislation–Remissions Current Process




C
3
Ongoing Exemption request
Yes
D
No
4
Exemption form Received in MOFA for approval and given back to Diplomat.
Rejected
5
Return to applicant as rejected
OK
6
Exemption form received in DTD from Diplomat and entered into register book.
7
Assign number and stamp for Remission
8
DTD vets exemption request and approves if all in order.
Rejected
9
Return to applicant as rejected
Seal and record
10
11
Diplomat picks up approved exemption, signing for it in incoming register book
12
DTD manually prepares reports on VAT exemptions
Stop


D
13
Diplomat sends letter to MOFA to request ongoing for exemption of VAT for items such as Phone, electricity, Internet, etc.
Rejected
14
Return to applicant as rejected
15
MOFA sends letter to KRA approving Diplomat letter of application.
16
DTD receives letter from MOFA, and if ok prepares letter to supplier of service in 2 copies.
Rejected
17
Return to applicant as rejected
18
Copy of approved letter sent to supplier and copy of letter sent to Diplomat.
19
DTD manually prepares reports on VAT exemptions
Stop

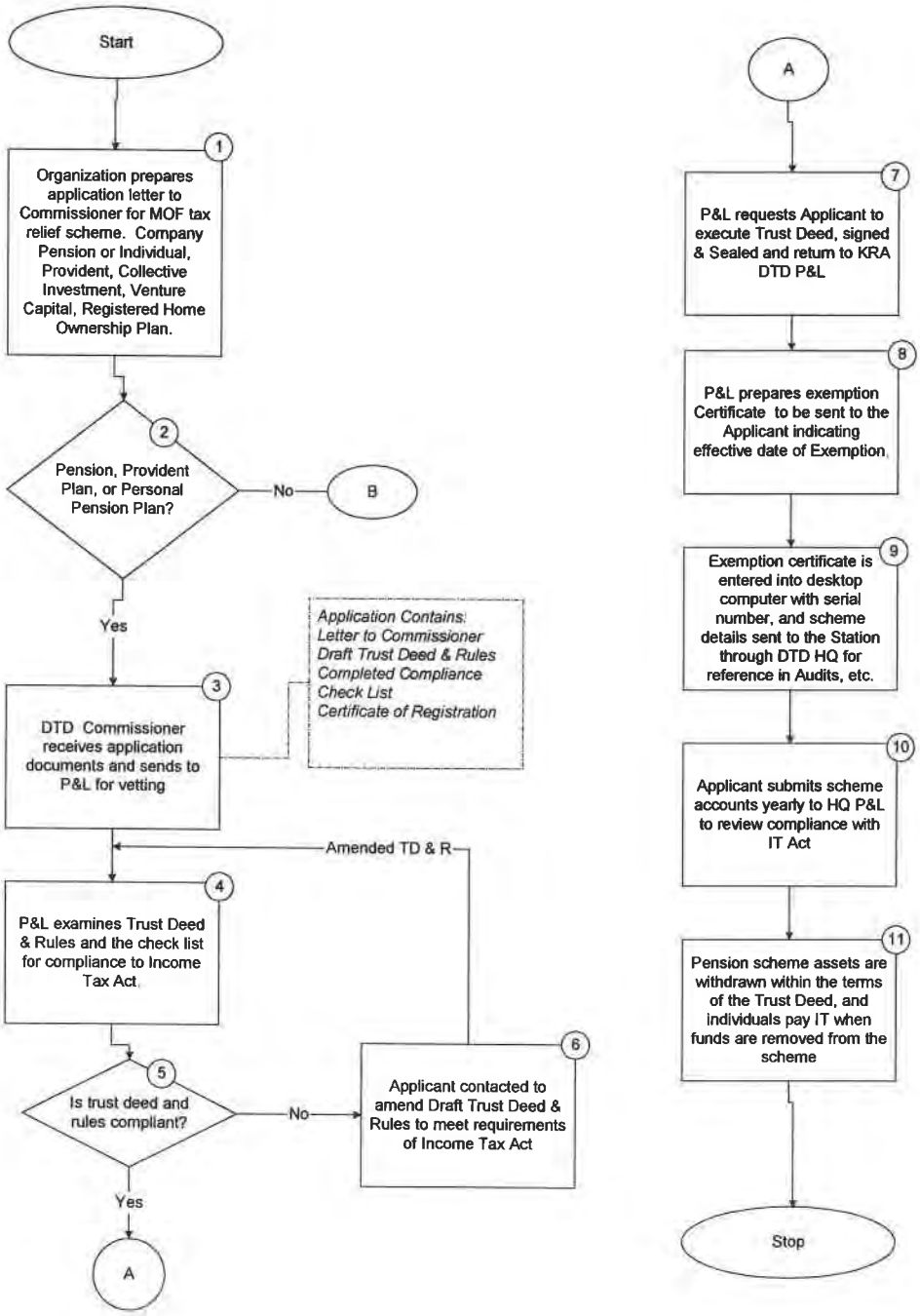

E
29
MOF approves application by investors for capital goods. Letter are sent DTD Comissioner.
30
Sent SAC Remissions for vetting.
31
Documents entered into register for capital goods letters
32
File created for capital remission and sent to Station for monitoring
33
Summary of remissions prepared each month from manual records.
Stop

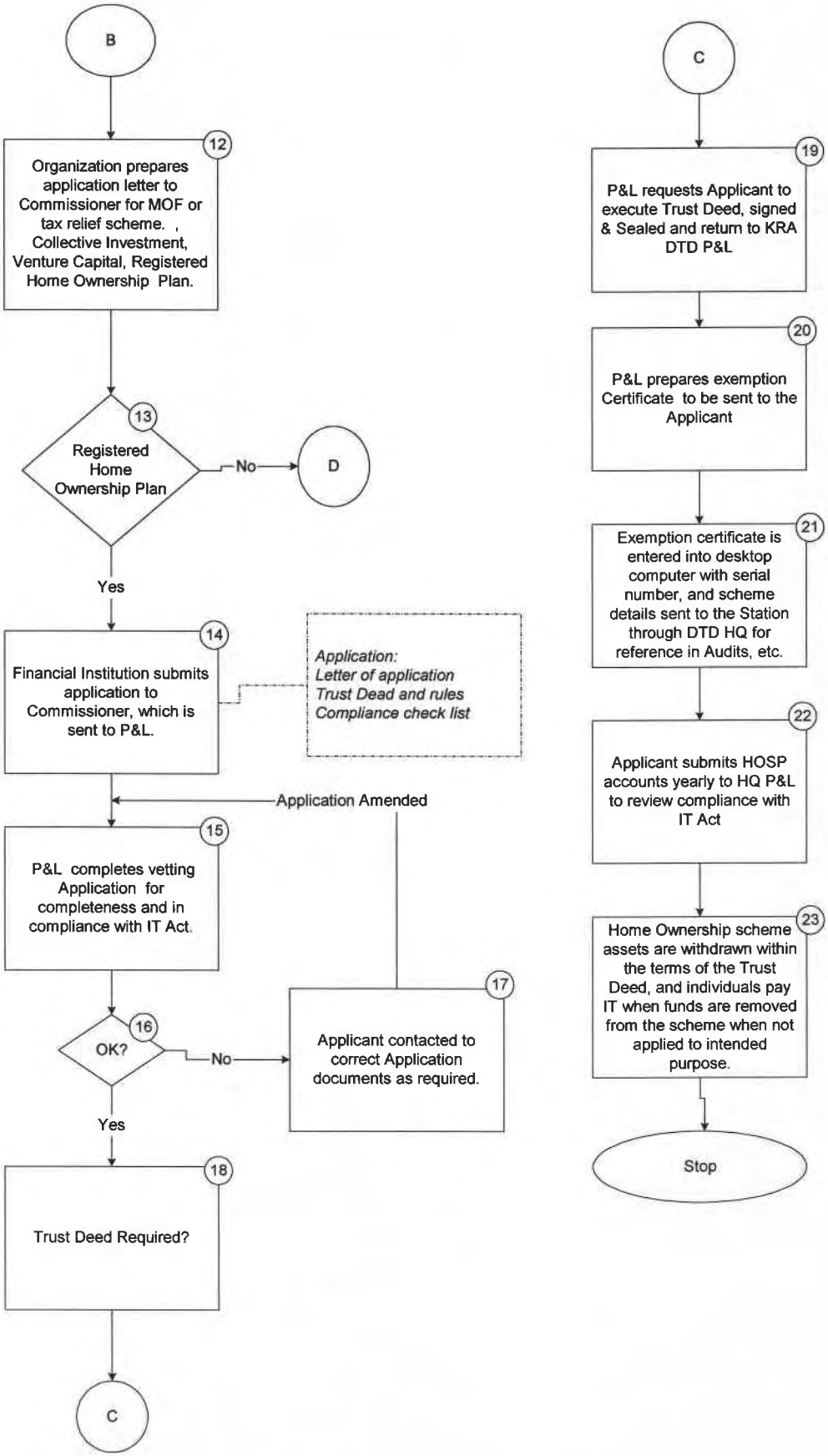
Policy and Legislation – Pensions and other Tax Relief Schemes
Current Process

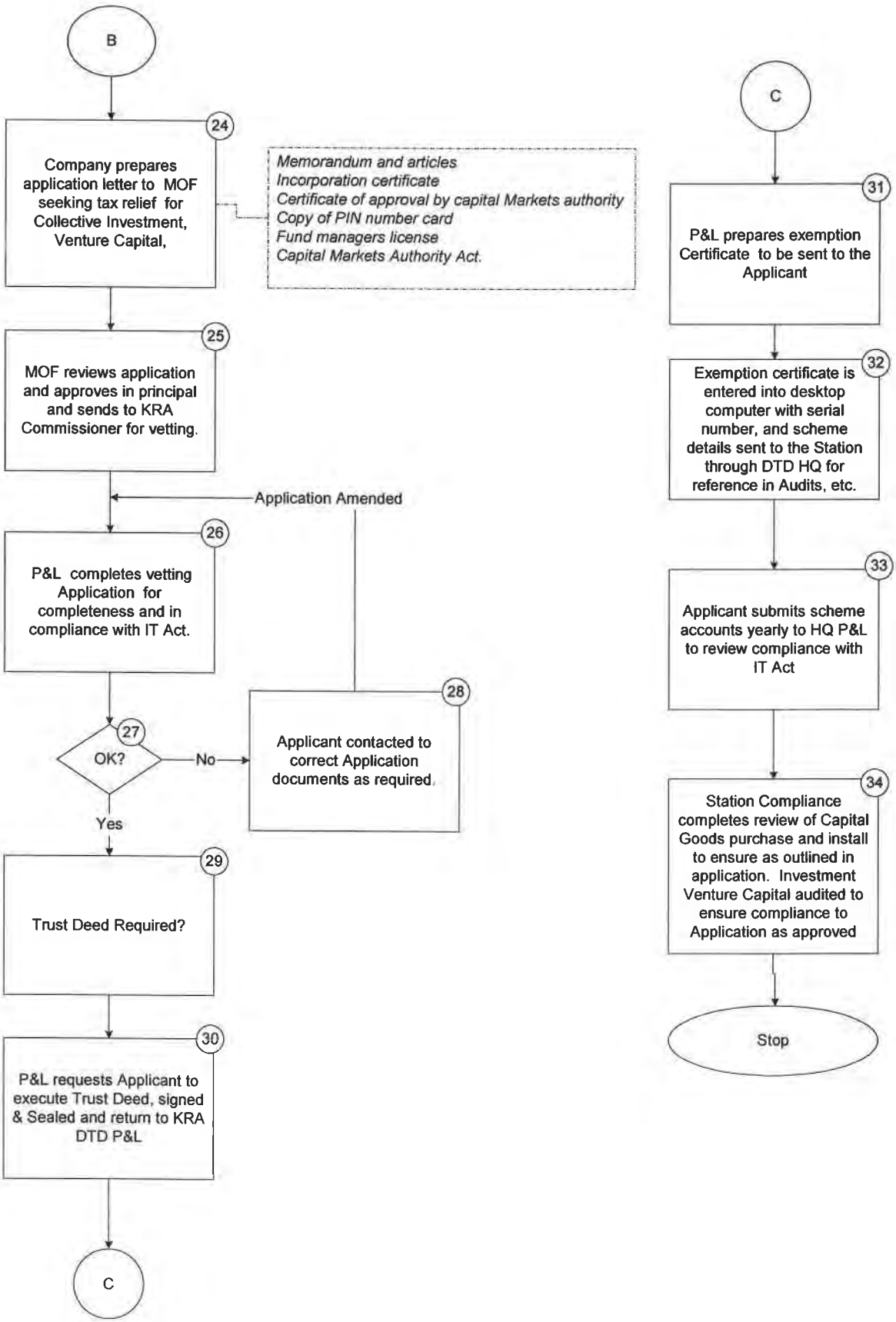
1. Organization prepares application letter to Commissioner for MOF tax relief scheme. Company Pension or Individual, Provident, Collective Investment, Venture Capital, Registered Home Ownership Plan.
2. *Pension, Provident Plan, or Personal Pension Plan?*
3. If yes, DTD Commissioner receives application documents and sends to P&L for vetting
4. P&L examines Trust Deed & Rules and the check list for compliance to Income Tax Act.
5. *Is trust deed and rules compliant?*
6. No? Applicant contacted to amend Draft Trust Deed & Rules to meet requirements of Income Tax Act
7. Yes? P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
8. P&L prepares exemption Certificate to be sent to the Applicant indicating effective date of Exemption.
9. Exemption certificate is entered into desktop computer with serial number, and scheme details sent to the Station through DTD HQ for reference in Audits, etc.
10. Applicant submits scheme accounts yearly to HQ P&L to review compliance with IT Act
11. Pension scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme
12. Organization prepares application letter to Commissioner for MOF or tax relief scheme. Collective Investment, Venture Capital, Regitered Home Ownership Plan.
13. *Is it a Registered Home Ownership Plan?*
14. Yes, Financial Institution submits application to Commissioner, which is sent to P&L.
15. P&L completes vetting Application for completeness and in compliance with IT Act.
16. *OK*?
17. No? Applicant contacted to correct Application documents as required.
18. *If OK, is a Trust Deed Required?*
19. P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
20. P&L prepares exemption Certificate to be sent to the Applicant
21. Exemption certificate is entered into desktop computer with serial number, and scheme details sent to the Station through DTD HQ for reference in Audits, etc.
22. Applicant submits HOSP accounts yearly to HQ P&L to review compliance with IT Act
23. Home Ownership scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme when not applied to intended purpose.
24. Company prepares application letter to MOF seeking tax relief for Collective Investment, Venture Capital,
25. MOF reviews application and approves in principal and sends to KRA Commissioner for vetting.
26. P&L completes vetting Application for completeness and in compliance with IT Act.
27. *OK*?
28. No? Applicant contacted to correct Application documents as required.
29. Trust Deed Required?
30. P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
31. P&L prepares exemption Certificate to be sent to the Applicant

32. Exemption certificate is entered into desktop computer with serial number, and scheme details sent to the Station through DTD HQ for reference in Audits, etc.
33. Applicant submits scheme accounts yearly to HQ P&L to review compliance with IT Act
34. Station Compliance completes review of Capital Goods purchase and install to ensure as outlined in application. Investment Venture Capital audited to ensure compliance to Application as approved

Policy & Legislation–Pensions & Other Tax Relief Schemes Current Process

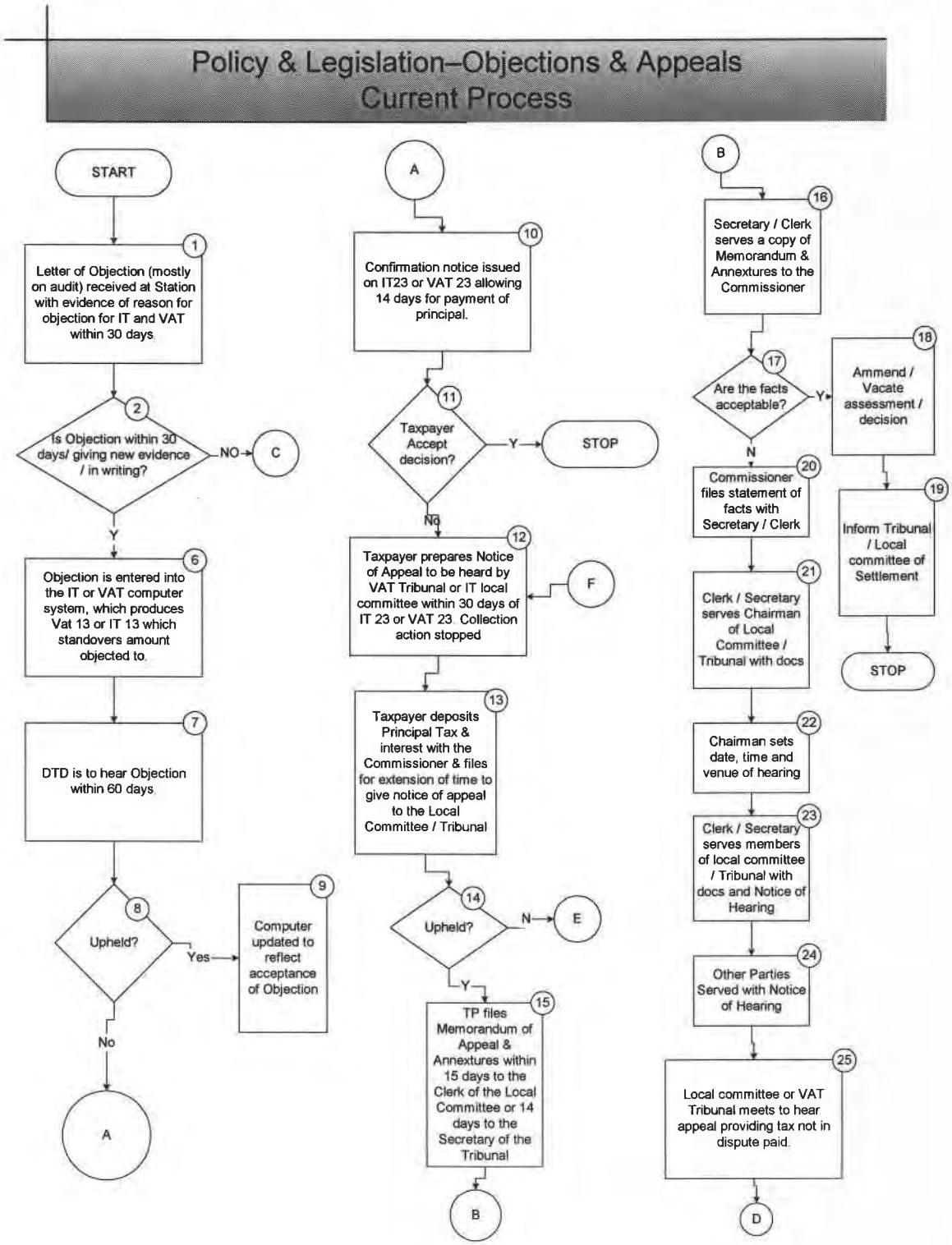


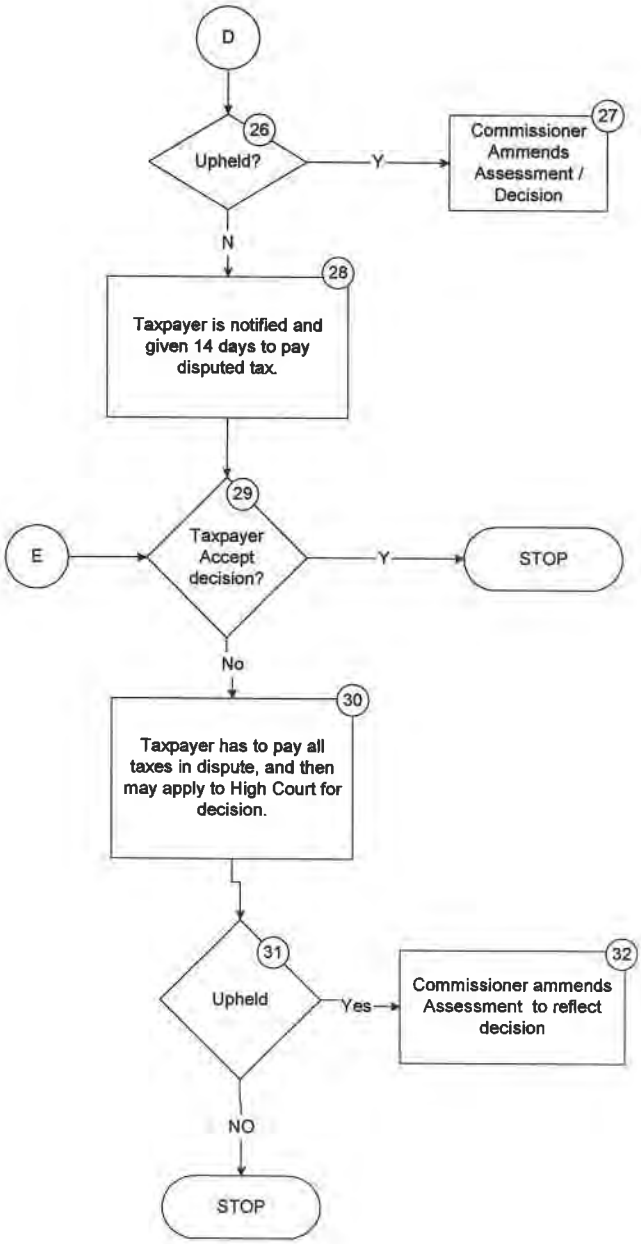

B
12
Organization prepares application letter to Commissioner for MOF or tax relief scheme. , Collective Investment, Venture Capital, Registered Home Ownership Plan.
13
Registered Home Ownership Plan
No
D
Yes
14
Financial Institution submits application to Commissioner, which is sent to P&L.
Application:
Letter of application
Trust Dead and rules
Compliance check list
Application Amended
15
P&L completes vetting Application for completeness and in compliance with IT Act.
16
OK?
No
17
Applicant contacted to correct Application documents as required.
Yes
18
Trust Deed Required?
C
C
19
P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
20
P&L prepares exemption Certificate to be sent to the Applicant
21
Exemption certificate is entered into desktop computer with serial number, and scheme details sent to the Station through DTD HQ for reference in Audits, etc.
22
Applicant submits HOSP accounts yearly to HQ P&L to review compliance with IT Act
23
Home Ownership scheme assets are withdrawn within the terms of the Trust Deed, and individuals pay IT when funds are removed from the scheme when not applied to intended purpose.
Stop

