



Insights into the drive to VAT modernisation in Africa

2024 KPMG Africa Tax Summit

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Today's presenters



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01

Introduction



Going digital

Revenue authorities across the globe are increasingly “going digital” by placing reliance on technology, data and artificial intelligence to make it easier for taxpayers to comply, for revenue authorities to improve and simplify enforcement efforts and for governments to ultimately increase tax collection.

Africa is certainly no exception.

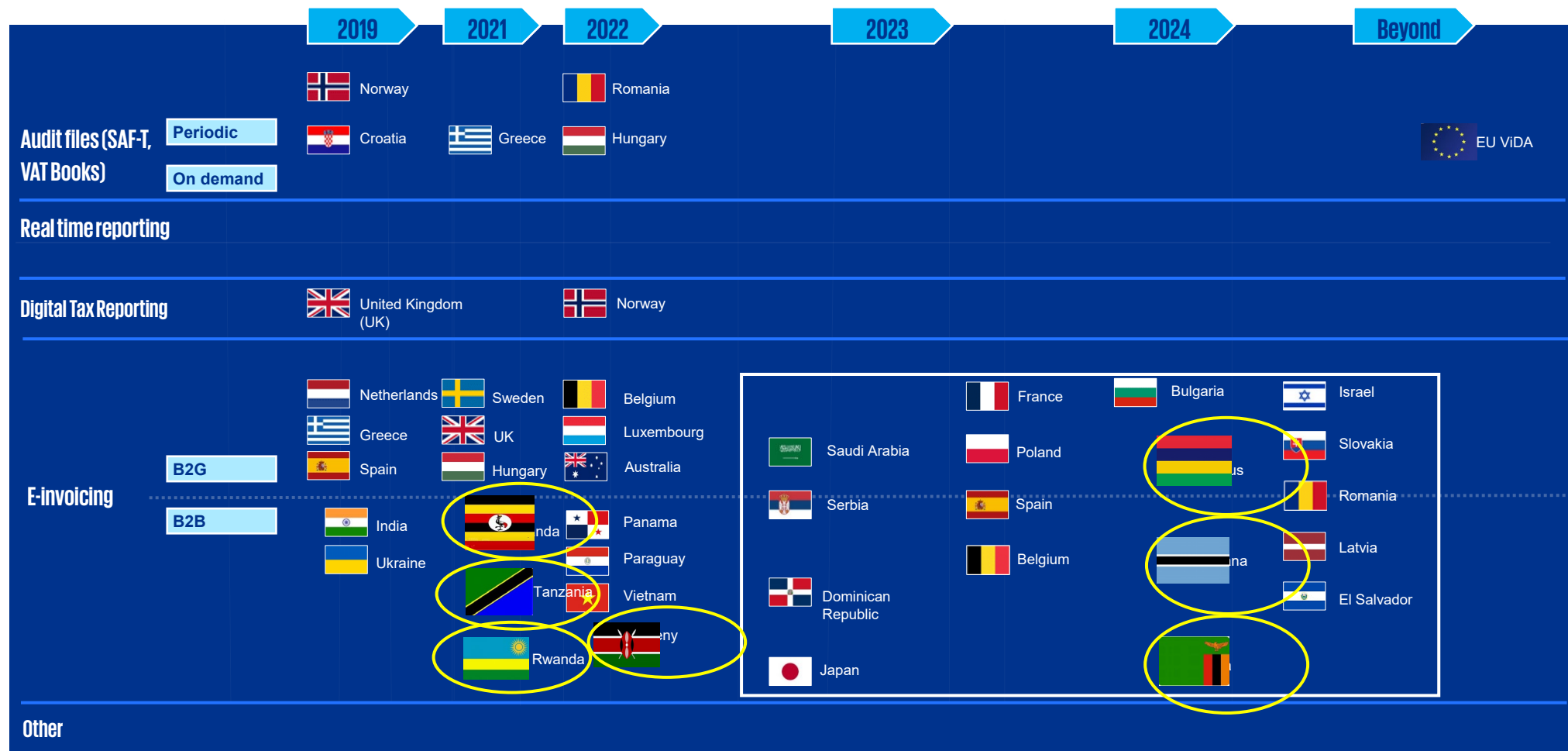
In this session, KPMG specialists will discuss recent tax digitalization/modernization developments on the continent with a focus on Value-Added Tax.

