

TREND.

Will KRA computer wizards end tax fraud in the country?

Kenya needs new laws that will make it harder to cheat but easier to detect as well as prosecute in courts

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Value Added Tax (VAT) and excise are sales taxes collected multiple times when an item moves through the supply chain. Under the same tax jurisdiction, an item is never subject to more than one excise tax.

In Kenya, a single tax structure applies to all VAT. As a result, it is simpler to produce and distribute data about each transaction. This enables the tracking of the origin and transit of exchanged products and services, be they material (such as computer chips) or immaterial (such as carbon emission credits). This makes the detection of VAT fraud easier, if not simpler.

The missing trader fraud is the most formal VAT evasion scheme sweeping Kenya. This type of evasion represents the design of the fraud as well as the functional identity of one of the perpetrators, a business or trader who, after collecting VAT from another business on behalf of the government, disappears without paying the VAT to the taxman.

Of course, KRA doesn't incur its loss until later in the transaction chain, even if the missing trader has stolen the VAT it earned from its customer — its co-conspirator in the theft. This occurs when a different conspirator—a company that has good reason to not disappear—falsely requests a tax refund from KRA for the fictitious VAT that its accomplice, the missing trader, collected.

The deception is completed when KRA pays the refund claim. In conclusion, KRA has granted a sizable VAT refunds while fraudsters have made little or no VAT payments.

Even if these claims are false, valid refunds are a common occurrence in the VAT system. Because the fraudsters' strategy is so successful, they keep using it, creating long chains of circular transactions that gave rise to the phrase "carousel fraud." Even if these claims are false, valid refunds are a common occurrence in the VAT system.

But recently the national Treasury disclosed to the International Monetary Fund (IMF) that the Kenya Revenue Authority (KRA) will train



It remains to be seen whether the KRA's computer wizards will stem the fraud tide in the country. FILE

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computer audit specialists as it seeks to mine data, including hidden accounts and deleted files from taxpayers' computers, to uncover tax frauds. Whereas using advanced technologies to retrieve, analyse, and interpret digital information that might otherwise remain hidden or inaccessible is crucial in uncovering tax frauds and enhancing modern investigative efforts aimed at ensuring tax compliance and deterring fraudulent behavior, tax fraud fighters and researchers hold a different view.

According to Todorov and Richard T. Ainsworth, LLM, head of the Graduate Tax Program at Boston University School of Law, whereas effective technology plays a crucial role in detecting tax frauds and curbing tax cheats, governments most of the time lack the determination to make the changes and implement the technology.

Apart from strengthening its data analysis capabilities, the tax man, law enforcement, and other government agencies charged with fighting tax fraud need more flexible and responsive laws, tools, and techniques for conducting audits and investigations and tracking taxable goods and services from origin to consumption.

Further, new laws that could make excise and value-added tax fraud harder to commit and easier to detect and prosecute are urgently needed to easily catch tax cheats and put an end to tax fraud. Despite the urgent need, Kenya, like other emerging economies is frustratingly low in adopting and implementing these innovations.

The government has periodically used ineffective strategies to stop tax fraud, inadvertently delaying VAT returns to innocent businesses caught up in extensive enforcement investigations. The KRA and law enforcement agencies charged with fighting fraud urgently need to have trust in one another.

However, trust has been and still is in short supply among those agencies, which slows down the process and makes it even more difficult for investigators to stay on top of fraudsters' latest schemes. It remains to be seen whether the Kenya Revenue Authority's employment of computer wizards to catch tax cheaters would help put an end to tax theft in Kenya.

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