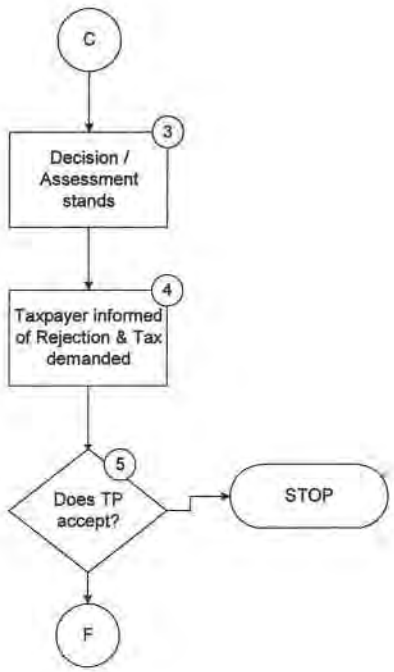

B
24
Company prepares application letter to MOF seeking tax relief for Collective Investment, Venture Capital,
Memorandum and articles
Incorporation certificate
Certificate of approval by capital Markets authority
Copy of PIN number card
Fund managers license
Capital Markets Authority Act.
25
MOF reviews application and approves in principal and sends to KRA Commissioner for vetting.
Application Amended
26
P&L completes vetting Application for completeness and in compliance with IT Act.
27
OK?
No
28
Applicant contacted to correct Application documents as required.
Yes
29
Trust Deed Required?
30
P&L requests Applicant to execute Trust Deed, signed & Sealed and return to KRA DTD P&L
C
C
31
P&L prepares exemption Certificate to be sent to the Applicant
32
Exemption certificate is entered into desktop computer with serial number, and scheme details sent to the Station through DTD HQ for reference in Audits, etc.
33
Applicant submits scheme accounts yearly to HQ P&L to review compliance with IT Act
34
Station Compliance completes review of Capital Goods purchase and install to ensure as outlined in application. Investment Venture Capital audited to ensure compliance to Application as approved
Stop

Policy and Legislation – Objections and Appeals
Current Process

1. Letter of Objection (mostly on audit) received at Station with evidence of reason for objection for IT and VAT within 30 days.
2. *Is Objection within 30 days/ giving new evidence / in writing?*
3. No? Decision / Assessment stands
4. Taxpayer informed of Rejection & Tax demanded
5. *Does TP accept?*
6. If yes? Objection is entered into the IT or VAT computer system, which produces VAT 13 or IT 13 which stand over amount objected to.
7. DTD is to hear Objection within 60 days.
8. Upheld?
9. Yes, Computer updated to reflect acceptance of Objection
10. If not, Confirmation notice issued on IT23 or VAT 23 allowing 14 days for payment of principal.
11. *Does Taxpayer Accept decision? Stop*
12. No? Taxpayer prepares Notice of Appeal to be heard by VAT Tribunal or IT local committee within 30 days of IT 23 or VAT 23. Collection action stopped
13. Taxpayer deposits Principal Tax & interest with the Commissioner & files for extension of time to give notice of appeal to the Local Committee / Tribunal
14. *Upheld?*
15. Yes? TP files Memorandum of Appeal & Annexure within 15 days to the Clerk of the Local Committee or 14 days to the Secretary of the Tribunal
16. Secretary / Clerk serves a copy of Memorandum & Annexure to the Commissioner
17. Are the facts acceptable?
18. Amend / Vacate assessment / decision
19. Inform Tribunal / Local committee of Settlement
20. Commissioner files statement of facts with Secretary / Clerk
21. Clerk / Secretary serves Chairman of Local Committee / Tribunal with docs
22. Chairman sets date, time and venue of hearing
23. Clerk / Secretary serves members of local committee / Tribunal with docs and Notice of Hearing
24. Other Parties Served with Notice of Hearing
25. Local committee or VAT Tribunal meets to hear appeal providing tax not in dispute paid.
26. *Upheld?*
27. Yes? Commissioner Amends Assessment / Decision
28. No? Taxpayer is notified and given 14 days to pay disputed tax.
29. Taxpayer Accept decision?
30. NO? Taxpayer has to pay all taxes in dispute, and then may apply to High Court for decision.
31. *Upheld?*
32. Yes? Commissioner amends Assessment to reflect decision


Policy & Legislation–Objections & Appeals
Current Process
START
1
Letter of Objection (mostly on audit) received at Station with evidence of reason for objection for IT and VAT within 30 days
2
Is Objection within 30 days/ giving new evidence / in writing?
NO
C
Y
6
Objection is entered into the IT or VAT computer system, which produces Vat 13 or IT 13 which standovers amount objected to.
7
DTD is to hear Objection within 60 days.
8
Upheld?
Yes
9
Computer updated to reflect acceptance of Objection
No
A
A
10
Confirmation notice issued on IT23 or VAT 23 allowing 14 days for payment of principal.
11
Taxpayer Accept decision?
Y
STOP
No
12
Taxpayer prepares Notice of Appeal to be heard by VAT Tribunal or IT local committee within 30 days of IT 23 or VAT 23. Collection action stopped
F
13
Taxpayer deposits Principal Tax & interest with the Commissioner & files for extension of time to give notice of appeal to the Local Committee / Tribunal
14
Upheld?
N
E
Y
15
TP files Memorandum of Appeal & Annextures within 15 days to the Clerk of the Local Committee or 14 days to the Secretary of the Tribunal
B
B
16
Secretary / Clerk serves a copy of Memorandum & Annextures to the Commissioner
17
Are the facts acceptable?
Y
18
Ammend / Vacate assessment / decision
19
Inform Tribunal / Local committee of Settlement
STOP
N
20
Commissioner files statement of facts with Secretary / Clerk
21
Clerk / Secretary serves Chairman of Local Committee / Tribunal with docs
22
Chairman sets date, time and venue of hearing
23
Clerk / Secretary serves members of local committee / Tribunal with docs and Notice of Hearing
24
Other Parties Served with Notice of Hearing
25
Local committee or VAT Tribunal meets to hear appeal providing tax not in dispute paid.
D


D
26
Upheld?
Y
27
Commissioner Ammends Assessment / Decision
N
28
Taxpayer is notified and given 14 days to pay disputed tax.
29
E
Taxpayer Accept decision?
Y
STOP
No
30
Taxpayer has to pay all taxes in dispute, and then may apply to High Court for decision.
31
Upheld
Yes
32
Commissioner ammends Assessment to reflect decision
NO
STOP

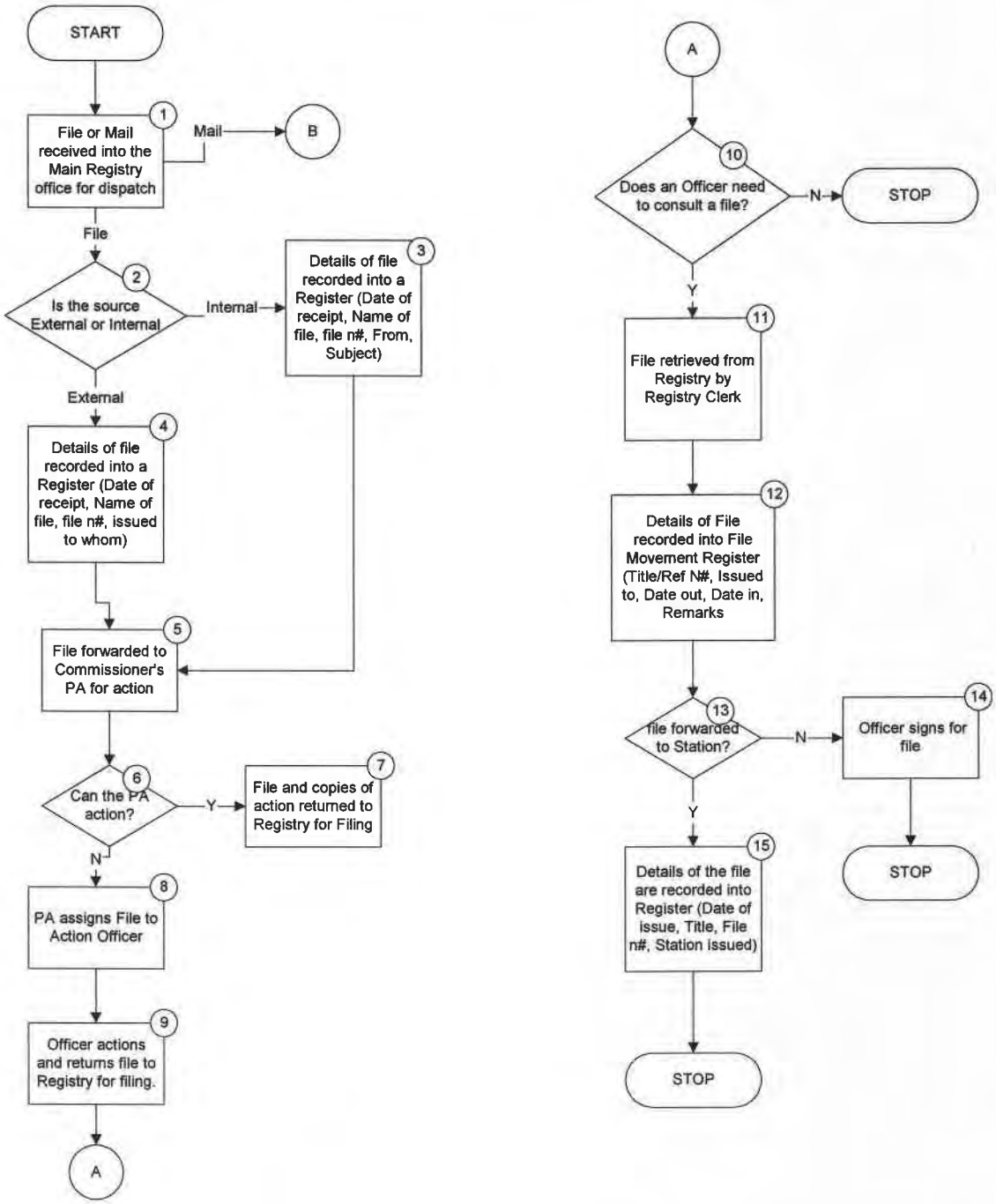

C
3
Decision / Assessment stands
4
Taxpayer informed of Rejection & Tax demanded
5
Does TP accept?
STOP
F

Mail and Records Management
Main Registry Current Process

1. File or Mail received into the Main Registry office for dispatch
2. *Is the source External or Internal?*
3. Internal - Details of file recorded into a Register (Date of receipt, Name of file, file n#, From, Subject)
4. Details of file recorded into a Register (Date of receipt, Name of file, file n#, issued to whom)
5. File forwarded to Commissioner's PA for action
6. *Can the PA action?*
7. File and copies of action returned to Registry for Filing
8. PA assigns File to Action Officer
9. Officer actions and returns file to Registry for filing.
10. *Does an Officer need to consult a file?*
11. File retrieved from Registry by Registry Clerk
12. Details of File recorded into File Movement Register (Title/Ref N#, Issued to, Date out, Date in, Remarks
13. *File forwarded to Station?*
14. Officer signs for file
15. Details of the file are recorded into Register (Date of issue, Title, File n#, Station issued)

Mail and Records Management Current Process

MAIN REGISTRY

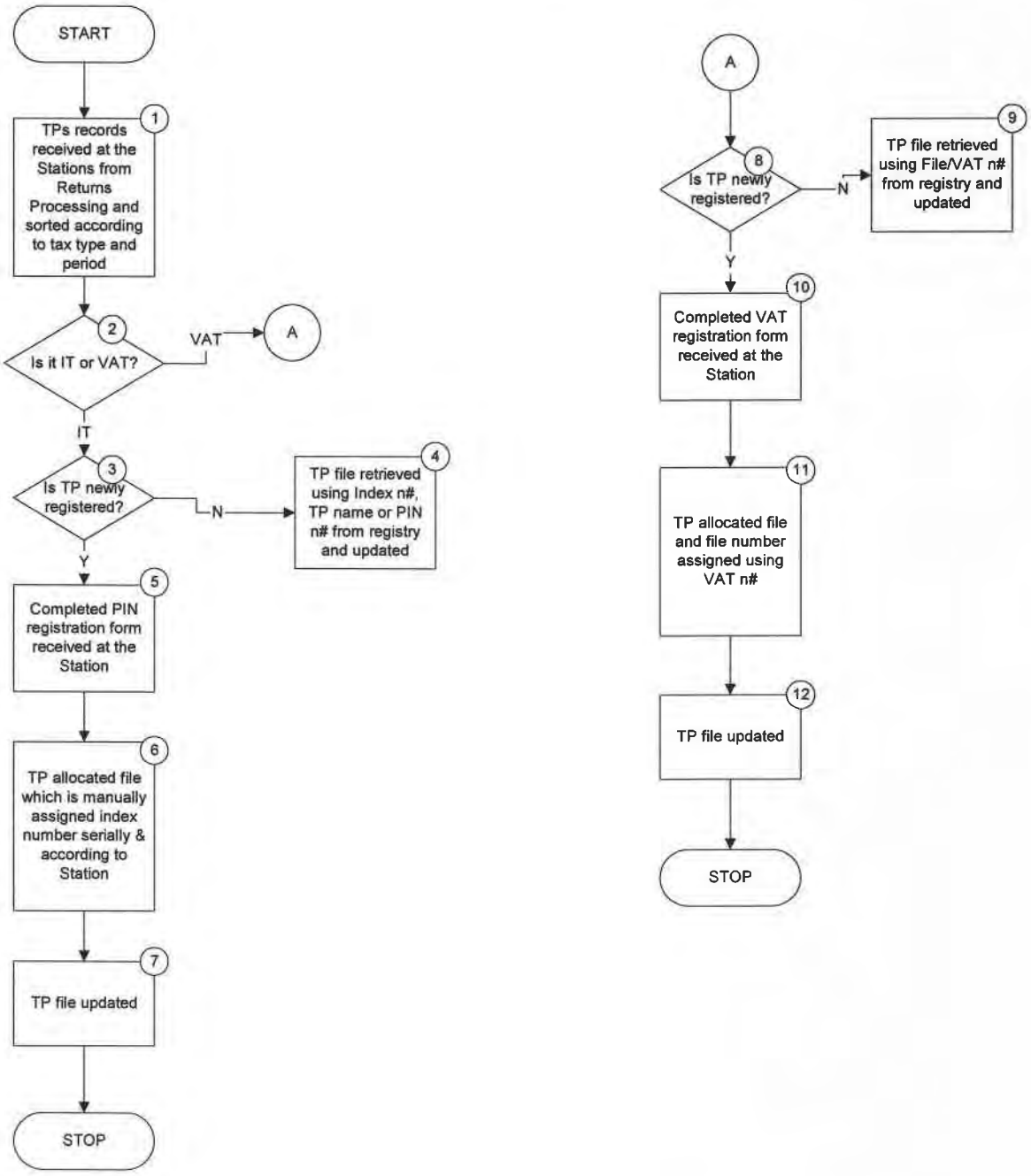


Mail and Records Management
Taxpayer Registry Current Process

1. TPs records received at the Stations from Returns Processing and sorted according to tax type and period
2. *Is it IT or VAT?*
3. *Is TP newly registered?*
4. TP file retrieved using Index n#, TP name or PIN n# from registry and updated
5. Completed PIN registration form received at the Station
6. TP allocated file which is manually assigned index number serially & according to Station
7. TP file updated
8. *Is TP newly registered?*
9. TP file retrieved using File/VAT n# from registry and updated
10. Completed VAT registration form received at the Station
11. TP allocated file and file number assigned using VAT n#
12. TP file updated

Mail and Records Management Current Process

TAXPAYERS' REGISTRY



ANNEX II

KRA Forms

DA1

DAI

TRIPLICATE

0195734

REPUBLIC OF KENYA

Name of Aid Agency

P.O. Box

Date

*The Commissioner of Customs and Excise
P.O. Box 40160,
Nairobi

or

*The Commissioner of Value Added Tax,
P.O. Box 49070,
Nairobi

Thro'

The Permanent Secretary,
Ministry of Finance and Planning,
P.O. Box 30007,
Nairobi

APPLICATION TO PURCHASE OR IMPORT EQUIPMENT/MATERIALS/MOTOR VEHICLES/GOODS/SERVICES FOR PROJECTS OR PROJECT PERSONNEL ON A DUTY AND VALUE ADDED TAX-FREE BASIS

1. Title of Project Agreement/Exchange of Notes
   (i) Quote article and or section giving exemption
   (ii) Date of Agreement/Exchange of Notes, etc
2. Name of Project
3. Name of Consignee
4. Description of items being locally purchased/imported

(If space is not enough, attach separate sheet)

5. Bill of Lading/Airway Bill/Invoice No./Log Book No. G/005/33/F7175, F6092, F5791, F5681 F5452.
6. Name of Carrier N/A
7. Port of Entry N/A
8. Name of Local Supplier
9. V.A.T. Registration No. 00109408
10. Full Name of the Applicant and Designation
11. Signature
12. Official Stamp

*Delete whichever is not applicable.

KENYA REVENUE AUTHORITY
31 OCT 2005
P.O. Box
NAIROBI
COMMISSIONER OF INCOME TAXES

13 Implementing Ministry/Agency MINISTRY OF JUSTICE AND CONSTITUTIONAL AFFAIRS

Recommended/~~Not Recommended~~

Full Name

Designation PERMANENT SECRETARY

Signature of Authorized Officer and Official Stamp

Date 6.10.05

Permanent Secretary, Ministry of Justice & Constitutional Affairs, P.O. Box 49007 NAIROBI

MINISTRY OF FINANCE AND PLANNING

14 Recommended/~~Not Recommended~~

Signature

Full Name

Date 7/10/05

AUTHORIZATION

15 Approved/~~Not Approved~~ Approved

Signature of Authorized Officer

Full Name

Designation MAPO

Date 3-10-2005

V.A.T. DEPARTMENT

16 Remarks Approved

V.A.T. Free Purchase Approved

Full Name

Designation Sec

Signature of Authorized Officer

V.A.T. Free Entry No. 2492

Date 10/4/2006

CUSTOMS AND EXCISE DEPARTMENT (Head Office)

17 Remarks

Approved/Not Approved

Signature of Authorized Officer

Full Name

Designation

Date

CUSTOMS AND EXCISE DEPARTMENT (Port of Entry)

18 Signature of Officer releasing goods

Duty Free Entry No.

Full Name

Designation

Date

Original, Duplicate to Customs or V.A.T. Departments, Triplicate to Applicant and Quadruplicate to Treasury

IMPORTANT This application is submitted on the following conditions:

1. This application to clear imported/purchased goods duty-free is not transferable.
2. The goods cleared under this application are for specific use as indicated in the project agreement.
3. Goods cleared duty-free shall not be lent, sold, pledged, hired, given away, exchanged or otherwise disposed off without prior written permission of the Kenya Revenue Authority. Applications for this permission shall be made through the Minister for Finance.
4. This is an Accountable document. It should not be made available to unauthorized persons. If any copy is lost, this fact should immediately be reported to the Treasury with an explanation of the circumstances occasioning the loss.

KRA Form P10A

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

P.10A

P.A.Y.E SUPPORTING LIST FOR END OF YEAR CERTIFICATE: YEAR ....

EMPLOYER'S PIN.

EMPLOYER'S NAME..

EMPLOYEE'S PIN	EMPLOYEE'S NAME	TOTAL EMOLUMENTS KSHS.	PAYE DEDUCTED KSHS.
	TOTAL EMOLUMENTS		
	TOTAL PAYE TAX		
	TOTAL WCPS		
	*TAX ON LUMP SUM/AUDIT/ INTEREST/ PENALTY		
	*TOTAL TAX DEDUCTED/TOTAL C/F TO NEXT LIST		

*DELETE AS APPROPRIATE

NOTE TO EMPLOYER: ATTACH TWO COPIES OF THIS LIST TO END OF YEAR CERTIFICATE (P10)

KRA Form SD1

SD1

Serial No.....

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

P.O BOX 30165 NAIROBI (00100) TEL. 310900 FAX: 253532

STAMP DUTY DECLARATION, ASSESSMENT & PAY-IN SLIP

PART I: TO BE COMPLETED BY THE STAMP DUTY PAYER

	Date of Instrument	Nature of Transaction	Title Number	LR Number	Location/Town/Street	Area/Size	Declared Value
(1)							
(2)							
(3)							
(4)							
(5)							

	Particulars	Name	PIN	Postal Address & Code	Tel. No.
(6)	Owner/Transferor/ Vendor				
(7)	Transferee				
(8)	Agent/Advocate				

PART II: TO BE COMPLETED BY THE REGISTRAR

Amount of Duty Assessed (9) Kshs.

Penalty Amount (10) Kshs.

Does it Qualify for Valuation? Yes (11) ☐ No (12) ☐

REGISTRAR'S STAMP

Amount of Duty Assessed in Words: .....

Name of Registrar/Assessor: ..... Designation: ..... Signature: ..... Date: .....
(Examined & Certified by)

PART III: PAYMENT DETAILS

BANK TELLERS STAMP & INITIALS

		Cash/Cheque Number	Drawer's Bank Name & Branch	Amount (Kshs.)
(13)	Amount of Duty Paid			
(14)	Penalty			
(15)	Bank Charges			
(16)	Total Amount Paid			

Amount Paid in Words: .....

..... (Amount Paid By) ..... (Signature) ..... (Date)

Form to be filled in Quadruplicate & Distributed as follows:

White – Duty Payer's Copy
Blue – Commissioner of Domestic Taxes Copy
Green – District Registrar's Copy
Yellow – Bank's Copy

(Please turn overleaf for instructions)

KRA Form SD2

SD2

Serial No.....

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

P.O BOX 30165 NAIROBI (00100) TEL. 310900 FAX: 253532

STAMP DUTY ADDITIONAL ASSESSMENT PAY-IN SLIP

(THIS FORM TO BE COMPLETED AFTER VALUATION)

PART I: TO BE COMPLETED BY THE STAMP DUTY PAYER

Initial SD1 Serial No. (1) [ ]

Date Referred to Valuer for Valuation (2) [ ]

	Date of Instrument	Nature of Transaction	Title Number	LR Number	Location/Town/Street	Area/Size	Declared Value
(3)							

	Particulars	Name	PIN	Postal Address & Code	Tel. No.
(4)	Owner/Transferor/ Vendor				
(5)	Transferee				
(6)	Agent/Advocate				

PART II: TO BE COMPLETED BY THE REGISTRAR

Date Valued	(7)	
Valuation Amount	(8)	Kshs.
Additional Duty Assessed	(9)	Kshs.

REGISTRAR'S STAMP

Amount of Additional Duty Assessed in Words: .....