02

Trends



Global trends in managing Indirect Tax Compliance — What has changed?



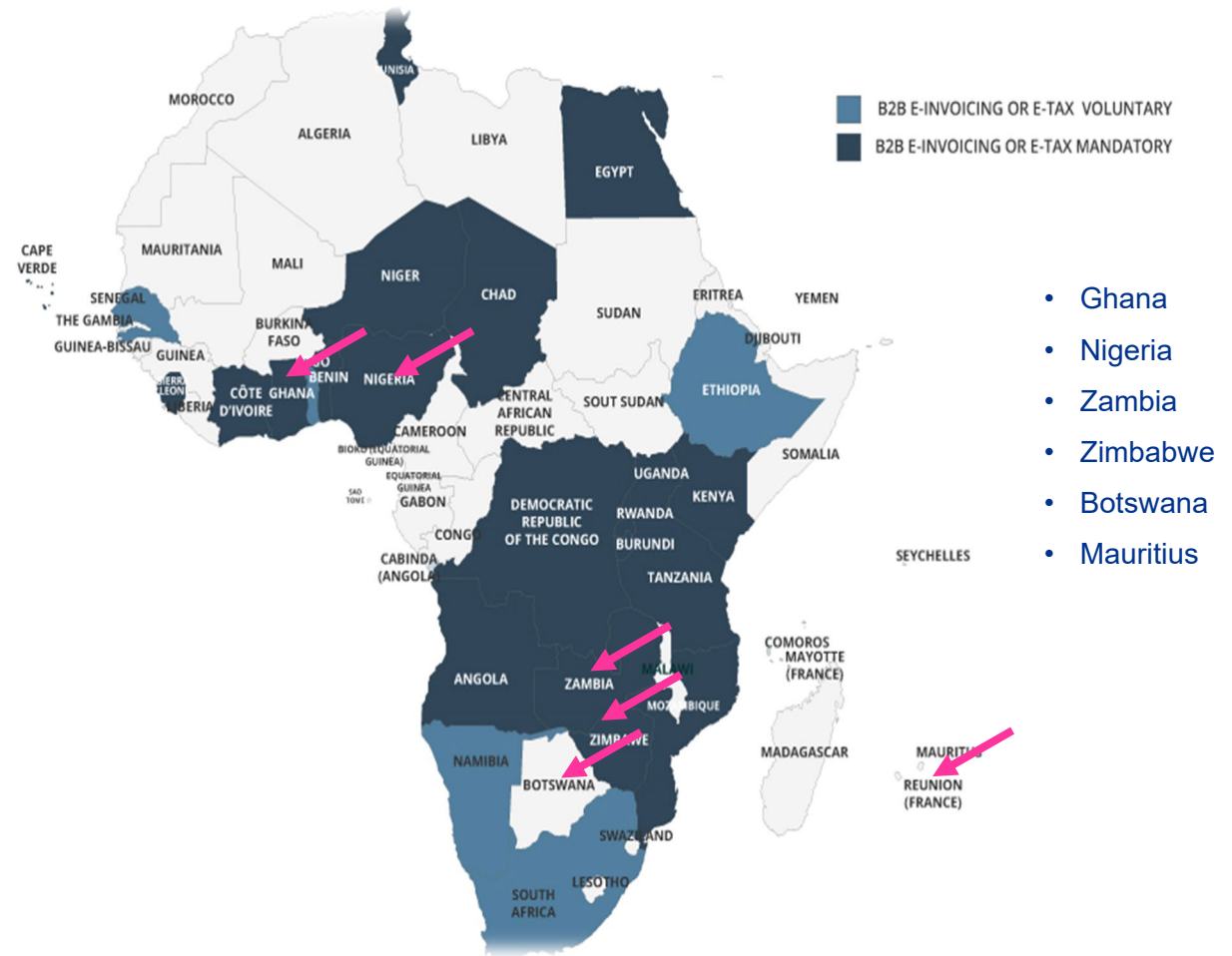
e-Invoicing in Africa

The majority of African countries have initiated plans for the digital transition of their administrations.