Name of Registrar/Assessor: ..... Designation: ..... Signature: ..... Date: .....
(Examined & Certified by)

PART III: PAYMENT DETAILS

BANK TELLERS STAMP & INITIALS

		Cash/Cheque Number	Drawer's Bank Name & Branch	Amount (Kshs.)
(10)	Amount of Duty Paid			
(11)	Bank Charges			
(12)	Total Amount Paid			

Amount Paid in Words: .....

..... (Amount Paid By) ..... (Signature) ..... (Date)

Form to be filled in Quadruplicate & Distributed as follows:

White – Duty Payer's Copy
Blue – Commissioner of Domestic Taxes Copy
Green – District Registrar's Copy
Yellow – Bank's Copy

(Please turn overleaf for instructions)

KRA Form SD3

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

Official Claim No. .....

Date Received .....

APPLICATION FOR STAMP DUTY REFUND*

(To be submitted to the Commissioner of Domestic Taxes within 90 days after the date of stamping pursuant to Section 9 (a) of the Stamp Duty Act Cap 480, of the laws of Kenya)

Name of Claimant .....

Address ..... Tel. .....

PIN | | | | | | | | | | | |

Reasons for Claiming: .....

.....

.....

PARTICULARS OF AMOUNT CLAIMED

SD1 Serial Number	Name of Instrument	Date of Instrument	Date of Stamping	Amount of Stamp Duty Claimed

Total Stamp Duty Claimed Kshs. (in words) .....

.....

I certify that the stamp duty claimed above is properly refundable on grounds stated in this application.

.....	.....	.....
Name of Claimant	Signature	Date

BANK ACCOUNT DETAILS

BANK	
BRANCH	
TOWN	
A/C NO.	

** To be submitted in triplicate. All relevant **original** documents must be attached*

KRA Form SD4

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

STAMP DUTY REFUNDS PROCESSING FORM

NAME OF CLAIMANT
P.O. BOX
TELEPHONE

PIN

Claim Number	Date of application	Date received	Name of Instrument	Amount Clamed (Ksh)	Ame Diss (Ksl
Total					

Amount payable in words.....

.....

Processed by..... **Date**.....

Reviewed by..... **Date**.....

Approved by..... **Date**.....

KRA Form SDL2

Kenya Revenue Authority

VALUE ADDED TAX DEPARTMENT

PAYMENT RECEIVED FOR SUGAR DEVELOPMENT LEVY

Registered Name		VAT NO.	
		PIN	
P.O. Box	TOWN	DIST. CODE	
TEL:		RETURN FOR THE MONTH OF:	YEAR

VALUE AND LEVY DUE			
	SALES VALUE	RATE OF LEVY	LEVY DUE KSHS.
1			

	ADJUSTMNETS, FINES AND PENALTIES	KSHS		LIABILITY FOR THE MONTH	KSHS
2	UNDER - DECLARED PREVIOUS MONTH:		6	NET PAYABLE (1+/-5)	
3	OVER-DECLARED PREVIOUS MONTH:				
4	PENALTY FOR LATE PAYMENT:				
5	BALANCE (2-3+4)				

I _____ hereby certify that the information on this return form is true, corr
(Print or Type Name)

Signature: _____ Position: _____ Date: _____

See Conc

KENYA REVENUE AUTHORITY
VALUE ADDED TAX DEPARTMENT

(PAYMENTS OF SUGAR DEVELOPMENT LEVY)

Form SD

00

No: .....

Date: .....

PAY-IN-SLIP

VAT No. _____

MONTH	YEAR

REG. NAME _____

P.O. BOX	TEL.
TOWN	

AMOUNT IN WORDS _____

Kshs.

KRA Form SL2

No. 44469

Kenya Revenue Authority

Form SL.2

VALUE ADDED TAX DEPARTMENT

PAYMENTS OF STANDARDS LEVY

VAT Registration No. (If any) .....

PIN .....

Name of Manufacturer .....

Address: .....

.....

Entry No: .....

Return for the Month of: _____ **Year** _____

	Commodity	Quantity of Manufacture	Total Value Ex-Factory (Ksh)	Rate of Levy	Total Levy Payable (Ksh)
1	TOTALS				

	ADJUSTMNETS, FINES AND PENALTIES	KSHS.
2	Under - declared previous month:	
3	Over-declared previous month:	
4	Penalty for late payment:	
5	BALANCE (2-3+4)	
	NET PAYABLE (1+/-5)	

I _____ *hereby certify that the information on this form return is true, correct and complete.*

(Print or Type Name)

Signature: _____ Position: _____ Date: _____

See Conditions Overleaf

No. .....

Form SL.2

KENYA REVENUE AUTHORITY
VALUE ADDED TAX DEPARTMENT
(PAYMENTS OF STANDARDS LEVY)

Date: .....

44469

PAY-IN-SLIP

VAT No. _____

PIN _____

Entry No. _____

MONTH/YEAR _____

NAME _____

P.O. BOX _____ TEL. _____

AMOUNT IN WORDS .....

.....

Kshs.

KRA Form TQ1

Kenya Revenue Authority

TQI

APPLICATION FOR PERSONAL IDENTIFICATION NUMBER FOR AN INDIVIDUAL

(See Reverse for Instruction)

Please print or type all required information)

1. Accounting period ending date .....

Day Month

2. National ID No/Passport No. .....

3. (Tick all applicable)	4. (Tick if applicable)	5. (Tick one)
Employee ☐	Civil Servant ☐	Last year's local income
Self-employed ☐		☐ more than Shs 80,000
		☐ Ksh. 80,000 or less

3(a) If self employed, state nature of trade.....

3(b) Date Business commenced.....3(c) Turnover in current year .....

6. Name of Taxpayer: (last, First, Middle).....

7. Your physical and Mailing Address.

PHYSICAL ADDRESS MAILING ADDRESS

Road.....P.O. Box .....Post Code.....

City or Town.....City or Town.....

Name of Building Occupied.....L/R No. .....

Name of Employer.....

Telephone No. (Self).....Telephone No. (Employer).....

9. Date of Birth (Day, Month, year).....

10. Place of Birth (City, Town, Location).....

11. Sex:.....12. Marital Status.....

13. If married, give spouse's full name, address, P.I.N. and file number (if known).....

.....

14. If you have a Tax Agent Name, Address, and P.I.N. of Certified Public Accountant/Agent.....

.....

15. Your Income Tax File Number(s), if any:.....

16. Your PAYE file number(s) if any:.....

17. Were you ever located in an Income Tax Station other than the one which services your file Now?

Yes.....No.....(Tick One) If yes, please list all names by which you may have been known and other file or P.A.Y.E Numbers which you may have had in other Stations.....

18. (Tick One) Are you a Resident Taxpayer.....or a Non Resident Taxpayer.....

19. Do you now employ or intend in the next 12 months to employ others, any of whom will earn more than Ksh. 1210 per month? Yes.....No.....(Tick One)

20. Are you now exempt from Income tax? If so, cite the authority granting the exemption.....

.....

21. I, ...declare that the above is a full and true statement. I Understand that if any information given above is misleading or incorrect, I could be subject to any and all penalties or fines that the law may allow to be imposed.

Signature..... Date.....

This form when completed, together with a copy of your National Identity Card, Passport, if a non-resident should be mailed or delivered

INSTRUCTIONS FOR FORM T.Q.1.

Item 1
Provide ending date (day and month) of accounting period. If none use "31 December".

Item 3
Tick if employee of self-employed. If both are applicable tick both.

Item 4
Tick if civil servant.

Item 5
Tick whichever is applicable.

Item 6
Give full last name, full name, and then middle names if any.

Item 7
Provide physical and mailing address. Physical address is the street location, house number, if any, and city or town.

Item 8
Provide telephone number, if any.

Item 12
Indicate whether "single" or "married".

Item 13
Provide husband's or wife's full name and all middle names. Then provide physical and mailing address if different from that of the applicant. Provide spouse's P.I.N. If spouse has one. If spouse does not have P.I.N. he or she must make application for same as soon as possible.

Item 15
If you had any other income tax file numbers list these here. Please list any such number which you have in the present district and any other name(s) by which you may have been known.

Item 16
We will strictly require that any and all PAYE records you have be consolidated under one file number. Therefore, list here all PAYE file numbers you have or any pay point, office or sub-office possessing a separate number.

Item 17
If you, or other business bought by the taxpayer, or merged or amalgamated therewith, did at any time have a tax file in another station, please tick yes and give the file number here, even if you have been advised that such number or file is now dormant or terminated.

Item 19
A yes to this answer will mean that we will automatically provide you with the employer's PAYE forms package.

Item 20
If exemption from income tax is claimed complete this item by citing the full authority and document providing such exemption.

Item 21
You should sign this document at the place indicated for same.

Mail or deliver this complete application together with a copy of your National Identity Card, or passport (for a non-resident) to your local Income Tax Office. If all information is satisfactory you shall receive a Personal Identification Number (P.I.N.) which you must thereafter place on all documents, payments, or other papers as required by the the Commissioner. Failure to complete this application completely and truthfully may subject you to fine, penalty, or both. If you do not receive a certificate bearing your P.I.N. within three months of submission of this application you may assume the information submitted was incomplete, incorrect and must re-apply.

Mail this form to:

Income Tax Department
P.O. Box 30742,
NAIROBI.

Or Deliver to:

Income Tax Department
Times Tower
Haile selasie Avenue
Or Your Local Income Tax Office

KRA Form TQ 2C

Kenya Revenue Authority

FORM T.Q. 2C

APPLICATION FOR TAXPAYER IDENTIFICATION NUMBER FOR COMPANY, PARTNERSHIP, TRUST OR ASSOCIATION *(See reverse for instruction)*

(Please print or type all required information)

(Tick one)

Partnership ☐ Trust ☐ Accounting Period Ending Date

Company ☐ Association or Club ☐ ...../..... Day Month

1. Name of Taxpayer *(as registered)*: .....

2. Physical and Mailing Addresses of principal headquarters of taxpayer:

PHYSICAL ADDRESS — MAILING ADDRESS

Road: ..... P.O. Box ..... Postal Code .....

City or Town: ..... City or Town .....

Location: .....

3. Name of Managing Director or other person (s) authorised to sign tax returns on behalf of the taxpayer: .....

4. Name, Address, and P.I.N. of Certified Public Accountant/Agent: .....

5. Income Tax File Number(s) if any for this taxpayer: .....

6. PAYE File Number (s) for any and all components of this taxpayer wherever situated: .....

7. Was this taxpayer or predecessor entities ever located in a district other than the one which services its file now? Yes..... No ..... (Check one). If Yes, please list all names by which it may have been known and other file or PAYE file numbers which it may have had in other districts .....

8. *(Tick one)* Is his a Resident Taxpayer..... or Non-Resident Taxpayer .....

9. Do you now employ or intend in the next 12 months to employ others, any of whom will earn more than KSh 1,452 per month? Yes..... No ..... *(Check one)*.

10. Are you now exempt from income tax? If so cite the authority granting the exemption: .....

11. I, ..., declare that the above is a full and true statement. I understand that if any information given above is misleading or incorrect I could be subject to any and all penalties or fines that the law may allow to be imposed.

Signature .....

Full Name *(print)* .....

Address .....

PLACE STAMP OR SEAL HERE

Telephone No .....

This form when completed should be mailed or delivered to:

Income Tax Department,
Times Tower
Haile Selassie Avenue

INSTRUCTIONS FOR FORM T.Q. 2C

Item 1

Provide the full name of the taxpayer as registered. If not registered provide the name as known to the public.

Item 2

Provide physical and mailing address. Physical address is the street location, house number if any, and city or town.

Item 3

The name provided here should be the same person authorised by the company to sign its tax returns and this statement.

Item 5

If this taxpayer or any part thereof has or had other income tax file numbers list these here. Please list any such numbers which this taxpayer or predecessor entities had in the present district, and any other name(s) by which it may have been known. (See 7 below for definition of "predecessor entity")

Item 6

We will shortly require that any and all PAYE records for this taxpayer be consolidated under one file number. Therefore, list here all PAYE file numbers for this entity or any pay point, office or sub-office possessing a separate number.

Item 7

If this taxpayer or any predecessor entity (e.g. a company, partnership or other business bought by the taxpayer or merged or amalgamated therewith), did at any time have a tax file in another district, please tick Yes and indicate same by giving the file number here, even if you have been advised that such number or file is now dormant or terminated.

Item 9

A Yes to this answer will mean that we will automatically provide you with the Employer's PAYE forms package.

Item 10

If exemption from income tax is claimed complete this item by citing the full authority and document providing such exemption.

Item 11

A person listed in line three should sign this document on behalf of the taxpayer and place the taxpayer's stamp or seal if any, thereon at the place indicated for same.

Mail or deliver this completed application to the address shown below. If all information is satisfactory you shall receive a Personal Identification Number which you must thereafter Place on all documents, payments or other papers as required by the Commissioner. Failure to complete this application completely and truthfully may subject the person or persons responsible to fine, penalty, or both. If you do not receive a certificate bearing your P.I.N. within three months of submission of this application you may assume the information you submitted was incomplete or incorrect and must re-apply.

Mail this form to:

Income Tax Department,
P.I.N. Unit,
P.O. Box 30742,
NAIROBI

Or deliver to:

Times Tower
Haile Selasie Avenue
NAIROBI

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Kenya Revenue Authority

www.revenue.go.ke

DOMESTIC TAXES DEPARTMENT.

Business, Rent, Employment, Commissions e.t.c

Please read the attached notes before starting to complete the return

2005 INDIVIDUAL RETURN

Under Sec.52B of the Income Tax Act you are required to file this return not later than 30th June 2006. If you do not submit by this date you will be liable to a penalty at a rate of 5%of the net tax due. The balance of tax due is payable on or before 30th April, 2006. Submit your return to the Nairobi Domestic Taxes Office or your nearest Kenya Revenue Authority office and send payments to:
THE COMMISSIONER, DOMESTIC TAXES DEPARTMENT, BOX 30008, NAIROBI.

LAST NAME | FIRST NAME | I.D. NUMBER

ADDRESS | POSTAL CODE | TOWN | P.I.N.

EMPLOYER'S PIN | WIFE'S PIN | WIFE'S NAMES

PART A
BUSINESS INCOME OTHER THAN FARMING,INSURANCE COMMISSION,UNCLASSIFIED SOURCES

Describe exact nature of:- (1.) Self business (2.) Wife's professional income (3.) Wife's Self-Employment income

GROSS TURNOVER

Line No	DESCRIPTIONS	A SELF (Kshs)	B WIFE (Kshs) (includes professional/self employment/business income)
1	Net business profit/loss as per accounts (Attach Accounts)		
2	Chargeable income (Attach Computation)		
3	Loss brought forward from previous year		
4	Share of partnership profit/loss if in partnership. (Quote P.I.N. in Part M)		
5	Total business income (Lines. 2+4-3) chargeable on self & wife separately		

PART B - INCOME FROM FARMING

Line No	DESCRIPTIONS	A SELF (Kshs)	B WIFE (Kshs)
6	Net farming profits/loss (Attach Accounts)		
7	Chargeable income (Attach Computation)		
8	Loss brought forward from previous year		
9	Share of partnership profit/loss, if in partnership. (Quote P.I.N in part M)		
10	Total farming income (Line 7+9-8) Chargeable on self &wife separately		

PART C - SELF AND WIFE INCOME FROM RENT CHARGEABLE ON SELF

Line No	DESCRIPTIONS	A SELF (Kshs)	B WIFE (Kshs)
11	Net Rent (Attach Rent Schedules)		
12	Loss brought forward from previous year		
13	Share of partnership profit/loss, if also in rental partnership. (Quote P.I.N in part M)		
14	Total (Lines 11+13-12)		
15	Total Rent Self & wife (14A+14B) chargeable on self		

PART D - SELF AND WIFE INCOME FROM INTEREST CHARGEABLE ON SELF

Line No.	DESCRIPTIONS	A Self (Kshs)	B Wife (Kshs)
16	Qualifying Intererst		
17	Other interest income (attach schedule & certificate)		
18	Share of partnership profit/loss: if also in partnership of this kind. (Qoute P.I.N in part M)		
19	Total (Lines 16+17+18)		
20	Qualifying interest (16) DEDUCT		
21	Total Interest Self & Wife (17+18+19) chargeable on self		

PART E - INCOME FROM INSURANCE COMMISSION CHARGEABLE ON SELF & WIFE SEPARATELY

Line No.	DESCRIPTIONS	A Self (Kshs)	B Wife (Kshs)
22	Net Insurance Commission.(Attach Accounts)		
23	Chargeable income (Attach Computation)		
24	Loss brought forward from previous year		
25	Share of partnership profit/loss (Qoute P.I.N in part M)		
26	Total (Line 23+25-24)		

PART F - INCOME FROM UNCLASSIFIED SOURCES CHARGEABLE ON SELF

NOTE: DESCRIBE THE NATURE OF OTHER INCOME.

Line No.	DESCRIPTIONS	A Self (Kshs)	B Wife (Kshs)
27	Net income from unclassified sources (Attach Accounts / schedule)		
28	Chargeable income (Attach Computation)		
29	Loss brought forward from previous year		
30	Add share of partnership profit/loss if also in partnership (Qoute P.I.N in Part M)		
31	Total (Line 28+30-29)		
32	Total other income Self & Wife (31A + 31B) chargeable on self		

PART G SELF AND WIFE'S EMPLOYMENT INCOME CHARGEABLE SEPARATELY

NOTE: IF YOU OR YOUR WIFE HAD MORE THAN ONE SOURCE OF EMPLOYMENT OR DIRECTORSHIP, INDICATE IN PART L OVERLEAF, STATING NAME OF EMPLOYER OR COMPANY, P.I.N. AND REMUNERATION.IF SPACE PROVIDED IS INADEQUATE, CONTINUE ON A SEPARATE SCHEDULE. INCLUDE UNDER SELF, WIFE'S NON - ARMS LENGTH EMPLOYMENT INCOME.

DESCRIBE THE NATURE OF EMPLOYMENT

SELF	
WIFE	

Line No.	DESCRIPTIONS	A Self (Kshs)	B Wife (Kshs)
33	Gross pay (includes salaries,wages,bonus,etc.) attach Forms P9A or P9B		
34	Benefits from employment - other than car and housing (see notes)		
35	Value of car provide Make ..... cc Rating ..... Cost		
36	Net Value of housing (Tick if director) Self ..... Wife..... (see notes)		
37	Pension in excess of 180,000 - (See Notes)		
38	Total employment income (Line 33 + 34 + 35 + 36 + 37) both A & B		

PART H - TOTAL TAXABLE INCOME

Line No.	DESCRIPTIONS	A Self (Kshs)	B Wife (Kshs)
39	Self taxable income (Add positive Lines 5A,10A,15,21,26A,32,38A)		
40	Wife's Emp.Prof & Self emp income (Add positive Lines 5B,10B,26B,38B)		
41	Pension contribution (see notes) DEDUCT		
42	Mortgage interest (Maximum kshs 100,000 per annum) DEDUCT		
43	Deposit on Home Ownership Saving Plan (Maximum kshs48000 or ksh4000 a month) DEDUCT		
44	TOTAL TAXABLE INCOME FOR YEAR IN Kshs.		

PART I - TAX COMPUTATION

Line No.	DESCRIPTIONS	A Self (Kshs)	B Wife (Kshs)
45	Tax payable by wife (Line 44B by applicabe rate) (see notes)		
46	Personal relief (shs 13,944) if resident individual DEDUCT		
47	Insurance relief of 15% of Gross premiums paid or 36,000 whichever is lesser. DEDUCT		
48	Total tax payable by wife less personal relief (Line 45- (46 + 47))		
49	Tax payable by self (Line 44A by applicable rate) (see notes)		
50	Insurance relief of 15% of Gross premiums paid or 36,000 whichever is lesser. DEDUCT		
51	Personal relief (shs 13,944) if resident individual DEDUCT		
52	Total tax payable by self less personal relief (Lines 49 - (50 + 51))		

PART J - FINAL TAX

Line No.	DESCRIPTIONS	(Kshs)	(Kshs)
53	Total tax payable by wife & Self (48B + 52A)		
54	Total P.A.Y.E deducted (Self & Wife) Attach P9's		
55	Credits under Section 12A (Advance Tax - P.S vehicles) (Attach a list of all P.S.V Licensed)		
56	Other credits or withholding tax deducted at source.(Do not include tax on qualifying interest & presumptive income tax) Attach certificates		
57	Total credits (Line 54+55+56)		
58	Total tax due (53-57)		
59	Tax Refund (57-53)		

N.B. Tax is due if line 53 is greater than 57 and refund is due if 57 is greater than 53.

PART K - DETAILS OF PAYMENTS, PENALTIES AND INTEREST

Line No.	DESCRIPTIONS	(Kshs)
60	TOTAL INSTALLMENT TAX PAID	
61	Balance of Tax Due (Line 58 - 60)	
62	5% Penalty for filing return late (Line 61 x 5%)	
63a	20% penalty on the difference between the amount of installment tax due (a) and the installment actually paid (b) multiplied by 110% (a - (b X 110%)) X 20 %)	
63b	20% penalty on the amount of tax and penalty that remained unpaid after the balance due date	
64	Interest at the rate of 2% per month on any outstanding amount of tax and penalty that remained unpaid one month after due date	
65	Total Penalties and late Payment interest (62+63a+63b+64)	
66	TOTAL Taxes, Penalties and Interest (Line 61+65) PAY THIS AMOUNT	

PART L - Details of my employments and directorships and also my wife's other employment and directorships during 2005 were as follows:-

	Name of Employer (state whether of self or wife)	P.I.N of Employer	State whether Employee or director	Gross remuneration including benefits in Kshs.
1				
2				
3				

PART M - I and/or my wife was/were partner(s) in the following firms in 2005 particulars of which are:-

	Name of Partnership (state whether self / wife or both was/were partners)	P.I.N of Partnership	Nature of Income (Rent, Business, Interest etc.)	Share of Partnership Profit / Loss Kshs
1				
2				
3				

PART N - YOUR LANDLORD DETAILS

LAST NAME

FIRST NAME

I.D. NUMBER

ADDRESS

POSTAL CODE

TOWN

P.I.N.

AMOUNT OF RENT PAID DURING YEAR

PART P-

I (FULL NAMES IN BLOCK LETTERS) ..... DECLARE THAT

(a.) This return contains a full and true statement of my income liable to tax and of the amount derived from each source in the year of income 2005 and that:-

(b.) The particulars given by me in this form are true and correct (and I claim personal relief in accordance therewith).

(c.) I was resident in Kenya for .....months from date ..... to ..... during the year in question.

(d.) If I claim repayment of tax paid, such claim is full and true statement of my entitlement to such repayment. (I understand that any tax due against my account and not in dispute will be offset against such repayment).

Given under my hand this ..... day of ..... , Signature, self .....