The implementation of e-Invoicing and Electronic VAT Reporting systems stands out among the measures undertaken by the different governments.

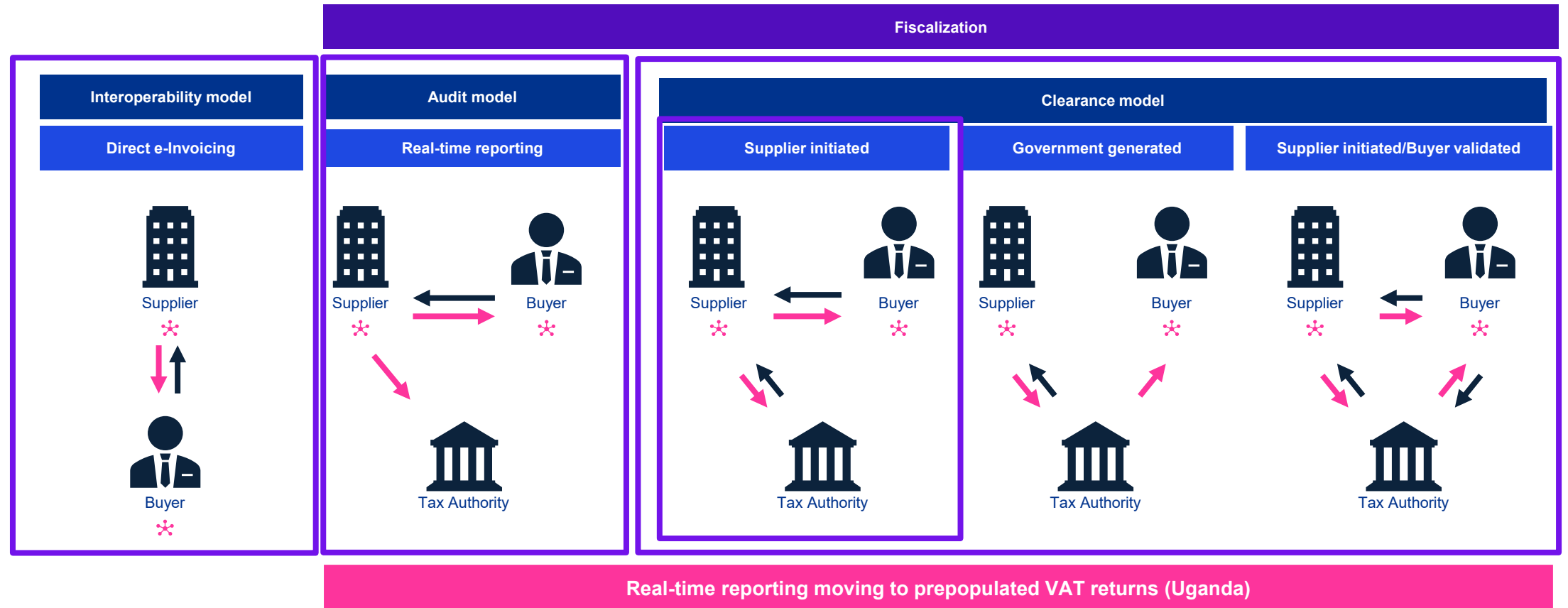
All these advantages have led 19 countries to make the electronic exchange of tax documents mandatory, 11 of them in 2022. And another 5 voluntarily, totalling almost 50 percent of the continent.

Source:
KPMG International
EDICOM

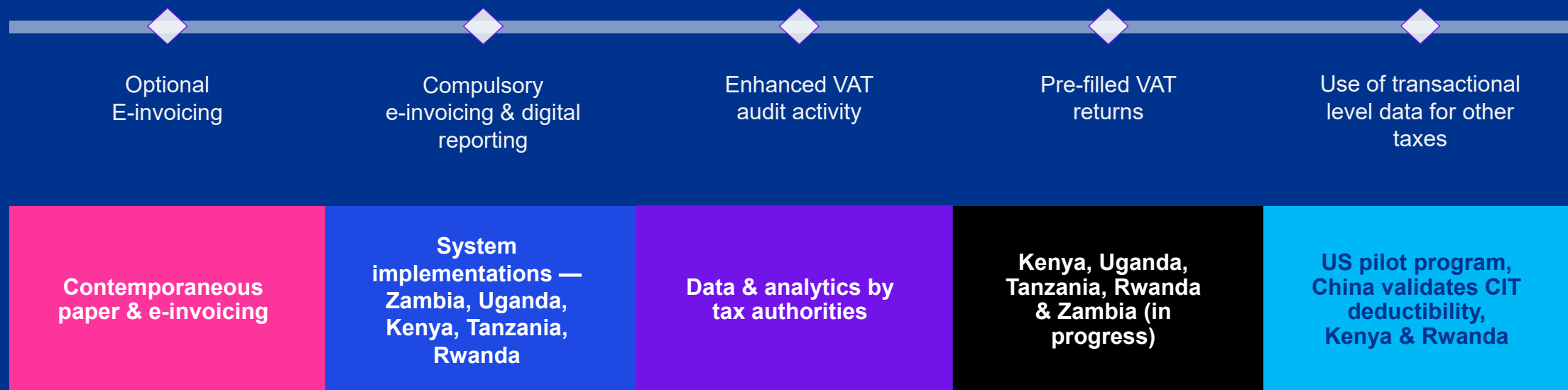


- Ghana
- Nigeria
- Zambia
- Zimbabwe
- Botswana
- Mauritius

E-Invoicing and Digital Reporting models



Evolution of e-invoicing and digital reporting over time



Tax needs to retain direct involvement given this will drive the future of tax (indirect) compliance!

General market trends

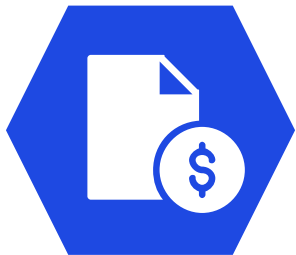


Growing expectation of taxpayers for **reconciliations**:

- From VAT return to G/L
- From e-invoicing and/or (pre-filled) VAT return to source reconciliation (reverse recon)
- From submitted transactional data to VAT return
- From an Income tax perspective, in some countries the tax authorities have denied expenses as deductible if the invoice was not subject to the e-invoice procedure



Growing interest from different stakeholders (e.g. CFO) to get **insights on data quality** and support for fixing the issues at source.



Considering the above, reconciliations is becoming a **must have** to ensure readiness for real time reporting (preventative/detective control)

KPMG approach: Global vs *Africa*

Global alliance partners

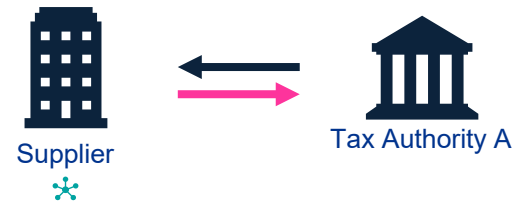
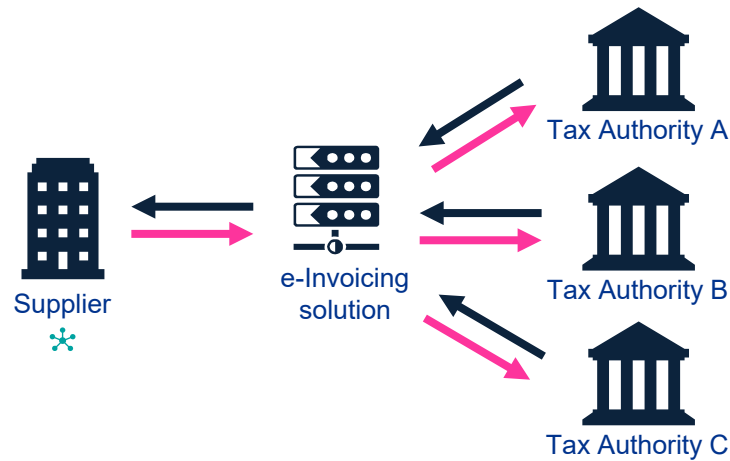