Agent certificate (if return completed by Agent). This return has been completed based on information and details supplied by taxpayer.

Note: Return must be signed by the taxpayer or properly authorised agent through Power of Attorney.

..... Rubber stamp and signature of Agent. (If return completed by Agent).

If this is your first income Tax Return,state your first year of Earning or going into business

..... Farming ..... Earning rent or interest ..... Commission or other income

..... Employment ..... Wife's professional / self employment income ..... etc.

THE RETURN WILL NOT BE ACCEPTED UNLESS THIS DECLARATION IS SIGNED.

N.B. : If you are due for a refund at line 59 overleaf, give details of your Bank to facilitate early repayment.

Name of your Bank

Branch **Town**

Account Number

Account Name

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Kenya Revenue Authority

www.revenue.go.ke

DOMESTIC TAXES DEPARTMENT.

PARTNERSHIP RETURN
2005 YEAR OF INCOME

Under Sec.52B of the Income Tax Act you are required to submit this return not later than 30th June 2006. If you do not submit by this date the partners will be liable to a penalty. Submit your return to the THE COMMISSIONER, DOMESTIC TAXES DEPARTMENT, BOX 30165, 00100 NAIROBI, or your nearest Kenya Revenue Authority Office.

NAME OF PARTNERSHIP

ADDRESS

P.N

POSTAL CODE

TOWN

ACCOUNTING PERIOD ENDED 31st DECEMBER 2005

EMAIL ADDRESS

WEBSITE

PART A - INCOME FROM BUSINESS & FARMING

STATE EXACT NATURE OF BUSINESS AND/OR FARMING

GROSS TURNOVER

BUSINESS INCOME

FARMING INCOME

Line No	DESCRIPTIONS	A PARTNERSHIP BUSINESS INCOME (Kshs)	B PARTNERSHIP FARMING INCOME (Kshs)
1	Net Profit/Loss for the year (Attach Accounts)		
2	Chargeable income (Attach Computation)		
3	Add share of partnership profits if also in another partnership (Quote P.I.N.)		
4	TOTAL PARTNERSHIP INCOME OR LOSSES (distributable to partners (Line 2+3)		

PART B - INCOME FROM RENT & INTEREST

GROSS TURNOVER

RENT INCOME

INTEREST INCOME

Line No.	DESCRIPTIONS	RENT INCOME (Kshs)	INTEREST (Kshs)
5	Net Rent / Interest (Attach rent schedule / certificates of interest)		
6	Share of partnership Rent/Interest profit/loss, if also in another partnership (Qoute P.I.N)		
7	TOTAL CHARGEABLE RENT/INTEREST OR LOSS (distributable to partners (Line 5+6)		

PART - C INCOME FROM INSURANCE COMMISSIONS AND OTHER UNCLASSIFIED SOURCES

GROSS TURNOVER:

INSURANCE COMMSSION INCOME

OTHER UNCLASSIFIED INCOME

Line No.	DESCRIPTIONS	INSURANCE COMMISSION INCOME (Kshs)	OTHER UNCLASSIFIED INCOME (Kshs)
8	Net Insurance Commission / other Income as per Accounts (Attach Accounts)		
9	Chargeable income (Attach Computation)		
10	Share of partnership commision / other income if also in another partnership. (Qoute P.I.N)		
11	TOTAL CHARGEABLE COMMISSION / OTHER INCOME/LOSS DISTRIBUTABLE TO PARTNERS. (Line 9+10)		

PART D - FURTHER DETAILS ON PARTNERS

Under the terms of section 54 of the Act you are required to furnish in a s separate schecule a certificate of all payments or benefits, advantages and facilities made and or granted to the partners in this year of income as appropriate with full names of the partners to whom the payments were made or benefits, advantages or facilities granted - as detailed below.

FULL NAME OF PARTNER TO WHOM PAYMENTS WERE MADE OR BENEFITS, ADVANTAGES OR FACILITIES GRANTED	NATURE OF SERVICE FOR WHICH PAYMENTS WERE MADE OR FACILITIES E.T.C GRANTED.	AMOUNT OF PAYMENT (Kshs)

PART E - BASIS OF DISTRIBUTION OF PARTNERSHIP PROFITS / LOSSES TO PARTNERS

(If there are more than 2 partners give details on separate schedule in the same format.)

P.I.N

NAME

14. (a.) DISTRIBUTION OF:-	(1.) % DISTRIBUTION TO PARTNER	(2.) PARTNER'S REMUNERATION (Kshs)	(3.) INTEREST ON PARTNER'S CAPITAL (Kshs)
Business Income			
Farming Income			
Rent Income			
Interest Income			
Commissions/Other Income			

14. (a.) DISTRIBUTION OF:-	(4.) SHARE OF BALANCE OF PROFIT/LOSSES (Kshs)	(5.) VALUE OF BENEFITS & ADVANTAGES GRANTED	(6.) PARTNERS GAINS & PROFITS (2+3+4+5)
Business Income			
Farming Income			
Rent Income			
Interest Income			
Commissions/Other Income			
		TOTAL SHARE	

P.I.N

NAME

15. (b.) DISTRIBUTION OF:-	(1.) % DISTRIBUTION TO PARTNER	(2.) PARTNER'S REMUNERATION (Kshs)	(3.) INTEREST ON PARTNER'S CAPITAL (Kshs)
Business Income			
Farming Income			
Rent Income			
Interest Income			
Commissions/Other Income			

15. (b.) DISTRIBUTION OF:-	(4.) SHARE OF BALANCE OF PROFIT/LOSSES (Kshs)	(5.) VALUE OF BENEFITS & ADVANTAGES GRANTED	(6.) PARTNERS GAINS & PROFITS (2+3+4+5)
Business Income			
Farming Income			
Rent Income			
Interest Income			
Commissions/Other Income			
		TOTAL SHARE	

PART F - DECLARATION

We (full name in BLOCK LETTERS) .....

.....

On behalf of .....(Partnership Name) declare that this Return is a full and true return of all particulars required to be declared in this return.

Given Under our hands this ..... day of ..... year 20.....

Signature (s) of person (s) making Return	Designation	Postal Address
.....	.....	.....
.....	.....	.....
.....	.....	.....

* This declaration to be completed by a majority of partners (of whom one shall be the partners who signed the partnership accounts)
If there are more than four partners the certificate must be signed by at least three partners.

KRA P9 A

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

P9A

TAX DEDUCTION CARD YEAR .....

Employer's Name .....

Employer's Main Name .....

Employee's Other Names .....

Employer's PIN

Employee's PIN

MONTH	Basic Salary Kshs	Benefits - Non-Cash Kshs	Value of Quarters Kshs.	Total Gross Pay Kshs.	Defined Contribution Retirement Scheme Kshs.			Owner-Occupied Interest Kshs.	Retirement Contribution & Owner Occupied Interest Kshs.	Chargeable Pay Kshs.	Tax Charged Kshs.	Personal Relief + Insurance Relief Kshs.	PAYE Tax (J-K) Kshs.
	A	B	C	D	E			F	G	H	J	K	L
					E1 30% of A	E2 Actual	E3 Fixed	Amount of Interest	The lowest of F added to E			Total Kshs.	
January													
February													
March													
April													
May													
June													
July													
August													
September													
October													
November													
December													
TOTALS													

TOTAL TAX (COL. L) Kshs. .....

(To be completed by Employer at end of year)

TOTAL CHARGEABLE PAY (COL. H) Kshs. .....

IMPORTANT

1. (a) For NSSF (i) Total basic employee and where applicable employee contributions
   (ii) Benefits in addition to basic emoluments
   (b) Where an employee is entitled to deduction of owner occupied interest
2. (a) Allowable interest in respect of any month must not exceed Kshs. 12,500/= + Kshs. 150,000 per year.

(See back of this card for further information required by the Department).

(b) Attach (i) Photostat copy of interest certificate and statement of account from the Financial Institution.
(ii) The DECLARATION duly signed by the employee.

NAMES OF FINANCIAL INSTITUTION ADVANCING MORTGAGE LOAN

L.R NO. OF OWNER OCCUPIED PROPERTY: .....

DATE OF OCCUPATION OF HOUSE .....

KRA P10 B

Kenya Revenue Authority

P10B

DOMESTIC TAXES DEPARTMENT

FRINGE BENEFIT TAX RETURN FOR YEAR _____

EMPLOYER'S PIN

EMPLOYER'S NAME.....

EMPLOYEE'S NAME	OPENING LOAN BALANCE AT 1ST JANUARY KSHS.	ADDITIONAL LOAN KSHS.	DATE LOAN ADVANCED	EMPLOYER'S INTEREST RATE %	LOAN BALANCE AT 31ST DEC. KSHS.	TAXABLE FRINGE BENEFIT VALUE FOR YEAR KSHS.	FRINGE BENEFIT TAX PAID KSHS.
TOTALS							

Note to employer: 1) FRINGE BENEFIT IS CHARGEABLE TO TAX AT CORPORATION RATE OF TAX
2) SUBMIT TWO COPIES OF THIS FORM TOGETHER WITH PAYE END OF YEAR RETURN

KRA P10 C

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

P10C

EMPLOYER'S PIN

A									

PAYE – EMPLOYER'S CERTIFICATE

(GOVERNMENT MINISTRIES AND NATIONAL ASSEMBLY)

YEAR .....

To Senior Assistant Commissioner

.....

We/I forward herewith .....Tax Deduction Cards (P9A/P9B) showing the total tax deducted (as listed on P10A) amounting to Kshs.....

This total tax has been paid as follows:

MONTH	P.A.Y.E TAX KSHS.	PENSION FUND CONTRIBUTIONS	DATE PAID (PER RECEIVING BANK STAMP)
JANUARY			
FEBRUARY			
MARCH			
APRIL			
MAY			
JUNE			
JULY			
AUGUST			
SEPTEMBER			
OCTOBER			
NOVEMBER			
DECEMBER			
TOTAL TAX/PENALTIES			

NOTE

(1) Attach Photostat copies of **ALL** the Pay-In Credit Slips (P11s) for the year

(2) Complete the form in triplicate sending the top two copies with the enclosures to your Income Tax Office **not later than 28TH FEBRUARY.**

(3) Provide statistical information required by Central Bureau of Statistics (See overleaf).

We/I certify that the particulars entered above are correct

NAME OF EMPLOYER.....

ADDRESS.....

SIGNATURE.....

DATE.....

KRA P91

INFORMATION REQUIRED FROM EMPLOYER AT END OF YEAR

(1) Date employee commenced if during Year .....
Name and address of old employer .....

(2) Date left if during Year .....
Name and address of new employer .....

(3) Where housing is provided, state monthly rent
Charged Kshs ..... per month

(4) Where any of the pay relates to a period other than this year, e.g. gratuity
Give details of Amounts, Year and Tax

Year	Amount	
	£	Sh.
20		
20		
20		
20		

FOR MONTHLY RATES OF BENEFITS PLEASE REFER TO EMPLOYERS GUIDE TO PAYE SYSTEM – P7

BENEFIT	CALCULATION OF TAX ON BENEFITS NO.	RATE	NO. OF MONTHS	TOTAL AMOUNT Kshs.
COOK/HSE				
SERVANT	X		X	=
GARDENER	X		X	=
AYAH	X		X	=
WATCHMAN (D)	X		X	=
WATCHMAN (N)	X		X	=
FURNITURE	X		X	=
WATER	X		X	=
TELEPHONE	X		X	=
ELECTRICITY			X	=
SEC. SYST			X	=

Where actual cost is higher than given monthly rates of benefits then the actual cost is brought to charge in full

LOW INTEREST RATE BELOW PRESCRIBED RATE OF INTEREST

EMPLOYERS LOAN = Kshs ..... @ ..... RATE

RATE DIFFERENCE

(PRESCRIBED RATE – EMPLOYERS RATE) = ... %

MONTHLY BENEFIT (RATE DIFFERENCE X LOAN) = ... % X Kshs. = ... =

MOTOR CARS

Up to 1500 c.c. X =

1501 c.c. – 1750 c.c. =

1751 c.c. – 2000 c.c. =

2001 c.c. – 3000 c.c. =

Over 3000 c.c. =

Total Benefit in Year

If this amount does not agree with total of Col. B overleaf, attach explanation

FOR PICK-UPS, PANEL VANS AND LAND-ROVERS REFER TO APPENDIX 3 OF EMPLOYERS GUIDE

CAR BENEFIT – The higher amount of the fixed monthly rate or the prescribed rate of benefits is to be brought to charge –

PRESCRIBED RATE: 1996 – 1% per month of the initial cost of the vehicle.
1997 – 1.5 % per month of the initial cost of the vehicle.
1998 – 2% per month of the initial cost of the vehicle.

EMPLOYERS CERTIFICATE OF PAY AND TAX

NAME .....

ADDRESS .....

SIGNATURE .....

DATE & STAMP .....

NOTE: Employer's certificate to be signed by the person who prepares and submits to the PAYE End of Year Returns and copy of the P9A be issued to the employee in January

KRA VAT 1

VAT 1

Kenya Revenue Authority

Value Added Tax Department

APPLICATION FOR REGISTRATION

1) Name to be registered
(a) Company, Partnership or other body of persons

(b) Sole proprietorship (Name of the Individual)

Surname	Middle	First

2) Trading / business name(s) if different from the name registered above. *(If more than 3 please attach a separate list.)*

NOTES:

1) Only one copy of this form is required.

2) Every space must be completed and accurate information furnished. It is an offence under the Value Added Tax Act to give incorrect information.

3) If you have any difficulties in completing this form please contact your nearest VAT office.

4) Any changes to the details [illegible] must be notified to the Commissioner of VAT within 14 days of such change.

5) When completed this form is to be returned to:
The Commissioner of VAT
Times Tower
P.O. Box 48199-00100
Nairobi. OR to your nearest VAT office.

3) Personal Identification Number (P.I.N)

Ltd Company ☐ Partnership ☐ Sole Proprietor ☐ Others ☐

(Tick as applicable)

4) Full address of principal place of business
a) Postal address

P.O. Box (incl. postal code)	Town

b) Physical address

Street/Road	Area
Building	L/R No.

5a) Area code Telephone No.

b) Area code Telephone No.

6) Date Business commenced or will commence
Date/ Month/ Year

7) List Directors and Secretary for Limited Company; or for Partnership list (1) Principal or Managing Partner (2) other Partners; or for Sole proprietor give full name.

Personal Identification Number (P.I.N)	Full Name

8) List below as applicable the nature of services and/ or the main type of goods sold *(for example manufacture of textiles or shoes)*

9) State the percentage (in value) of goods/services (a) Supplied in Kenya [ ]% (b) Exported [ ]%

10) If you provide exempt (i.e. Non-taxable) supplies state the percentage (in value) this represents of your total business [ ]%

11) State the annual turnover for the last 3 calendar years

Year	Turnover

12) Give estimate of expected turnover for the next 12 months

13) List any associated business (es) and insert VAT no. where applicable. *(If more than 4 please attach a separate list)*

Name of business	VAT No.

14) List names & addresses of the branch (es) operated by your business. *(If more than 4 please attach a separate list)*

Branch	Physical address

15) In case of group registration list all companies/ business entities operating under this registration. *(If more than 4 please attach a separate list).*

Business name	Physical address

16) I _____

(Full name in BLOCK LETTERS)

declare that the particulars given above are full and true.

Signature _____ Date _____

Delete where not applicable: Proprietor, Partner, Director, Company Secretary, Authorised Official.

E-mail address _____

For Official Use only

Date application received _____ Date certificate issued _____

Certificate No. _____ Issuing Officer _____

Statistical code (a) _____ Forced registration: Yes/No _____

Revised Version Nov '02

KRA VAT 2

VAT 2

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

Effective Date of Registration (EDR)	*VAT Registration Number*	*PIN*

VAT - Certificate of Registration

Issued to:
Postal Address:
Physical Address: Road/Street:
Building/Plot No.:
Date of Issue:

For: COMMISSIONER OF DOMESTIC TAXES

VAT 2

Kenya Revenue Authority

DOMESTIC TAXES DEPARTMENT

Effective Date of Registration (EDR)	*VAT Registration Number*	*PIN*

VAT - Certificate of Registration

Issued to:
Postal Address:
Physical Address: Road/Street:
Building/Plot No.:
Date of Issue:

For: COMMISSIONER OF DOMESTIC TAXES

KRA VAT 3

VAT 3

(USE FOR MONTHLY RETURNS ONLY)
(FOR OTHER PAYMENTS SEE NOTE 2)
SEE OVERLEAF FOR NOTES

Kenya Revenue Authority
DOMESTIC TAXES DEPARTMENT
(MADE UP AS AT 31st DECEMBER 2011)

Serial No. 173692

RETURN FOR THE MONTH OF 20

REGISTERED NAME		VAT NO	
P.O. BOX	CODE	PIN	
TOWN	TEL No.	STREET / BUILDING	

	SALES FOR THIS PERIOD	VALUE EXCL VAT KSHS	RATE	VAT CHARGED KSHS
1	TAXABLE SALES (GENERAL RATE)			
2	TAXABLE SALES (OTHER RATES)			
3	ZERO RATED SALES		0%	
4	EXEMPT SALES		NIL	
5	TOTAL SALES AND OUTPUT TAX CHARGED			

	PURCHASES FOR THIS PERIOD	VALUE (EXCL VAT) KSHS	RATE	VAT CHARGED KSHS
6	TAXABLE PURCHASES (GENERAL RATE)			
7	TAXABLE PURCHASES (OTHER RATES)			
8	ZERO RATED PURCHASES		0%	
9	TOTAL TAXABLE PURCHASES AND INPUT TAX CHARGED (6+7+8)			
10	LESS NON-DEDUCTIBLE INPUT TAX (See Note 3)			
11	DEDUCTIBLE INPUT TAX (9-10)			
12	TAX DUE (OR CLAIMABLE) FOR THE PERIOD (5-11)			
	ADJUSTMENTS			
13	LESS VAT WITHHELD (ATTACH A SCHEDULE)			
14	LESS CREDIT BALANCE FROM PREVIOUS MONTH			
15	ADD REFUND CLAIM PAID AND DISALLOWED			
16	FINAL TAX PAYABLE/CREDIT CARRIED FORWARD FOR THIS PERIOD (12-13-14+15)			

PAY-IN SLIP COUNTERFOIL

AMOUNT IN WORDS: ..... KSh: .....

I, (DECLARE IN BLOCK LETTERS) .....
declare that this return is a full and true statement of all particulars required to be declared.

Signed ..... Designation ..... Date .....

KENYA REVENUE AUTHORITY
VAT PAYMENT SLIP

VAT 3

SERIAL NO. 173692

RETURN FOR THE MONTH OF .....

VAT 84

DATE...../...../20 .....

REG. NAME

VAT REG NO.

PIN

KSh: .....

AMOUNT IN WORDS .....

PAID IN BY ..... SIGNED .....

(please do not write below this line)

KRA VAT 3A

Kenya Revenue Authority

VAT 3A

VALUE ADDED TAX DEPARTMENT

MONTHLY VAT INPUT ANALYSIS

NAME OF REGISTERED PERSON ....

P.O. BOX .... PIN ....

TOWN .... VAT REG NO. ....

TELEPHONE .... SUMMARY FOR THE MONTH OF ....

SUPPLIERS NAME	VAT NUMBER	INVOICE DATE	INVOICE NO./ IMPORT ENTRY	INVOICE AMT EXCL. VAT	VAT AMOUNT

NOTE: THIS ANALYSIS TO BE SUBMITTED TO THE LOCAL VAT OFFICE BY THE 20th DAY OF THE FOLLOWING MONTH FOR REPAYMENT (*TO BE ATTACHED TO THE VAT RETURN*) & THE 20th DAY OF THE FOLLOWING MONTH FOR PAYMENT FILERS

*COMPUTER GENERATED ANALYSIS IN THE PRESCRIBED FORMAT MAY BE SUBMITTED

Continued overleaf

TOTAL.

(SHOULD AGREE WITH RETURN TOTALS)

PREPARED BY... **DESIGNATION** ....

KRA VAT 3B

VAT 3B

Kenya Revenue Authority

Value Added Tax Department

REGISTERED NAME ....

VAT NO. .... P.I.N. ....

MONTH ....

PARTICULARS OF EXPORTS AND OTHER ZERO RATED SALES

To be completed by exporters, suppliers of goods and services to exporters and suppliers of any zero-rated goods and services under the eighth schedule and part A of the fifth schedule to The VAT Act

SECTION A:

SUPPLY OF GOODS & SERVICES TO EXPORTERS (As per part A of the 5th schedule of VAT Act)

DATE	INVOICE NO.	NAME OF EXPORTER	VALUE KSHS
TOTAL SALES INCLUDED IN THE VAT3			

SECTION B:

DIRECT EXPORT OF GOODS & SERVICES

EXPORT ENTRY NO.	INVOICE NUMBER	DATE OF EXPORT	COUNTRY OF DESTINATION	NAME OF CUSTOMER	EXPORT INVOICE VALUE (KSHS)
TOTAL SALES INCLUDED IN THE VAT3					

P.T.O.

SECTION C:

OTHER SALES ZERO-RATED UNDER PART 'A' OF THE FIFTH SCHEDULE & THE EIGHTH SCHEDULE OF THE VAT ACT (E.g. to Privileged persons, Embassies, Foreign Aid Funded Projects, e.t.c)

DATE OF SALE	INVOICE NO.	NAME OF CUSTOMER	VALUE OF SALE KSHS.
TOTAL SALES INCLUDED IN THE VAT3			

GRAND TOTAL ZERO RATED SALES AS PER VAT3 KSHS.	

This requirement is made under the seventh schedule paragraph 7(d) of the VAT Act Cap 476

KRA VAT 4

*To be submitted in duplicate

VAT 4

Kenya Revenue Authority

VALUE ADDED TAX DEPARTMENT

Official Claim No. .....

Date received .....

CLAIM FOR REFUND OF VALUE ADDED TAX

This refund is to recover excess of input tax over output tax and tax paid under section 24 and 24A of the Act during the period

From ..... to .....

Name of business .....

Address ..... Street ..... Telephone .....

VAT Registration Certificate Number
Issued on .....

PIN

Products/Services sold .....

Claim computation from tables on reverse side
(Export claim for amounts less than Ksh. 500.00 will not be accepted)

Total VAT claimed Ksh. (in words) .....

..... Ksh. (in figures) .....

I certify that the Value Added Tax claimed above is properly refundable on the grounds stated in this claim.

Designation ..... Signature ..... Date .....

BANK	
BRANCH	
TOWN	
A/C NO.	

For Official Use Only

Ksh. .....

Audited and approved for payment in the amount shillings .....

..... (in words)

Examined by ..... Date .....

Reviewed by ..... Date .....