KPMG Specific e-Invoicing solutions

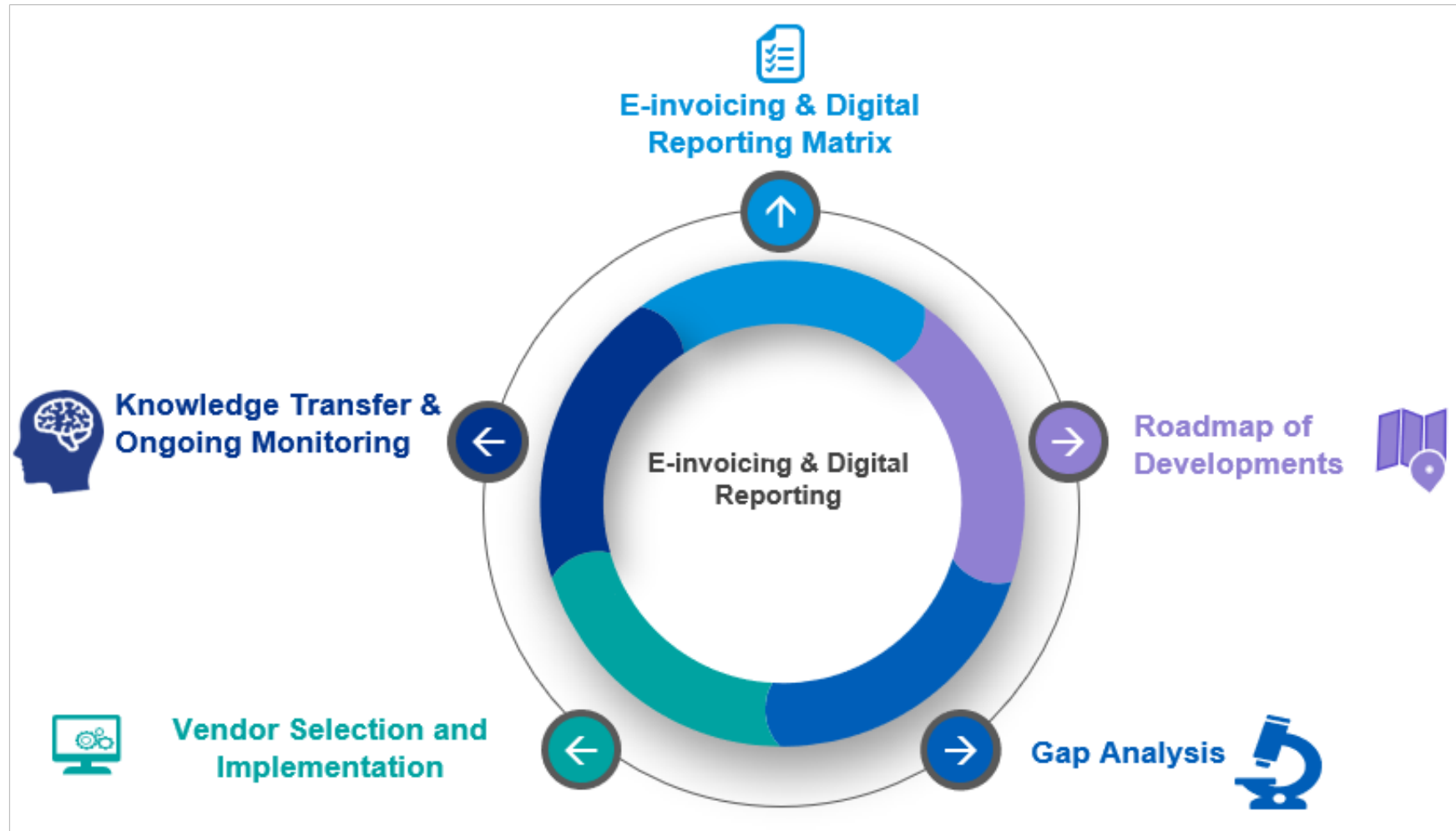
- KPMG India
- KPMG Poland
- KPMG Serbia