* Please attach VAT 3, Export documents, Auditor's Certificate and Other relevant documents where applicable.

To be submitted in duplicate

VAT 4

Particulars of Amount claimed

Invoice Date (1)	Tax Invoice Number (2)	Customs Entry Number (3)	Name of Supplier/Customer Plus supplier's Customes VAT No (4)	Reason for Claim (5)	Brief Description of Supply (6)	Taxable value (7)	VAT Claimed (8)

Page ..... of ..... TOTALS .....

* Please attach VAT 3, Export Documents, Auditor's Certificate and other relevant documents where applicable

KRA VAT 5

VAT 5

Kenya Revenue Authority

VALUE ADDED TAX DEPARTMENT

Official Claim No.....

Date received.....

CLAIM FOR REFUND OF VAT ON TAXABLE GOODS IN INVENTORY WHEN CERTIFICATE OF REGISTARATION IS ISSUED

To be submitted within 30 days after the date of Registration under section 12 of the VAT Act, 1989

I.....of.....

Name *Name of Business*

located at.....

Address *Street* *Telephone*

VAT Registration Certificate Number issued on.....

P.N.

do solemnly swear that this claim for the sum of KSh (in words).....

..... KSh (in figures).....

represent the VAT paid on the taxable goods on hand at.....

(Place where goods in hand)

on the.....

(date of inventory)

Sworn before me this day.....of.....at.....

.....

Commissioner for oaths *Signature of claimant* *Position*

For Official Use Only	Reviewed and Approved by
District Office..... Date.....	Name..... *(Authorized Officer)*
Proof accepted and VAT refund approved in the amount of.....	Signature.....
KSh.....	Date.....

.....

(Examining Officer)

VAT 5

Summary of VAT paid on Taxable goods in Inventory

VAT Invoice/ Import Entry Number	Description of Goods	Quantity on hand	Taxable cost (KSh)	VAT paid (KSh)
		TOTALS		

Page.............. of ....

KRA VAT 6

VAT 6
USE THIS FORM TO INFORM THE COMMISSIONER OF ANY CHANGES IN THE BUSINESS
Par. 19 of the Seventh Schedule

Kenya Revenue Authority

VALUE ADDED TAX

NOTIFICATION OF CHANGE IN BUSINESS PARTICULARS

Registered Name.....

VAT Reg. No. | | | | | | | | | PIN No. | | | | | | | | | | |

The following change (s) has/have been made in the aforesaid firm/business

1. Business Name.....

2. Trading Name.....

3. Main Nature of Business.....

4. Business Activity CODE (See Booklet cover for coding) | | | | | |

5. Has Any branch opened/closed or Business Address changed

P.O Box..... Postal Code ..... Town.....

(a) Tel..... (b) Tel..... Fax.....

E-Mail.....

Street/Road..... Location.....

Building..... Plot No.....

6. If Business Ceased, Date Ceased

SIGNED ..... NAME.....

DESIGNATION ..... DATE.....

Official Use

Authorised by _____ Design: _____ Sign _____ Date _____

KRA VAT 7

VAT2

KENYA REVENUE AUTHORITY
VALUE ADDED TAX DEPARTMENT
DECLARATION OF SERVICES IMPORTED INTO KENYA

Importer's Name ..... Serial No .....
Address .....
.....
VAT Registration No (if any) ..... PIN .....
Supplier's Name .....
Address .....
.....
Description of services(s) (a) ..... Code .....
..... (b) .....
..... Code .....
..... (c) .....
..... Code .....
Value of services in foreign currency .....
Exchange Rate .....
Value of services in figures Ksh. .....
Value of services in words Ksh. .....
Tax payable in figures Ksh. .....
Tax payable in words Ksh. .....
I, ..., the receiver of the services specified herein certify that all the particulars given are true

Signature ..... Date .....

For Official Use

Cheque Cash Cheque No ..... Receipt No ..... Ksh. ..... Received for payment of Value Added Tax Cashier ..... Date	Checked and certified correct Signature ..... Date ..... For

KRA VAT 28

KENYA REVENUE AUTHORITY
VALUE ADDED TAX
(FOR PAYMENTS RECEIVED WITHOUT VAT 3 FORMS)

VAT 28

No. 178069

REGISTERED NAME				VAT NO.	
				PIN	
P.O.		TOWN		DIST CODE	
TEL.		RETURN FOR THE MONTH			

PAYMENT FOR			VAT PERIOD	AMOUNT	
				SHS	CTS
1	3%				
2	VAT 57				
3	VAT 75				
4	OTHERS				

PAYMENT IN RESPECT OF:

SIGNED: ..... DESIGNATION ..... DATE .....

VT 87

KENYA REVENUE AUTHORITY
VALUE ADDED TAX
PAY-IN-SLIP

Date .....

VAT Reg No. [ ] Period [ ]

VAT 28 178069

REG. NAME [ ]
P.O Box Tel

AMOUNT IN WORDS

Shs	Cts

As Per Reverse

PAID IN BY ..... SIGNED .....

Please [illegible]

[illegible]

KRA VAT 31

"Original" VAT 31

Kenya Revenue Authority

Value Added Tax Department

Effective Date of Appointment .....

CERTIFICATE OF APPOINTMENT AS WITHHOLDING VAT AGENT

VAT NO.	AGENCY NUMBER	PIN NO.

NAME OF AGENT .....

Name of main office .....

Postal Address: ..... *TEL. NO.* ..... *TOWN* .....

Physical Address - Road/Street ..... *BUILDING* .....

Date Issued ..... *For: COMMISSIONER OF VALUE ADDED TAX*

'File Copy' VAT 31

Kenya Revenue Authority

Value Added Tax Department

Effective Date of Appointment .....

CERTIFICATE OF APPOINTMENT AS WITHHOLDING VAT AGENT

VAT NO.	AGENCY NUMBER	PIN NO.

NAME OF AGENT .....

Name of main office .....

Postal Address: ..... *TEL. NO.* ..... *TOWN* .....

Physical Address - Road/Street ..... *BUILDING* .....

Date Issued ..... *For: COMMISSIONER OF VALUE ADDED TAX*

KRA VAT 32

This form is to be completed and submitted by an Appointed Agent on a weekly basis

Kenya Revenue Authority

VAT 32

VALUE ADDED TAX DEPARTMENT

Serial No. 295751

WEEKLY WITHHOLDING VAT RETURN

(Read instructions for completing this form at the beginning of this booklet)

NAME OF AGENT .....

AGENCY NO.		PIN NO	

RETURN FOR THE WEEK ENDING (DATE) .....

FULL NAMES OF SUPPLIER	PIN OR VAT NO	INVOICE NO	INVOICE DATE	PAYMENT REFERENCE NO (SEQUENTIAL)	INVOICE AMOUNT NET AMOUNT KSHS	INVOICE AMOUNT VAT AMOUNT KSHS

[CONTINUED OVERLEAF]

PAY-IN SLIP COUNTERFOIL

AMOUNT PAID IN WORDS .....

KSHS ..... CHEQUE NO .....

I DECLARE THAT THIS INFORMATION IS FULL AND TRUE OF ALL PARTICULARS REQUIRED TO BE DECLARED WITH THIS RETURN

NAME ..... DESIGNATION ..... SIGNATURE ..... DATE .....

PAY-IN-SLIP

Serial No. 295751

VAT 32

NAME OF AGENT ..... AGENT NO .....

P.O. BOX	TOWN	TEL. NO

AMOUNT PAID IN WORDS .....

KSHS .....

PLEASE TRANSFER THIS SUM BY ELECTRONIC FUNDS TRANSFER TO THE CREDIT OF THE COMMISSIONER OF VAT ACCOUNT NO. 04-010-0115, AT CENTRAL BANK OF KENYA

CASH / CHEQUE NO. .....

PAID IN BY ..... SIGNED ..... DATE .....

PLEASE DO NOT WRITE BELOW THIS LINE

KRA VAT 32A

Kenya Revenue Authority

VALUE ADDED TAX DEPARTMENT

Certificate No. 2003101

WITHHOLDING VAT CERTIFICATE

PAYMENT PERIOD .....

This certificate entitles the supplier named below to deduct amount of Tax shown here on the next VAT Return to the Commissioner.

NAME OF SUPPLIER ..... VAT NO. ..... PIN .....

ADDRESS .....

TAX DEDUCTED KSHS	PAYMENT REFERENCE NO.

I certify that the tax indicated above has been paid over to the Commissioner of Value Added Tax Nairobi.

NAME OF WITHHOLDING AGENT .....

DESIGNATION ..... SIGNATURE ..... DATE .....

WITHHOLDING AGENT NO. ..... PIN .....

PAYER'S STAMP

Kenya Revenue Authority

VALUE ADDED TAX DEPARTMENT

Certificate No. 2003102

WITHHOLDING VAT CERTIFICATE

PAYMENT PERIOD .....

This certificate entitles the supplier named below to deduct amount of Tax shown here on the next VAT Return to the Commissioner.

NAME OF SUPPLIER ..... VAT NO. ..... PIN .....

ADDRESS .....

TAX DEDUCTED KSHS	PAYMENT REFERENCE NO.

I certify that the tax indicated above has been paid over to the Commissioner of Value Added Tax Nairobi.

NAME OF WITHHOLDING AGENT .....

DESIGNATION ..... SIGNATURE ..... DATE .....

WITHHOLDING AGENT NO. ..... PIN .....

PAYER'S STAMP

Kenya Revenue Authority

VALUE ADDED TAX DEPARTMENT

Certificate No. 2003103

WITHHOLDING VAT CERTIFICATE

PAYMENT PERIOD .....

This certificate entitles the supplier named below to deduct amount of Tax shown here on the next VAT Return to the Commissioner.

NAME OF SUPPLIER ..... VAT NO. ..... PIN .....

ADDRESS .....

TAX DEDUCTED KSHS	PAYMENT REFERENCE NO.

I certify that the tax indicated above has been paid over to the Commissioner of Value Added Tax Nairobi.

NAME OF WITHHOLDING AGENT .....

DESIGNATION ..... SIGNATURE ..... DATE .....

WITHHOLDING AGENT NO. ..... PIN .....

PAYER'S STAMP

VAT Exemption Form

VAT EXEMPTION FORM
(In Quadruplicate, typewritten)

REPUBLIC OF KENYA

KENYA REVENUE AUTHORITY
VAT Remissions
RECEIVED
09 MAR 2006
P.O. Box 30112-00100
NAIROBI
DOMESTIC TAXES DEPARTMENT

Mission,

Date 7TH FEBRUARY, 2006

To: The Chief of Protocol
Ministry of Foreign Affairs and International Co-operation,
P.O. Box 30551,
Nairobi, Kenya.

APPLICATION FOR AUTHORITY TO PURCHASE SERVICES AND LOCALLY MANUFACTURED GOODS FREE OF VAT BY ENTITLED FOREIGN PERSONNEL IN KENYA

1. Name and title of consignee
2. Date of Arrival of Officer
3. Name and Address of the Supplier
4. Suppliers VAT Registration Number
5. Description of Goods or Services
6. Pro forma Invoice Number
7. Seal of Mission
8. Signature of Authorized Diplomatic Officer
9. Full Name and Designation
H.E. MR. JANOS BUSAI
(AMBASSADOR)

(Copy to be attached)

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL CO-OPERATION

Signature of Authorized Officer

Name in Full

MINISTRY OF FOREIGN AFFAIRS
10 FEB 2006
L.M. MIAMI

FOR THE USE OF VAT DEPARTMENT
VAT FREE PURCHASE APPROVED

Name

Signature

for Commissioner of VAT

Date 19

S T A M P

Note—Original, Duplicate, Triplicate and Quadruplicate to Protocol Office. Thereafter, Duplicate, Triplicate Quadruplicate to Commissioner of VAT. Duplicate to applicant for submission to supplier. Triplicate goes back to protocol Office and Quadruplicate remains with VAT Department.

IMPORTANT (See conditions overleaf).

ANNEX III

Tax Compliance Information Sources

Template to Assess Sources of Information to be used in Tax Compliance Programs

TYPE OF DATA	SOURCE OF INFO	ELECTRONIC AVAILIBILITY	DESCRIPTION	POTENTIAL TAX TYPE FOR WHICH INFO MAY BE HELPFUL						
				PAYE	Income	Corp	VAT	PPT	Excise	Discovery
DTD DATA - *(For Illustration Purposes Only)*										
Registration Database		Y	Business T/P registration and transaction info	X	X	X	X	X	X	X
Income Tax Master Files		Y	Individual/ Business T/P return declaration and transaction information	X	X	X	X	X	X	X
KRA DATA										
• Customs • Motor Vehicle • RTD										
OTHER GOVERNMENT										
•										
THIRD PARTY DATA										
•										
LOCAL AUTHORITIES										
ELECTRICITY CONNECTIONS										

ANNEX IV

Final Team Leader Presentation:
Overview of ITMS

Kenya Revenue Authority

Integrated Tax Management System

Prepared by DevTech Systems

DEVTECH

Kenya Revenue Authority

- Kenya Revenue authority requested assistance from the United States Trade and Development Agency (USTDA) for Business Improvement Processes and for assistance for specifying and acquiring an Integrated Tax System in DTD. USTDA gave the KRA a grant for this purpose.
- DevTech Systems, Inc. (DevTech) was awarded a Contract for a United States Trade and Development Agency (USTDA)-funded feasibility study designed to help facilitate the KRA's acquisition and implementation of a modern computerized integrated tax management system (ITMS) to support the needs of the DTD's main users.
- DevTech is a Washington DC area based company with International experience in Tax systems in a number countries, and works in association with the M Group.
- DevTech/M Group utilized a number of International and locally recognized experts and administrative staffs (13) in a variety of fields in under taking the analysis, recommendations and design. These experts have/will provide documents that address, organization issues, business practices and procedures, streamlining, new information and communications requirements, and legal issues.

Kenya Revenue Authority

SIX Major Tasks for ITMS project:

- **Task (1):**
  - **(a) Review KRA's current functions, processes, activities, technology infrastructure, regulations, ICT strategy (including ongoing and planned initiatives) as related to KRA's tax management functions nation-wide; and** — Completed March 2006
  - **(b) undertake business process improvement (BPI) as related to KRA's tax management functions.** — Completed June 2006
- **Task (2)**
  - **(a) The results of the situational assessment 1 (a), review the current state of information systems at the DTD presents the preliminary requirements definitions for a modernized and automated ITMS.** — Completed March 2006
  - **(b) Based on the results of Task 1(b), develop a list of detailed features that would be required in the new tax management software, and identify potential products that are available in international markets, including the United States, to meet these requirements (with modifications and customizations).** — Completed June 2006

Kenya Revenue Authority

Task (3): **Develop a high-level implementation plan for procuring and implementing the new software, network infrastructure and hardware, and develop an implementation strategy.**	Ongoing: Due June 21, 2006
Task (4): **Develop a KRA information and communication technology (ICT) framework document to support KRA's business functions.**	Ongoing: Due June 21, 2006
Task (5): **Legal and Regulatory Functions. Identify any legal and regulatory issues that may hamper the procurement and implementation of the new system, and recommend measures to address these issues.**	Ongoing: Due June 21, 2006
Task *(6):* **Final Report The Contractor shall ensure that I of Annex I.1 of the Grant Agreement report of the work performed.**	**Not started: Due June 30, 2006**

Kenya Revenue Authority

DevTech/M Group Team

Administration:

- **Tonya Giannoni--DevTech--All Tasks**
- **Brian Bean--DevTech—All Tasks**
- **Mark Cox—M Group—All Tasks**

- **Tax Experts:**
  - **Arturo Jacobs—DevTech—Task 1(a)**
  - **Allan Robinson—DevTech—Task 1(a), 1(b), 3, 4, 6, COTS**
  - **Yassie Hodges—M Group—Task 1(b)**

Kenya Revenue Authority

DevTech/M Group Team, con't

ICT Experts:

- Sampat Saraf—M Group—Task 2(a), 2(b), 3.
- Kevin Kyriss—DevTech—Task 2(a), ICT Strategy, COTS.
- Geoffrey Okado—M Group—Task 2(a), COTS
- Dr. Eustace Mwarania—DevTech--Task 4, 3

Legal:

- Floice Mukabana---DevTech---Task 1(a), 5.
- Stephen Vasak—DevTech—Task 5

Administrative Assistant:

- Anne Ruhiu--DevTech

Kenya Revenue Authority

ITMS

•ITMS is the name of the new computer system that will be acquired for Domestic Tax Department (DTD), most likely through Commercial of the shelf (COTS) software.

•COTS will not likely be available to meet all of the DTD requirements to start, and will have to be modified to suit DTD business processes—Customization.

•ITMS will most likely have a number of subsystems that link into, or connect with COTS software.

•This presentation is based on the DevTech vision of modernising the business environment within DTD/KRA under the ITMS, and reflects the recommendations in the report 1b recently submitted to DTD ICT.

•This presentation begins with the Records Management System, continues on to the basic modules of Registration and Return Processing, and then to the related business processes of Audit, Objections & Appeals, Debt, Refunds, etc., until all processes have been reviewed.

Kenya Revenue Authority

ITMS CONTENTS

1) Registration
2) Returns Processing
   1) E-file
   2) Manual
3) Payments at bank
4) EFT
5) Reconciliation
   1) Financial
   2) Return
6) Risk Management
7) Compliance
7) ETR
8) Audit
9) Objections & Appeals
10) Debt Management
11) Records Management
12) Agency Revenue
13) Excise
14) Pensions
15) Remissions and Exemptions.
16) Legislation.
17) Refunds
18) Revenue Forecasting
19) Recruitment
20) KRA Internal & External Data
21) Performance Measurement

Kenya Revenue Authority

Records Management

- Records Management consists of 2 distinct and separate components which are crucial to any organizations operations in storage, retrieval, and destruction:
  - Production documents—Returns, Registrations, etc.
  - Correspondence documents—Letters and other documents.
- Modern Tax departments use computer systems to manage the RM requirement. We refer to the " Records Management System" as RMS.
- Quality RM is as vitally important as the productions systems in tax authorities.
- RMS provides security of documents by image scanning for retrieval on demand.

Kenya Revenue Authority

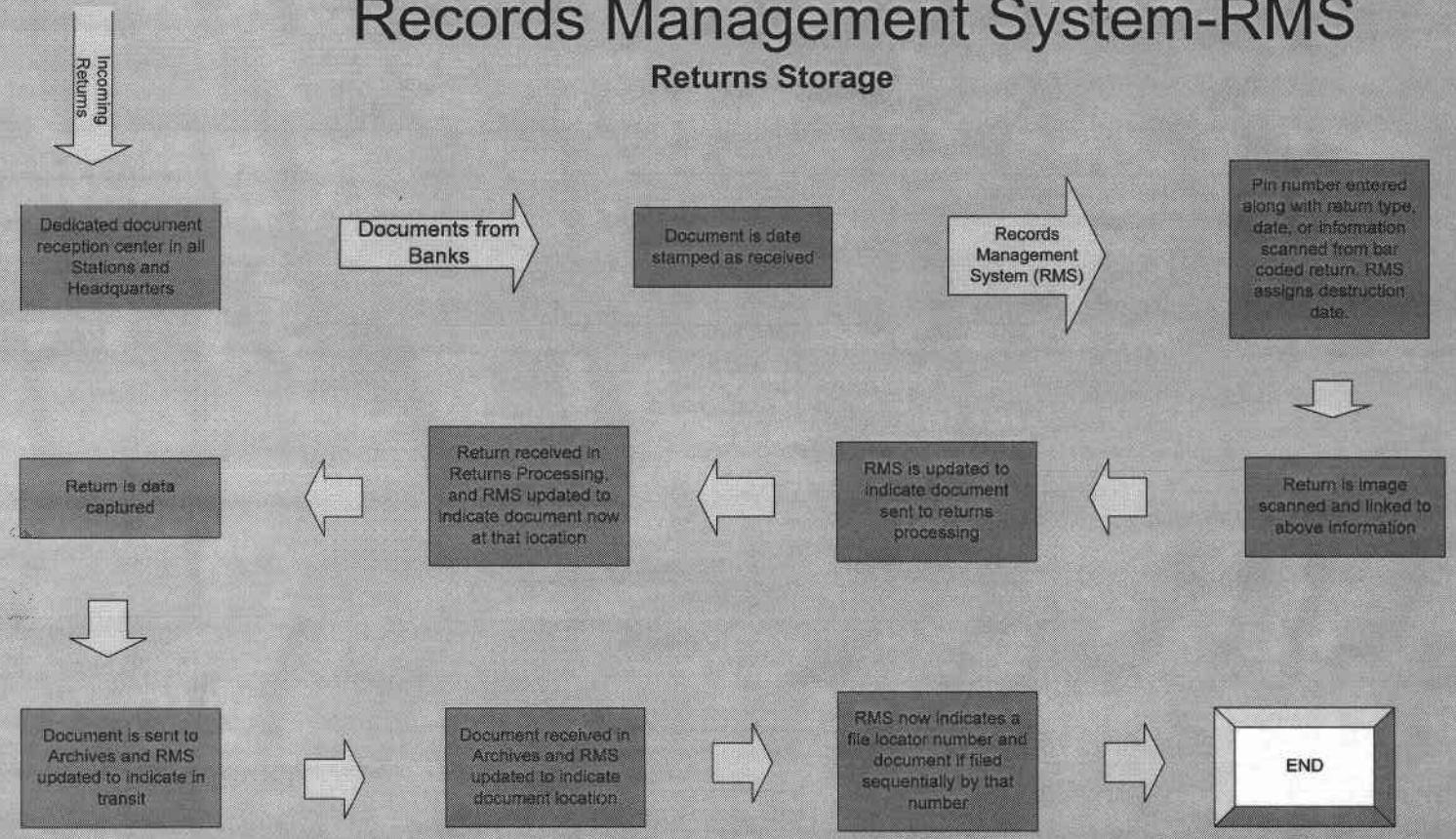
Records Management (con't)

- RMS reduces time in retrieval of documents, therefore allowing faster response to issues and enquiries.
- RMS provides for timely destruction of records, but provides protection that records are not destroyed without review and agreement of business users.
- RMS can be tied to Performance Measurement by indicating letters that are overdue for reply from the Departmental standard.
- Scanned images that are printed and certified as true copies can often be used in a court of law when the original document cannot be found.
- RMS allows for one centralized RM location in a low cost area, thus reducing the use of prime office space for storage, and providing one properly equipped repository.
- RMS assigns a unique sequential document reference number.