Africa specific lessons — direct connection with Tax authority

- Use of EFDs — hardware devices connected to POS to collect & report data to TA
- Bespoke development to incorporate connection to e-invoicing platform in existing accounting software
- Tax authorities provide accounting software with existing connection to e-invoicing platform
- Tax authorities assist clients' IT teams to implement connection to e-invoicing platform in existing accounting software
- Clients thinking local in-country only
- e-Invoicing requirements beyond invoices and credit notes, e.g. inventory balances



Global KPMG e-Invoicing framework



Key benefits



Simplified Tax Returns



Process efficiencies



Tax Impact Reporting



Structured data for analytics



Business Relationships

03

Discussion — other countries



A blue-tinted photograph of a city skyline. The most prominent feature is a tall, slender tower with a circular observation deck and a spire at the top. The tower is surrounded by various other buildings of different heights and styles. In the foreground, there are some lower-rise buildings and trees. The sky is a clear, light blue. On the left side of the image, there is a vertical rectangular bar with a gradient from dark blue at the top to light blue at the bottom.

East Africa

Current and Emerging Areas of Focus

Kenya

- Introduction of online filing for TAT matters.
- Virtual mentions and virtual hearings for TAT.
- Issuance of objection decision within 60 days from the day of receiving an objection.
- **Integrated systems for tax reporting.**
- **eTIMS software system and VAT special table have been introduced to enhance VAT compliance.**

Uganda

- URA reconciliations of ledgers to comply with filing and payment provisions.
- **More intensified desk audits that look at reconciliations between taxpayer self assessments vis-à-vis supporting documentation.**
- Tax Authorities maintain their growing trend towards transfer pricing audits.

Rwanda

- TP audits to assess compliance to TP Rules.
- Rwanda enacted a new law relating to income tax which introduced the option of advance pricing agreement (APA) for taxpayers.
- A taxpayer whose annual turnover is equal to or less than RWF 200 million (approx. USD 186,000) is required to remit PAYE and VAT on a quarterly basis.

Tanzania

- Filing of TP documentation when the transactions value is TSHS 10 Billion and above.
- Effective 1 July 2022, a party to a tax appeal may apply for an amicable settlement at any stage before the final judgment is delivered.
- Removal of the requirement to incorporate subsidiaries in Zanzibar for companies resident in Tanzania with operations in Zanzibar.

A blue-tinted photograph of a city skyline. The most prominent feature is a tall, cylindrical telecommunications tower with a complex antenna structure at the top. The tower is surrounded by various high-rise buildings of different architectural styles. In the foreground, there are lower-rise buildings and some trees. The sky is a clear, light blue. On the left side of the image, there is a vertical rectangular bar with a gradient from dark blue at the top to light blue at the bottom.