Kenya Revenue Authority

Records Management System-RMS

Returns Storage



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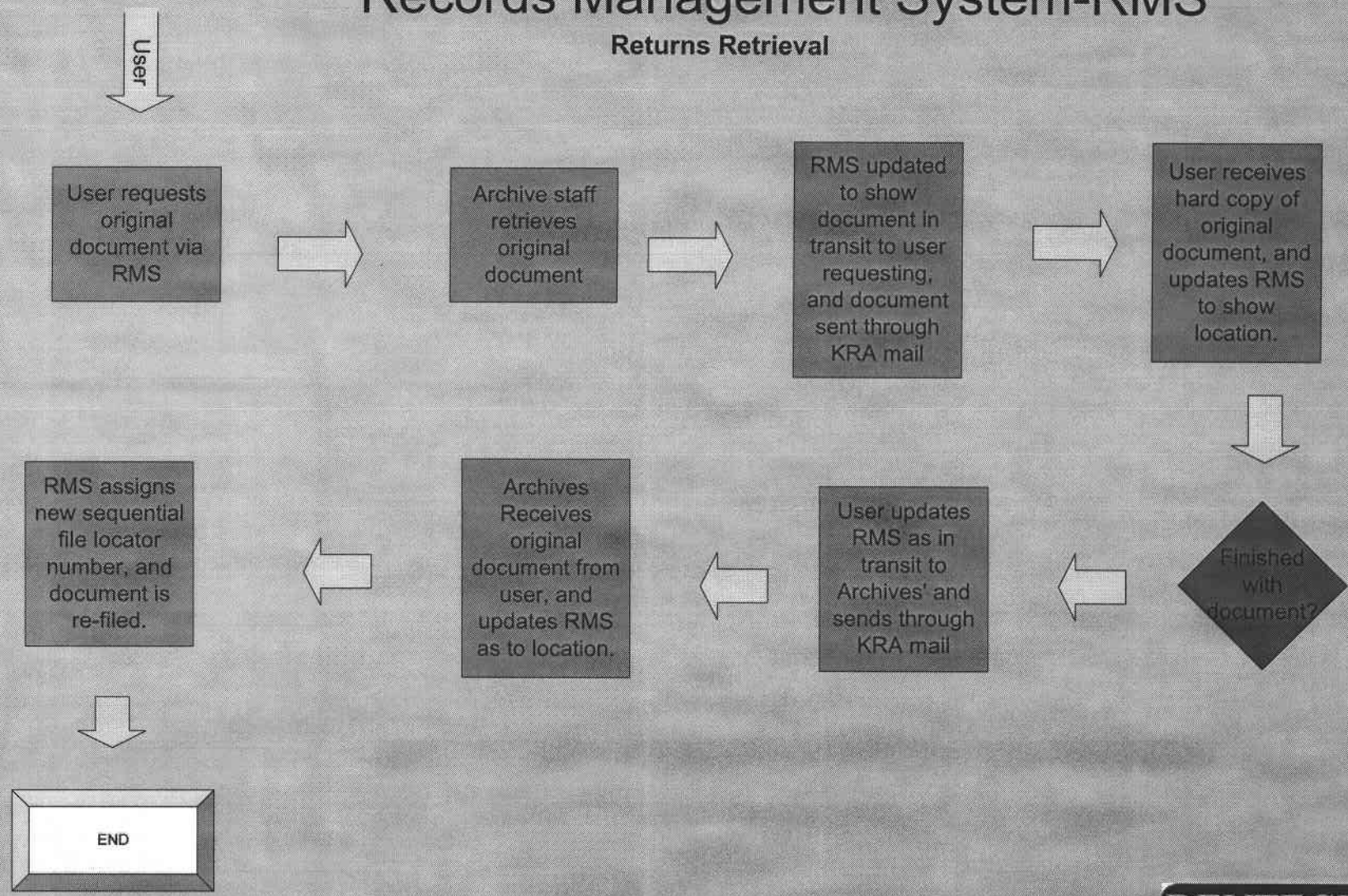
Records Management System-RMS

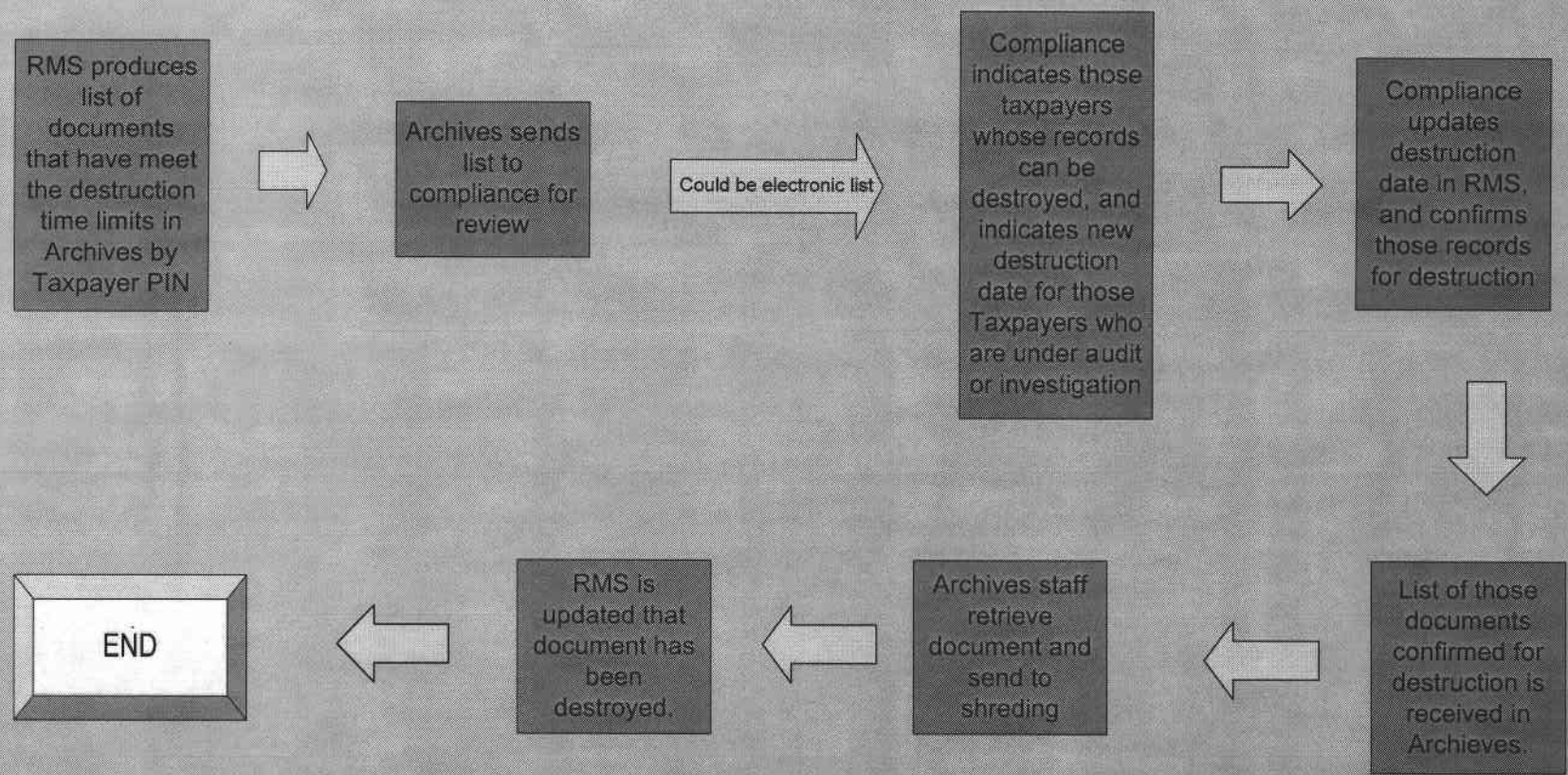
Returns Retrieval



Kenya Revenue Authority

Records Management System-RMS

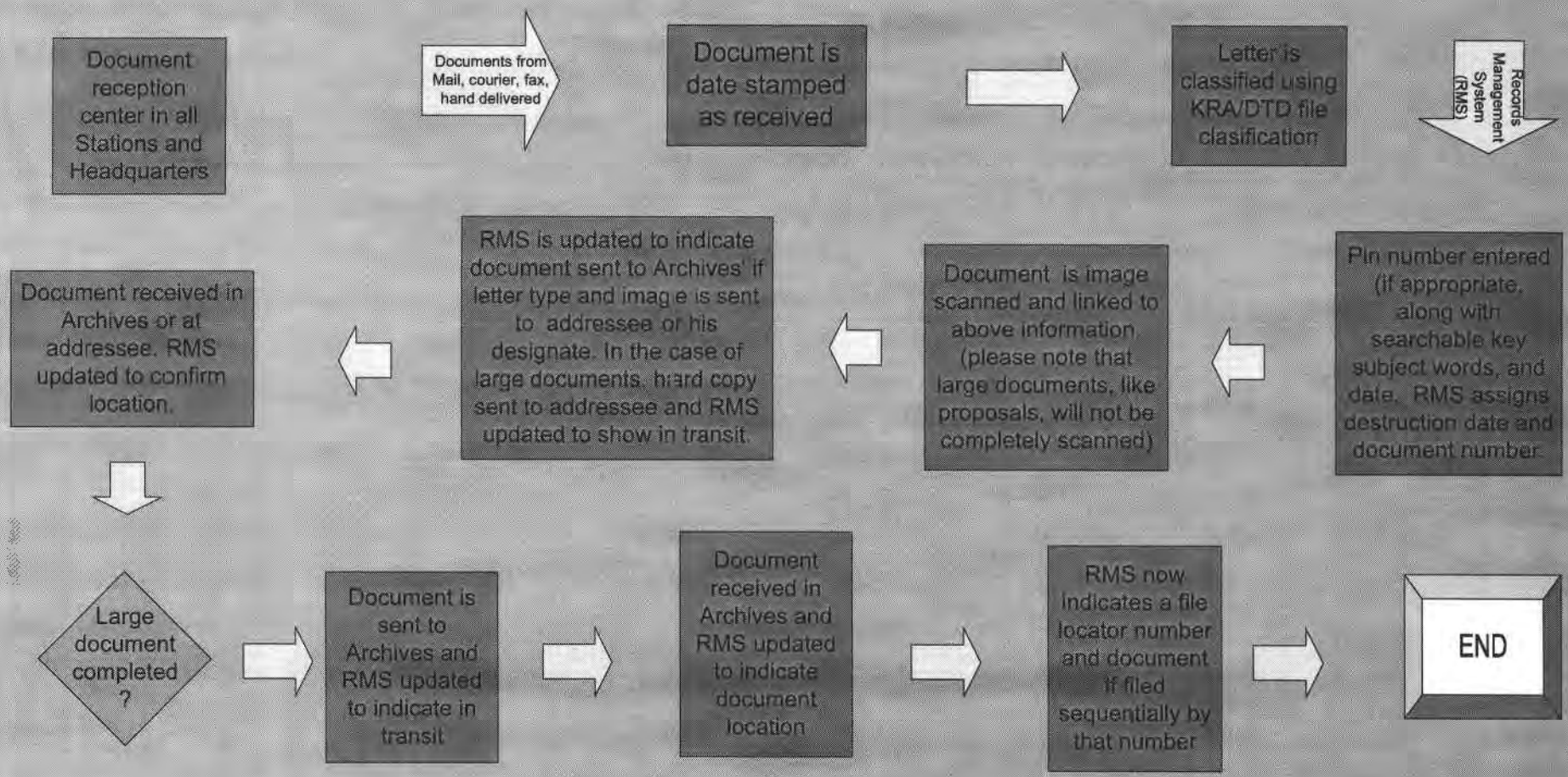
Returns Destruction



Kenya Revenue Authority

Records Management System-RMS

Correspondence Storage



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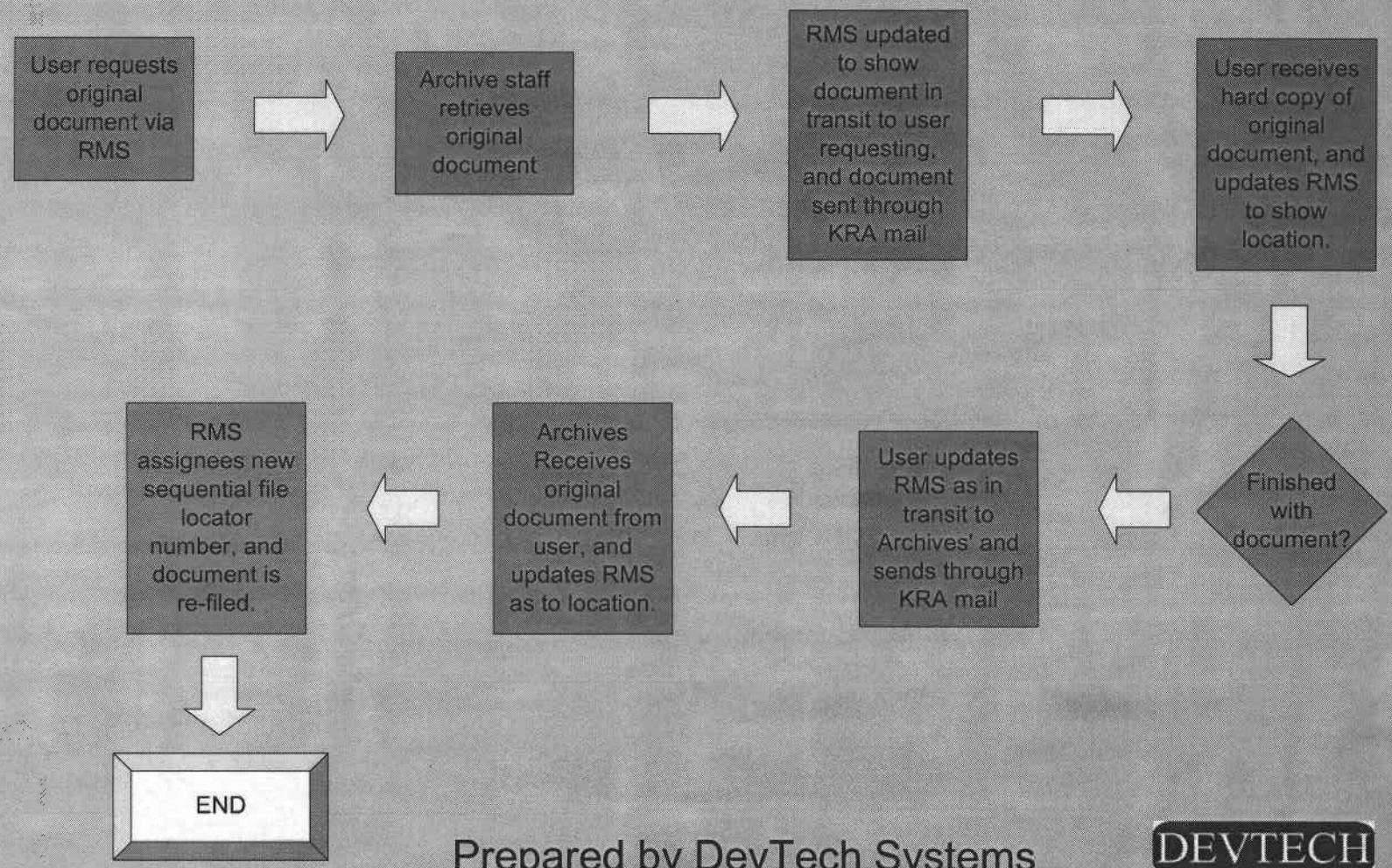
Kenya Revenue Authority

Records Management System-RMS

Correspondence Retrieval



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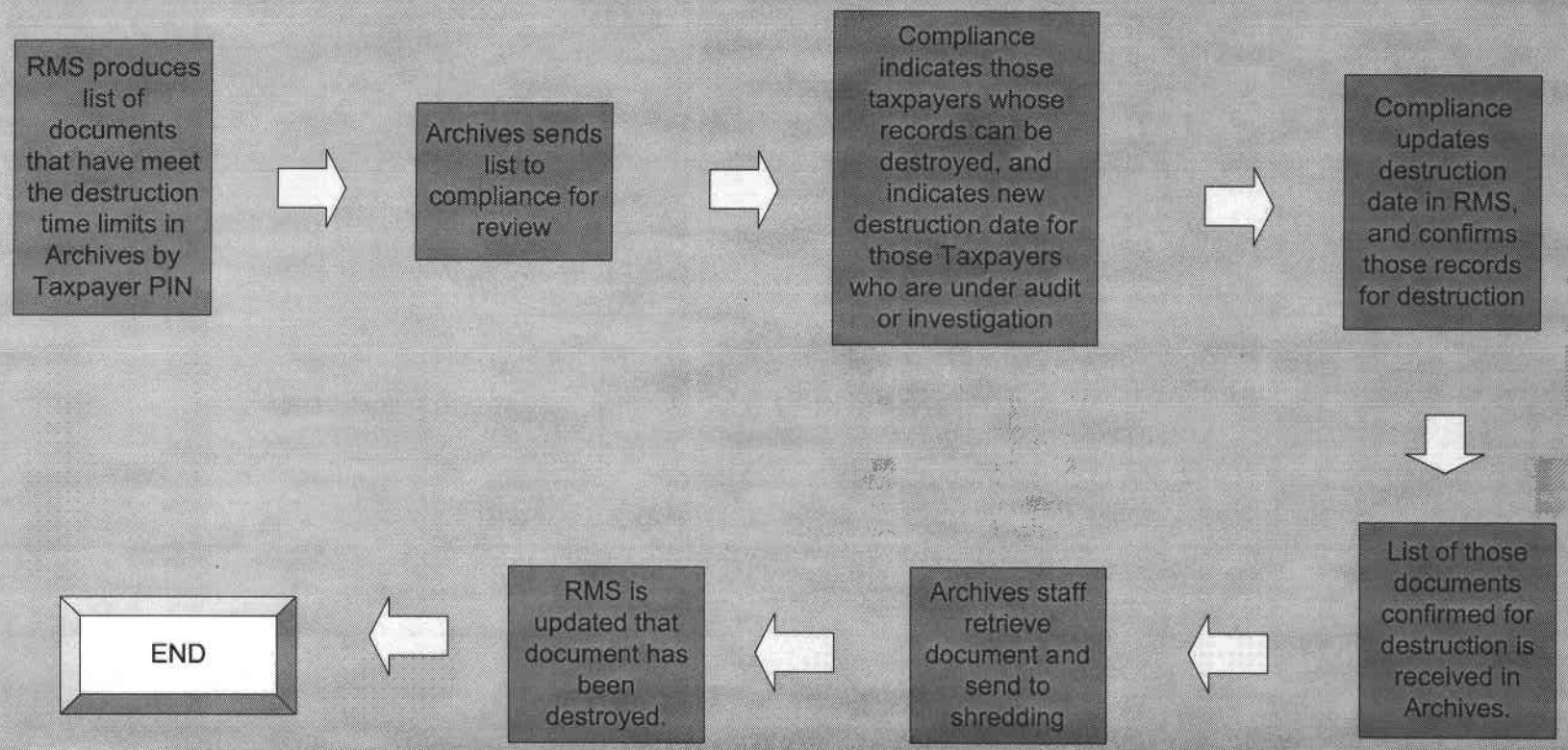
Kenya Revenue Authority

Records Management System-RMS

Correspondence Destruction



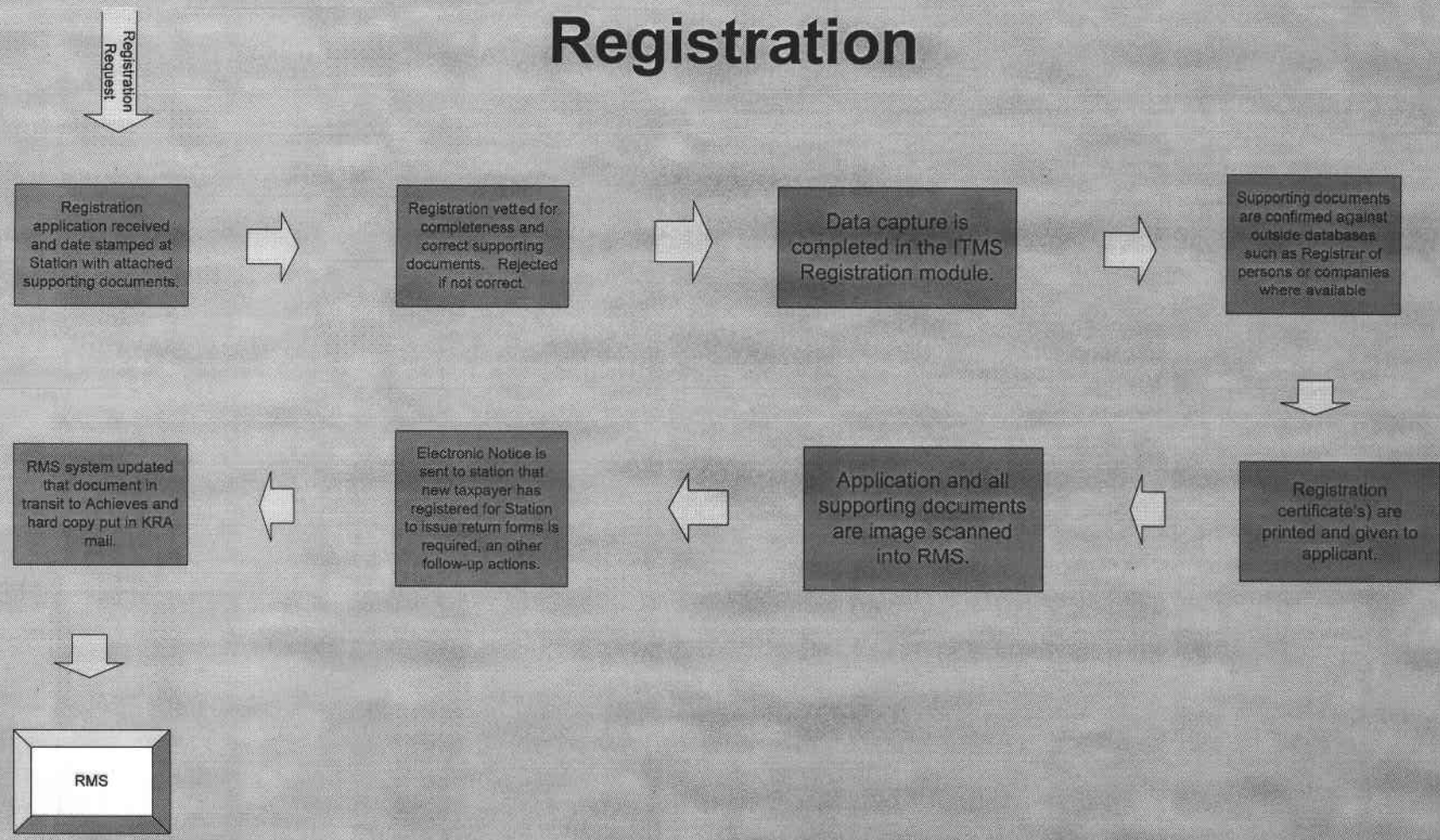
Kenya Revenue Authority

Registration

- The registration process is assumed to be completed with one application form for business for both PIN and VAT (if required), with a separate form for Individuals.
- The process assumes one data base combining the current IT and VAT databases in the new system.
- The process assumes that the new database will allow for <u>all</u> directors personal Pin to be entered.
- It is also assumed that a new field will be added to the database that allows parent and subsidiary companies to be connected with the nature of the relationship.
- Certificates will be produced based on the tax type and requirement from one process.

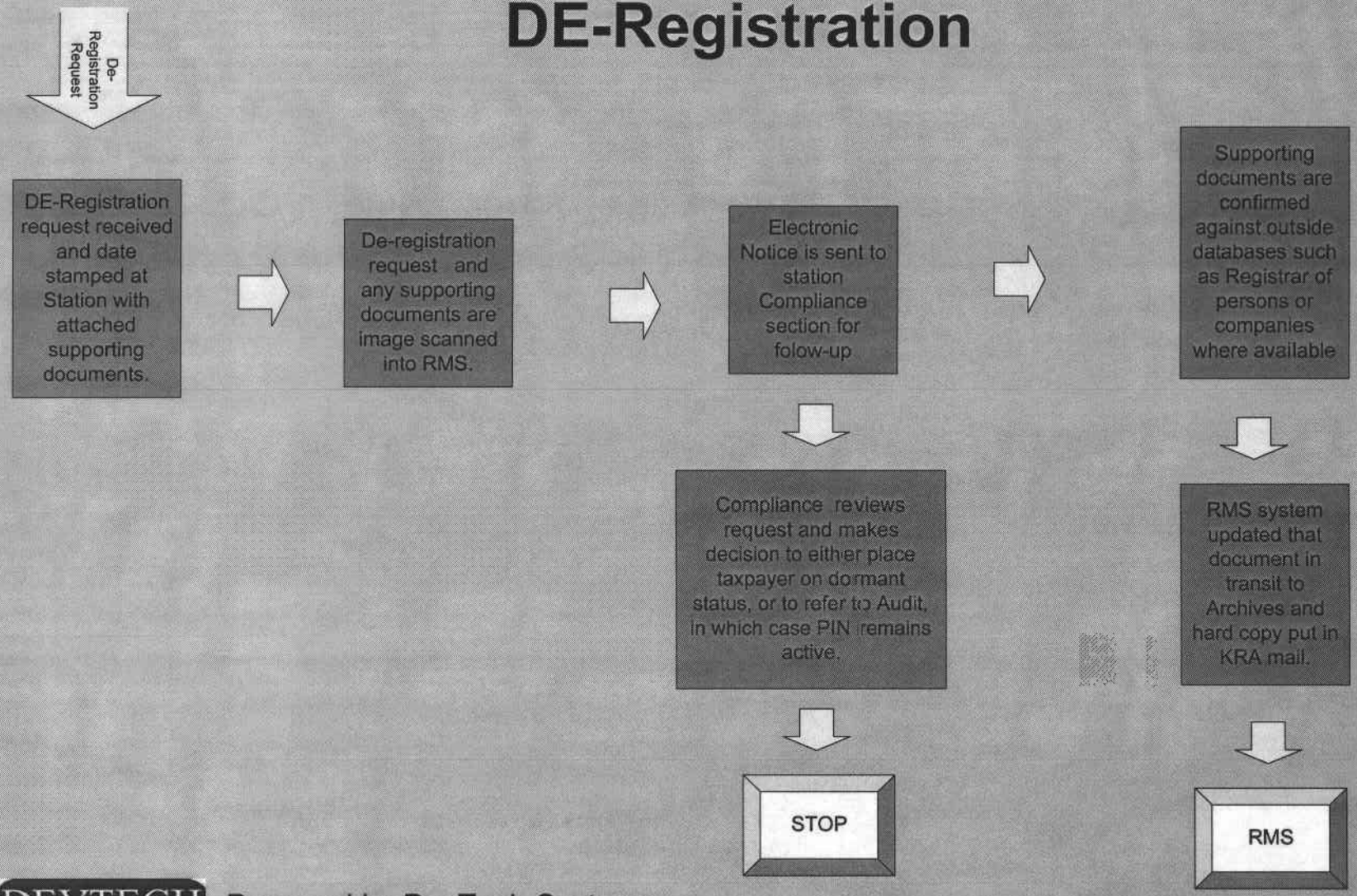
Kenya Revenue Authority

Registration



Kenya Revenue Authority

DE-Registration



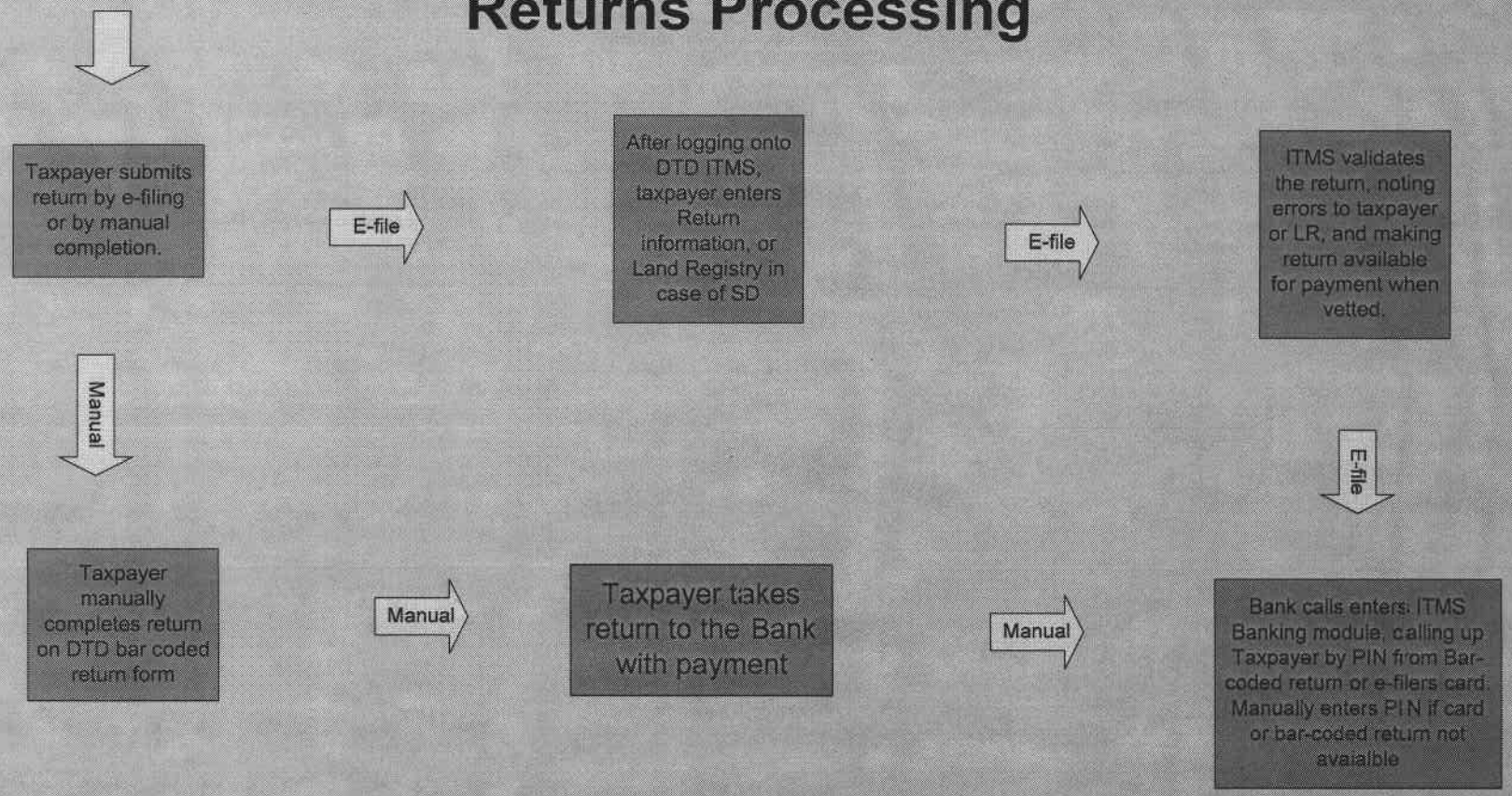
Kenya Revenue Authority

Returns Processing

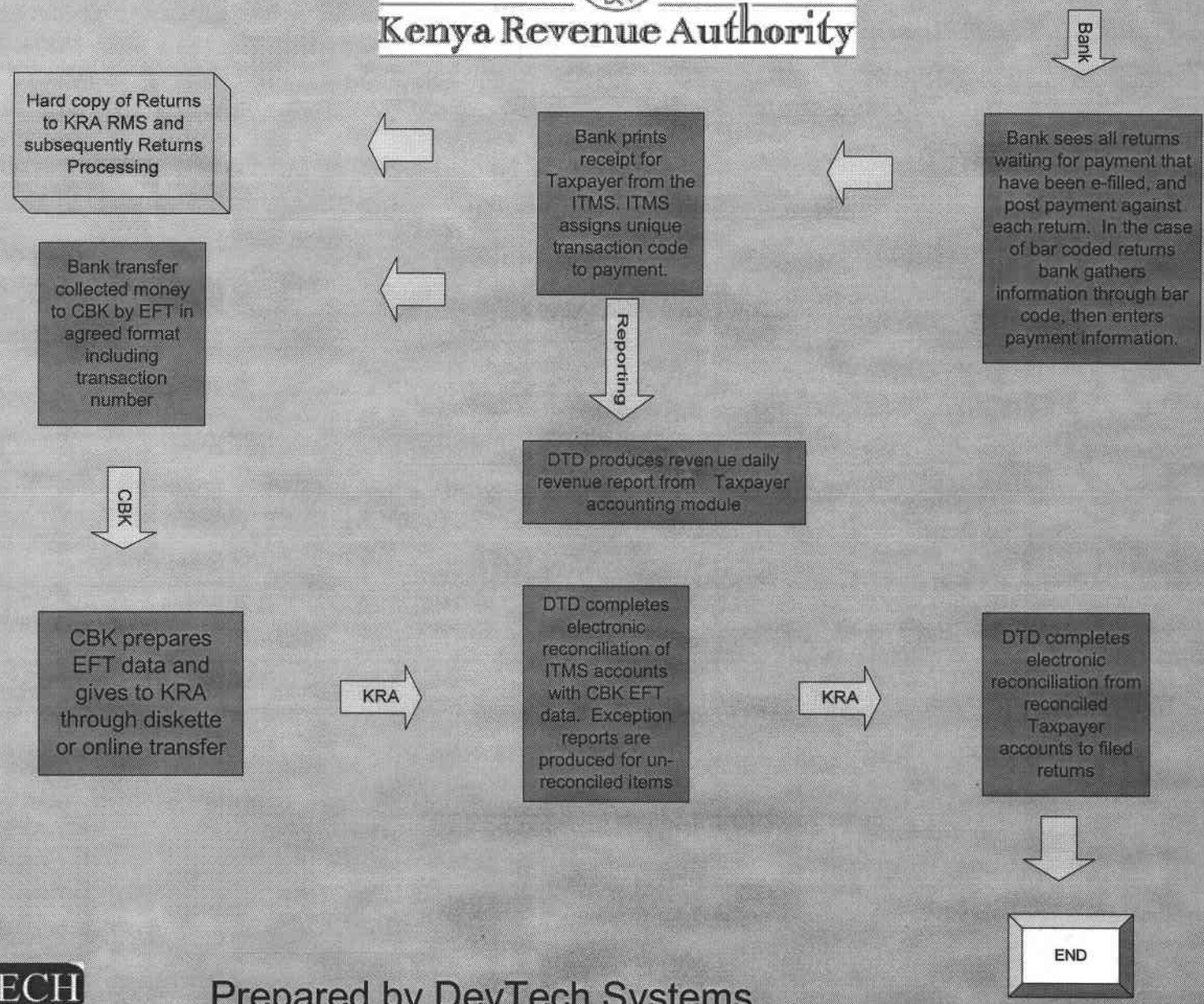
- Returns are depicted to be processed in a standard way from the 1b report.
- LTO Taxpayers are to have mandatory e-filing of all returns.
- All Agency Revenue is mandatory e-filing.
- Excise is optional e-filling due to may small business operators of water and jeweler products.
- The receipt of EFT data from CBK in a standardized and reliable format is a crucial part of the Returns and Payment process.

Kenya Revenue Authority

Returns Processing



Kenya Revenue Authority



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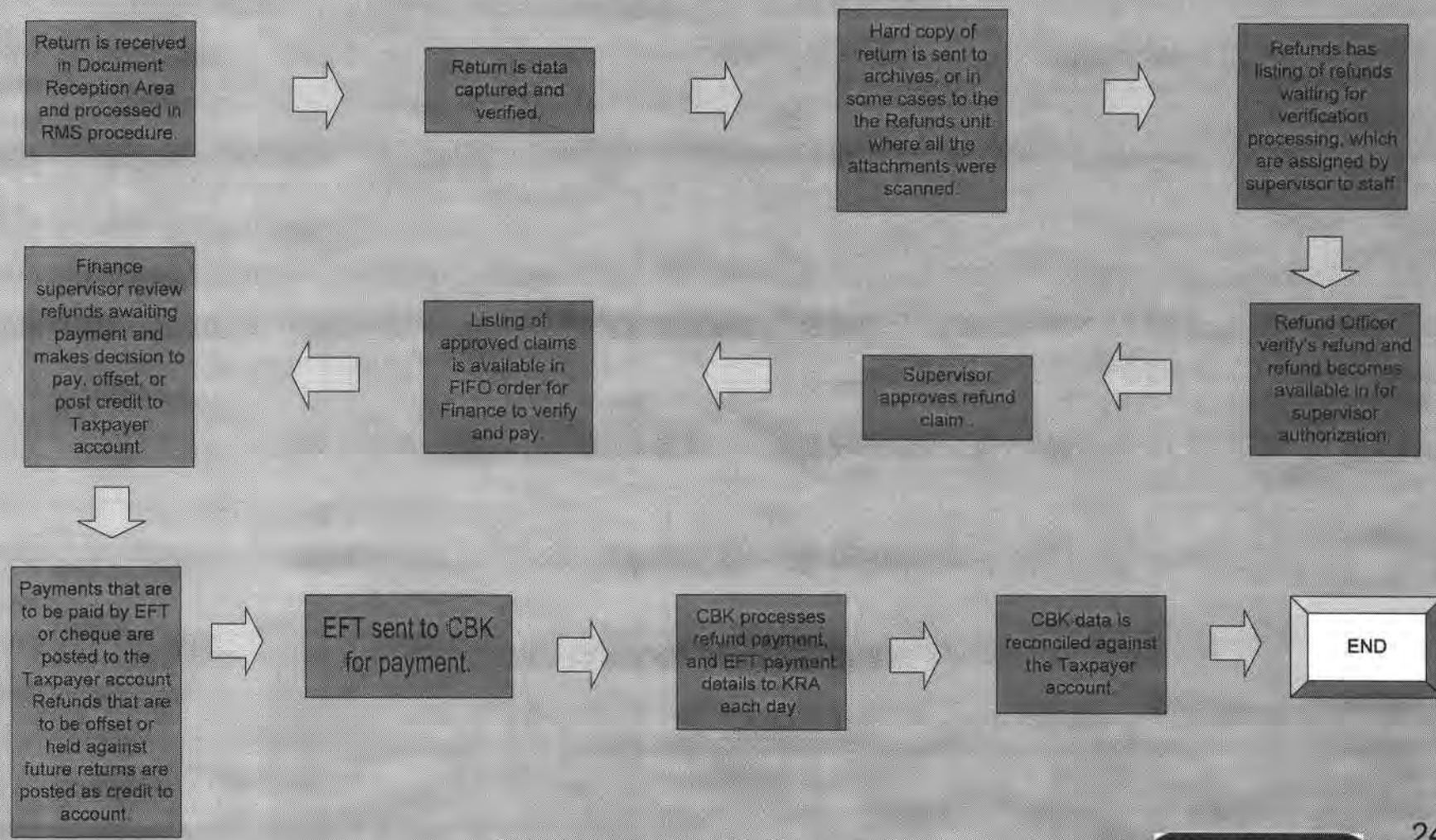
Refund of Revenue

- Refund of revenue will be more automated than the current process is today.
- Refunds will come to Finance for processing in a FIFO manner.
- Finance will have to ability change the FIFO listing, and an exception report will be produced for these occasions to Senior Management.
- Finance will have to ability to offset refunds against upcoming returns where it is apparent that a Taxpayer would be making a payment in the near future. This offset should be acquitted within a 90 day period.
- Electronic reconciliation of refunds paid will take place by EFT data and Statement data.

Kenya Revenue Authority

Refund of Revenue



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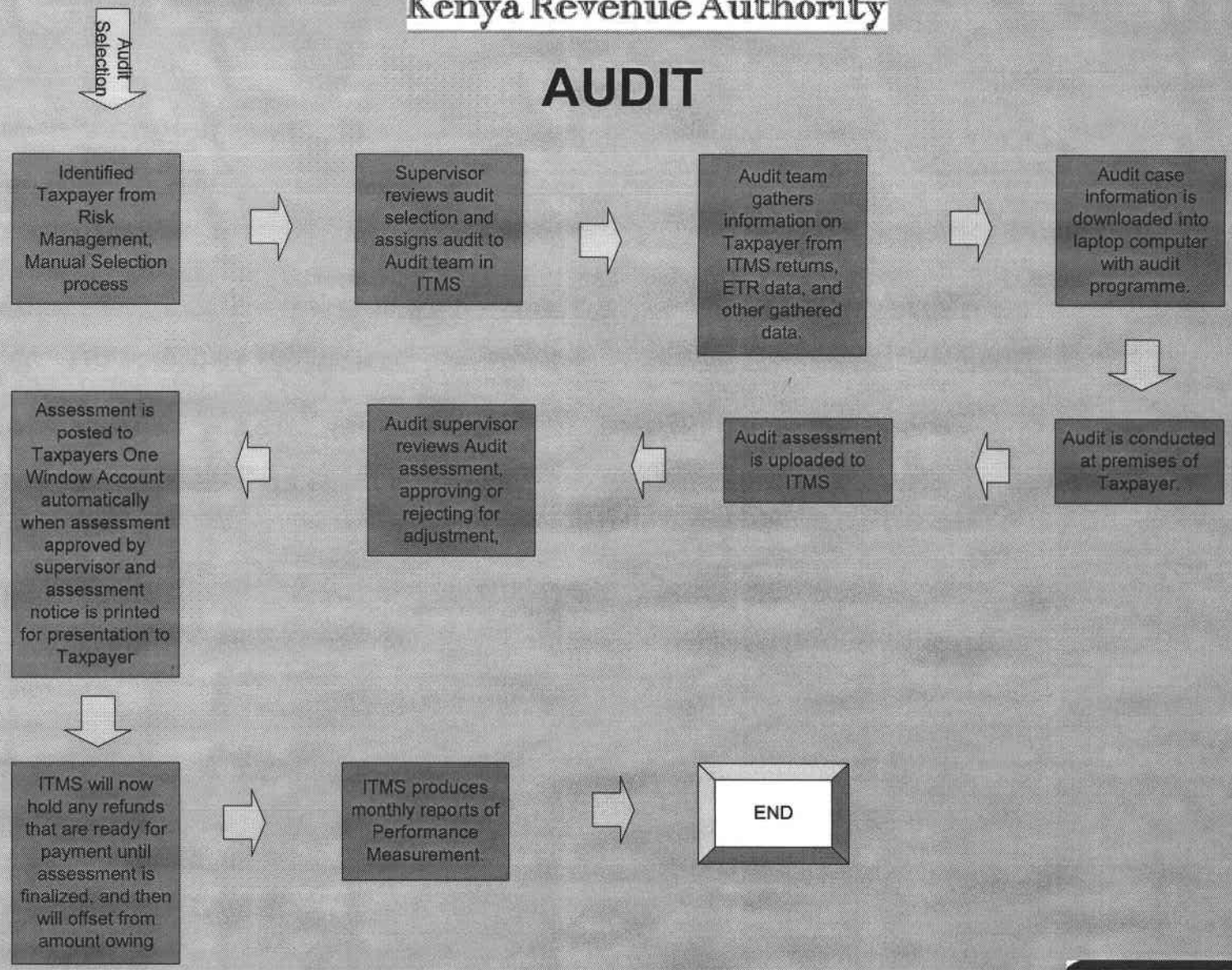
Kenya Revenue Authority

AUDIT

- Audit will have a module that allows for the data and worksheet forms to be transferred to a laptop computer.
- When audit is complete, the completed Audit work-up is transferred to ITMS Audit module. Once in ITMS, information is removed from laptop and next case is downloaded.
- Supervisory approval or rejection is made within ITMS, with any amendments being made on the main ITMS system.
- ITMS will update Taxpayers account, and print Assessment for delivery to Taxpayer.

Kenya Revenue Authority

AUDIT



Kenya Revenue Authority

DEBT MANAGEMENT

- Debt Management module will have automated notices issued from ITMS as prescribed time periods.
- Daily or weekly reports at Stations will be produced at specific time periods for action or phone calls or personal visits.
- This is to facilitate the best practice of the sooner the collection contact is made, the more likely of collecting.
- Administrative action of freezing all KRA transactions will automatically take place though the Taxpayer One Window Account to freeze activity in RTD and CSD.
- The Debt Management module will have a section where the history of collection activities are recorded. Dates of phone calls or personal visits and outcome, or promises made by the Taxpayer, and Enforcement activities. The record will remain even after debt collected for future reference and profiling.

Kenya Revenue Authority

DEBT MANAGEMENT

From ITMS Accounts

Debt that is older than 30 days have notices sent to Taxpayer stating the principal, interest and penalties due, unless under objection or appeal

Debt that is 45 days old is listed for follow-up phone call. With details of conversation, and all future conversations or visits being recorded in ITMS

Debt that is 60 days old must have mandatory personal visit, unless other communication indicates imminent payment.

Reporting on overdue debt is on a daily basis on the trigger date, by Station.

ITMS will produce list on day 75 of overdue debt, and will freeze all transactions in KRA for CSD and RTD.

The details of Agency Notice, Distraint, and Caveats issued will be captured in the system.

Debt recommended for write-off will be identified in the system in three stages, recommended, approved, and written-off. Debt removed from active reporting.

ITMS will provide reporting specifying debt principal, interest and penalties by the three stages

END

Kenya Revenue Authority

Policy & Legislation

Objections & Appeals:

- **The Objections and Appeals process is streamlined already to unify VAT and IT procedures. The ITMS system will include modules for the administration of the O&A process, as is currently available in the VAT and IT systems.**

- **Pensions:**
  - **The Pension and other tax relief processes are fairly streamlined and efficient. Nonetheless, DTD would benefit from a module within the new ITMS design for this function rather than the current manual and single user desktop computer program.**
  - **The receipt and filing of applications will be part of the ITMS system. which will eliminate file transfers to Stations, and vice versa. All correspondence to and from a Taxpayer, including Trust deeds and rules will be scanned into the system, and associated with the PIN number, along with the basic information keyed into the new ITMS system.**

Kenya Revenue Authority

Policy & Legislation con't

Legislation:

- A separate module will be part of the ITMS for documenting and communicating proposed legislative and policy changes.
- This module must be restricted to only those involved in reviewing or recommending changes to legislation, with the control being in P&L, who will add by legislative clause, who has access to the information.
- MOF should be allowed to access the DTD module via the Internet. Therefore, a group of selected DTD and MOF staff will be able to access and make comments, or propose changes, on any piece of legislation.
- There will be an ability to see all the comments or proposals within the P&L controlled group.
- A pop up message will be displayed to the users of any P&L controlled group when they log on if there are new comments or they are required to make comments for proposed legislation changes.

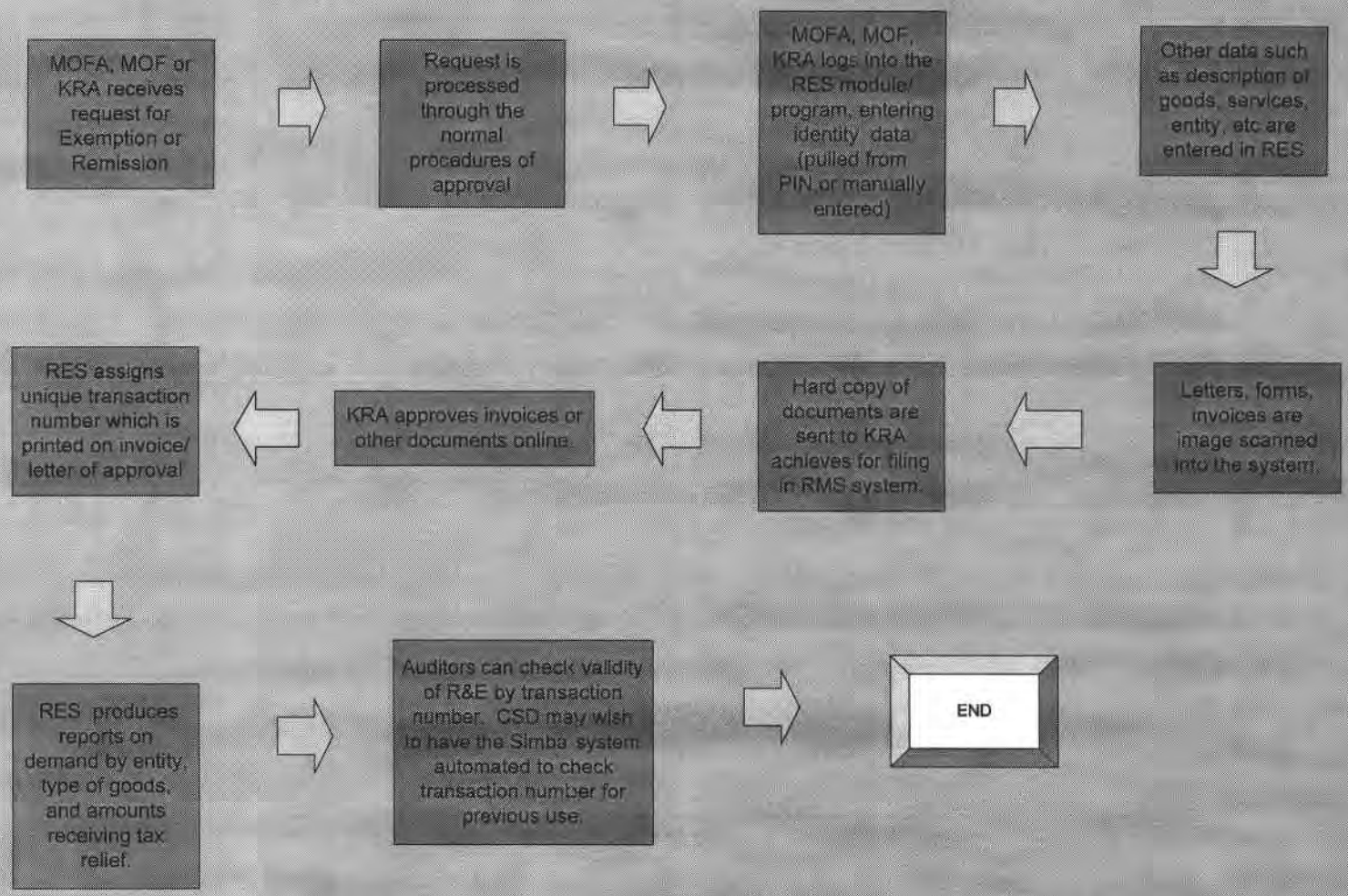
Kenya Revenue Authority

Remissions & Exemptions

- The Remissions & Exemptions System/module RES will be created within the ITMS, or as a separate system connected to ITMS.
- The RES module/programme should be considered on a KRA wide basis given the CSD requirements.
- This module will have MOF and MOFA connected to KRA to submit letters, forms, invoices and other document electronically.
- The RES module is meant to control the use R&E fraudulent use.
- This module will also produce reports for KRA, MOFA and MOF for amount of tax relief by entity, type, and amount.
- At some future point in time, consideration can be given to having Diplomatic Missions and others e-requesting over the Internet.

Kenya Revenue Authority

Remissions & Exemptions



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Internal & External Data

Internal & External Data:

- **There is no specific module planned in ITMS for this analytical function at this time. Connectivity to CSD and RTD is stipulated in ITMS.**
- **Data exists today within and outside KRA, and more will be available in the future, and this needs a commercially available software tool and a business unit trained to use the tool.**
- **The importance of data analysis in tax administrations cannot be over emphasized.**
- **Data management, comparisons and analysis affects Recruitment, Compliance, Audit, Refunds and Risk Management progammes.**

Kenya Revenue Authority

Internal & External Data, con't

KRA Internal Data Examples:

- **CSD:**
  - **Connection to Simba to verify VAT refund claims.**
  - **Comparison using data tool of importers & Exporters transactions to VAT and IT returns for Audit, compliance and Recruitment.**
  - **Identification of movable assets for debt collection.**
- **RTD:**
  - **Identification of movable assets for debt collection.**
  - **Identification of Individual taxpayers for recruitment. Business VAT and IT recruitment.**
  - **Business compliance.**

Kenya Revenue Authority

Internal & External Data, con't

KRA Internal Data Examples:

- **DTD:**
  - **PIN database information extraction for items like multiple companies at same PO Box, and then comparison to IT and VAT Returns.**
  - **Identification of duplicate PIN for Individuals and business.**

KRA External Data Examples:

- **External data will be more readily available when a data warehouse of information is established.**
  - **ETR information**
  - **Trader information**
  - **Company Registry, and other organizations data.**

Kenya Revenue Authority

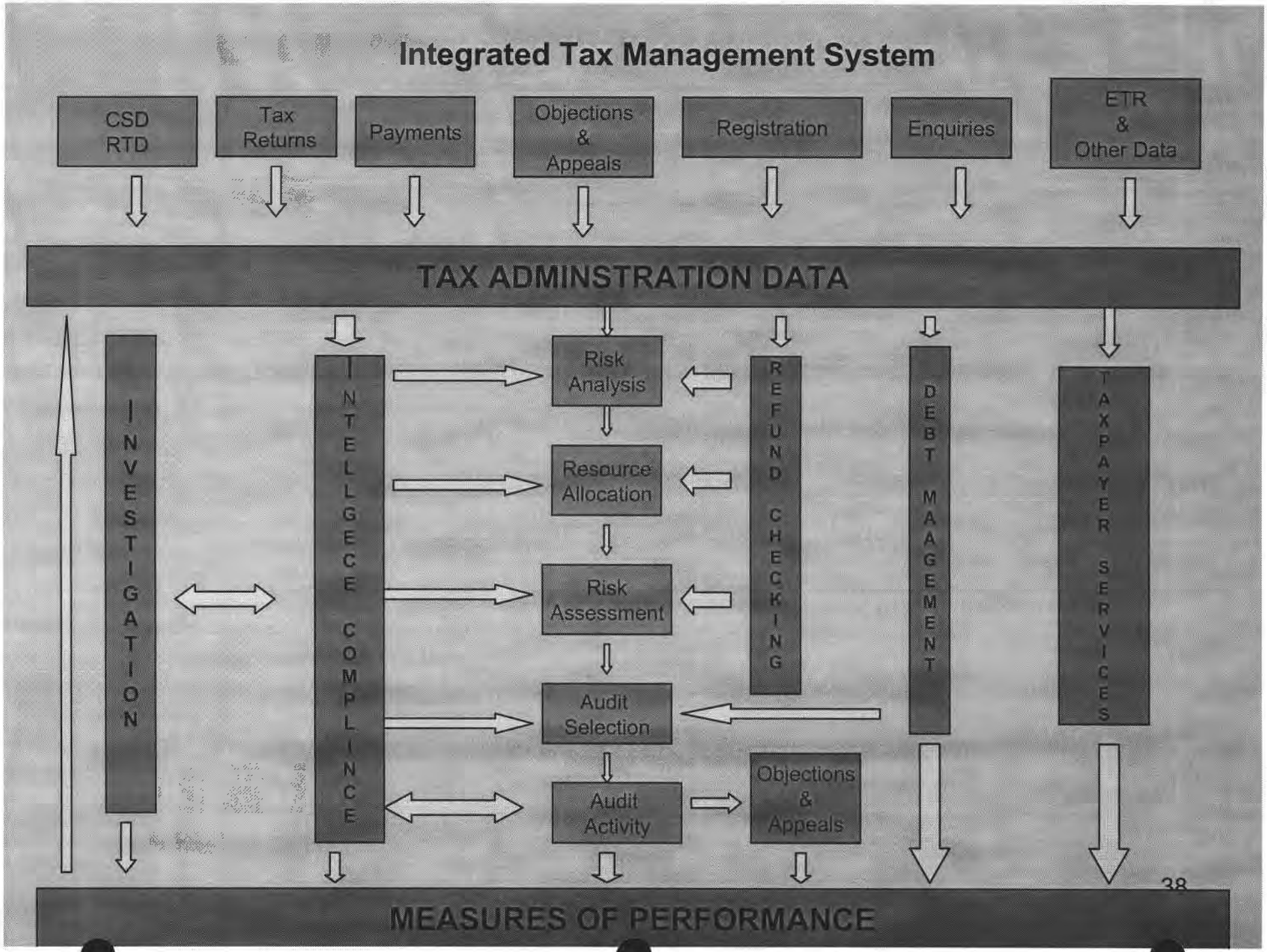
Revenue Forecasting

- All Tax Administrations have a requirement to forecast the change in revenue collection given changes in policy and legislation. This is important as it not only affects the Government revenues, it affects the Revenue Authorities operating budgets where they are tied to revenue collection.
- Some COTS provide a revenue forecasting tools within their ITMS, while others provide standalone modules for this function.
- COTS or stand alone ITMS will provide for a forecasting function that will provide a system to collect data from various applications and analyze data for decision-support. This system should be able to provide a more efficient means of decision making by analyzing large volumes of historical and production data, and provide a single entry to access systems - Management Information System and the Strategic Planning Support System.

Kenya Revenue Authority

Performance Measurement & Other Reporting

- Each function within ITMS will have a performance measurement reporting.
- Some examples of performance reporting:
  - Number of returns by type against targets.
  - Revenue by type against targets.
  - Production by employee work against KRA standards.
  - Time of completion of tasks against KRA standards.
- Other Reporting:
  - Daily, weekly, monthly of revenue collection by type.
  - Production day comparison by function.
  - Other Ad Hoc reports on demand.


Integrated Tax Management System
CSD RTD
Tax Returns
Payments
Objections & Appeals
Registration
Enquiries
ETR & Other Data
TAX ADMINSTRATION DATA
INVESTIGATION
INTELLGECE COMPLINCE
Risk Analysis
Resource Allocation
Risk Assessment
Audit Selection
Audit Activity
Objections & Appeals
REFUND CHECKING
DEBT MAAGEMENT
TAXPAYER SERVICES
MEASURES OF PERFORMANCE

Kenya Revenue Authority

Integrated Tax Management System

Prepared by DevTech Systems

DEVTECH

ATTACHMENT I

Final Terms of Reference for Feasibility Study

ANNEX I

AMENDMENT NO. 1 TERMS OF REFERENCE

The Kenya Revenue Authority (KRA) is planning to implement a computerized integrated tax management system that would automate revenue administration, with the objectives of (a) enhancing revenue, and (b) streamlining revenue administration. KRA believes that automation would help it achieve the government's objective of improving services to the public, program delivery, and reducing administrative overhead costs.

Toward this objective, the KRA hired external consultants in June 2001 to develop a high-level strategic plan for integrating information systems in its functional departments. The overall objective of this consultancy was to design a high-level KRA Enterprise Integrated System Architecture (KREISA) and formulate a strategic and operational plan for its successful implementation. Taking into account the current and future business needs of KRA, the consultants made a recommendation to acquire and implement an 'Enterprise Integrated Information System' capable of providing seamless sharing of information across KRA both for (a) facilitating a single view of a taxpayer across all KRA functions, and (b) data-matching in order to detect non-compliance and to facilitate combined enforcement actions. The proposed system was also required to facilitate interconnection with external systems of stakeholders and service-providing agencies such as shipping agents, the Kenya Ports Authority, customs agents, etc., to facilitate the electronic exchange of information. The KRA Board of Directors subsequently approved the adoption of the KREISA report.

The KRA secured funding from the United Kingdom's Department for International Development (DFID) to hire a consultant to build on the KREISA report through the formulation of an official KRA-wide Information and Communications Technology (ICT) Strategy. In compiling the ICT Strategy a comprehensive approach was followed, including: an assessment of environmental factors; an assessment of the KRA's existing strategic planning; a survey of best practices within other Revenue Authorities; a survey of best IT practices; and an analysis of current KRA business processes. The new strategy consists of an IT Vision, IT Values and Principles, identified IT projects, with an accompanying ICT Road Map. Specific plans are suggested with an indication of costs.

The KRA is currently being advised by the IMF and DFID. The IMF has been working with the KRA since 2004 in the reform and modernization of both the Domestic Tax Department (DTD) and the Customs Services Department. DFID has focused its efforts on providing guidance on KRA-wide ICT advancement and reform.

As part of this ongoing tax reform and modernization program, KRA is seeking USTDA funding to conduct a comprehensive feasibility study to:

(1) Review the KRA's business processes and assist the KRA to document re-designed processes, which have the potential to improve the efficiency of the agency's activities.

(2) Coordinate the proposed business process improvements with other donor-funded ICT programs, and overall KRA ICT strategy. KRA shall provide documents and materials related to the ICT programs funded by other donors so that the Contractor can accomplish such coordination.

(3) Map a strategy for the procurement and implementation of a computerized integrated tax management system based on the documentation of the proposed re-designed processes.

Toward this effort, the Contractor will carry out the following tasks:

Task (1): (a) Review KRA's current functions (including organizational analysis), processes, activities, technology infrastructure, regulations, and ICT strategy (including ongoing and planned initiatives) as related to KRA's tax management functions nation-wide; and

Task (1): (b) The Contractor shall perform the following sub-tasks:

- Review the documentation of the current business processes being completed concurrently by the KRA
- Undertake business process analysis (BPA) for those processes not documented (see above bullet)
- Based on the outcome of Task 1a and the BPA, the Contractor shall conduct business process re-design (BPR) of those KRA/DTD's business processes that do not embrace best practices or cannot be automated without re-design.
- Complete the business process improvement (BPI) for the Integrated Tax Management System. In particular, the contractor shall:
    - i. Develop process models using (an) appropriate modeling tool(s), and to document re-designed/improved business processes;
    - ii. Identify business processes that can be automated utilizing appropriate solutions available in the market that integrate business processes and rules as required, for the purpose of acquiring and implementing an integrated tax management system.

The business processes are contained in the attached Annex II. The prioritization and allocation of consultant time for each process will be determined through consultation between the KRA and the Contractor.

Deliverable from Task 1a: A report outlining current functions and processes, recommended processes to be re-designed, procedures, regulations, and ICT infrastructure that could be used to prioritize the requirements for KRA's implementation of the new tax management software.

Deliverable from Task 1b: A report containing KRA re-designed business processes and process models.

Task (2): (a) Utilizing the output of Task 1a, develop a preliminary list of features that would be required in the new tax management software, and identify potential products that are available in international markets, including the United States, to meet these requirements (with modifications and customizations as required).

(b) Utilizing the output of Task 1a and Task 1b, develop a final list of features that would be required in the new tax management software, and identify potential products that are available in international markets, including the United States, to meet these requirements (with modifications and customizations as required).

Deliverable from Task 2(a). A preliminary product requirements list (hardware and software).

Deliverable from Task 2(b). A final product requirement list (hardware and software), including estimated costs.

Task (3) Develop an implementation strategy that shall include:

- Priority components of the software implementation;
- Linkage to the DFID-funded overall IT strategy
- Recommendations for procuring and implementing the new system, including estimated costs.

Task (4) Contribute to the current DFID-funded KRA IT Strategy through the development of a communications strategy for the new integrated tax system.

Deliverable from Task 3 & 4. An implementation strategy for the acquisition of the software and hardware for the Integrated Tax Management System. This strategy should be consistent with the DFID-funded IT Strategy document, which shall have been provided to the Contractor. It is the Contractor's responsibility to include prospective U.S. Sources of Supply in the Final Report to be submitted to USTDA in accordance with Clause I of Annex II of the Grant Agreement.

Task (5): Legal and Regulatory review related to the procurement of the software and hardware for the Integrated Tax Management system. Identify any legal and regulatory issues that may hamper the procurement and implementation of the new system, and recommend measures to address these issues.

Deliverable from Tasks 5: Report on the Legal and Regulatory issues.

Task (6) Final Report

The Contractor shall ensure that the Final Report is submitted in accordance with Clause I of Annex II of the Grant Agreement and shall be a substantive and comprehensive report of the work performed.

In addition, the Final Report will include of all the above deliverables, including an executive summary that highlights all aspects of requirements for the new system, potential costs of procurement and implementation, a proposed implementation strategy, and a high-level implementation plan that can be presented to donors. Each task of the TOR will form a separate chapter of the Final Report. In addition, the Final Report will add a chapter on the expected development benefit of the project as follows:

The Contractor shall report on the potential development impact of the Project in the Host Country. The Contractor will focus on what the economic development outcomes will be if the Project is implemented according to the study recommendations. While specific focus should be paid to the immediate impact of the Project, the Contractor should include, where appropriate, any additional developmental benefits to the Project, including spin-off and demonstration effects. The Contractor's analysis of potential benefits should be as concrete and detailed as possible. The development impact factors are intended to provide the Project's decision-makers and interested parties with a broader view of the Project's potential effects on the Host Country. The Contractor will provide estimates of the Project's potential benefits in the following areas:

Infrastructure/Industry. The Contractor will provide a statement on the infrastructure impact giving a brief synopsis.

Market-Oriented Reforms. The Contractor will provide a description of any regulation, laws, or institutional changes that are recommended and the effect they would have if implemented.

Human Capacity Building. The Contractor will present organizational changes that would be needed to construct and operate the proposed project.

Technology Transfer and Productivity Enhancement. The Contractor will provide a description of any advanced technologies that will be implemented as a result of the Project. A quantitative description of any efficiency that will be gained.

Other. The Contractor will identify any other developmental benefits of the Project, including any spin-off or demonstration effects.

A section in the Final Report will be devoted to the projected Host Country development impact of the Project if it is implemented. The section should focus primarily on the key issues mentioned above. Other Host Country development impacts (e.g. improved financial revenue flows to host government etc.) can be mentioned where appropriate. The discussion should be as detailed and concrete as possible, and the Contractor may provide estimates in ranges as appropriate.

ANNEX II

I.1 Business Processes and Taxes Administered by Domestic Taxes

(for Task 1B - Business Process Improvement)

1. Taxpayer Services
   - Return Processing
   - Refunds Processing
   - Taxpayer Education
   - Taxpayer Registration and Recruitment[1]
   - Taxpayer de-registration
   - Customer care
   - Tax agents

2. Audit
   - Large Tax Payer Organization (LTO)
   - Small/Medium (DTD Tax Programmes)
   - Audit case selection
   - Addition assessment & collection arrangement

3. Collections and Compliance
   - LTO
   - Small/Medium (DTD Tax Programmes)

4. Finance - Support Services
   - Initial Analysis
   - Process Review
   - Revenue Accounting
   - Revenue reconciliation
   - Payments processing & linkages to collecting agents
   - Common cash receipting system
   - Refunds Payments
   - Tax Set-offs
   - Waivers

5. Debt Management
   - LTO
   - Small/Medium (DTD Tax Programmes)
   - Debt write-offs
   - Enforcement (Distress Warrants, Agency Notices, Distraints)
   - Permanent Notes Folder

6. Tax Policy and Legislation
   - Tax forecasting/simulation
   - Amendments of the tax laws
   - VAT Remissions/exemptions
   - Pension schemes management

7. Exemptions Management
8. Objections and Appeals
9. Stamp Duties
   - Collection and accounting

10. Agency Revenue
    - Kenya Bureaus of standards levy
    - Sugar Development Levy
    - Pensions contribution

11. Risk profiling
12. Mail and enquiry management
13. Records management
14. Electronic Tax Register (ETR) Management[2]
15. ICT Department 11 days
16. Links to other KRA systems
17. Links to external stakeholder systems, including ETR

1.2 List of Taxes Administered by the Domestic Taxes Department

Taxes

- VAT
- VAT Withholding
- Corporation (Resident -N and Non Resident - NR) Tax
- Withholding Tax
- Advance Tax
- Pay As You Earn (PAYE)
- Tax on Individual (R & NR) income
- Domestic Excise Duties
- Stamp Duty

Agency Revenue

- Pensions contribution
- Sugar Development Levy
- Kenya Bureaus of Standard

Notes:

[1] Decisions required by KRA/DTD regarding the specifications of the new PIN system that impact the scheduling of the BPR.

[2] This process is well-defined. The contractor will document the current business processes, rather than redesign.