West Africa

e-invoicing in Nigeria

- In 2020, the Federal Inland Revenue Service (FIRS) was empowered by legislation to deploy propriety or third-party software for tax (especially VAT) assessment and information gathering.
- The FIRS commenced the implementation of various digital tax reporting initiatives — on a sectoral basis, leveraging third-party software.
- These digital tax reporting initiatives range from traditional e-invoicing to near Realtime transaction data collection
- The sectors covered and the initiatives rolled out are:

S/N	Sector	Digital Initiative
1	Retail Sector (Branded shops, Superstores, General Supermarkets, Standard Restaurants & Eateries)	Supplier initiated e-invoicing fiscalisation
2	Hospitality Sector (Hotels, Restaurants & Clubs)	Supplier initiated e-invoicing fiscalisation
3	Power sector (Power, Entertainment, Transport & Maritime)	Real-time digital reporting of transaction data
4	Financial Institutions (Non-deposit Financial Institutions)	Near real-time digital reporting of transaction data
5	Banking & Financial Institutions	Near real-time digital reporting of transaction data
6	Cable and Satellite, Internet Service Providers (ISPs)	Near real-time digital reporting of transaction data
7	Capital Markets and online gaming	Real-time digital reporting of transaction data

- These initiative are at various levels of implementation, but non-import VAT collection by the FIRS has increased year-on-year by an average of 30 percent from 2020 to 2023.

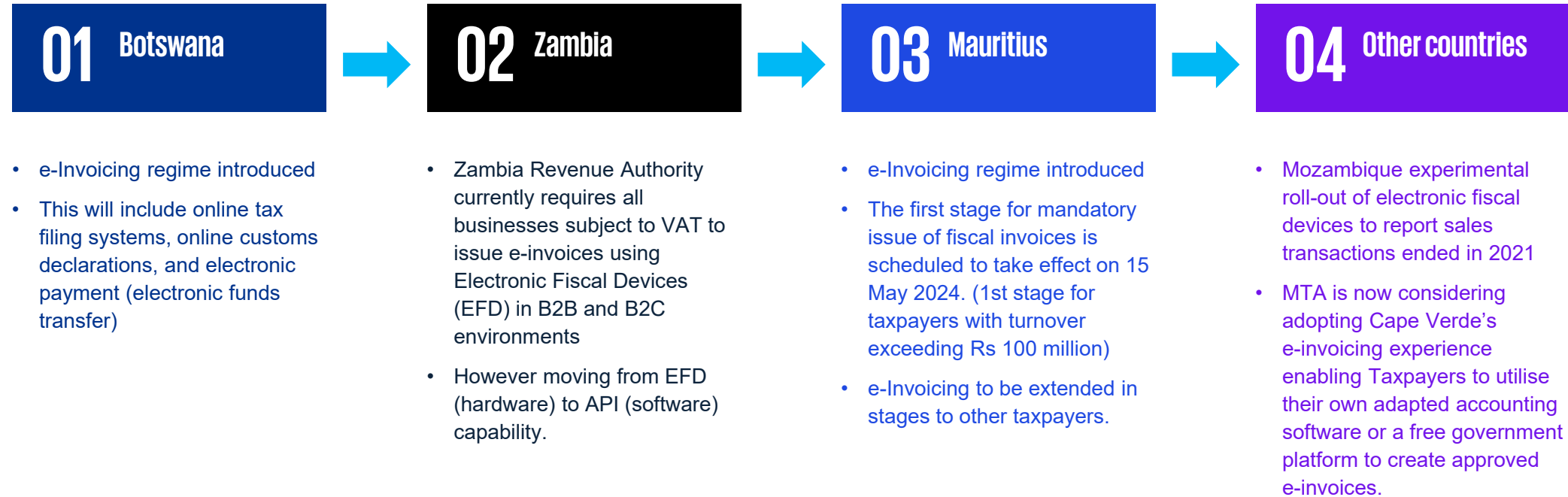
e-invoicing in Ghana

- Ghana introduced the e-invoicing regime in 2022.
- The Certified Invoicing system transforms the manual invoice issuance process (paper-based) into an electronic process and also allows for such invoices, including debit and credit notes, to be exchanged electronically between buyers and sellers.
- While the e-invoicing model adopted by the GRA is the supplier initiated e-invoicing fiscalisation, taxpayers have two options for connecting to this initiative:
 - Use the free Software of the GRA to replay manual Invoicing
 - Integrate their current ERPs or point of sale system with the GRA's invoice system.
- This initiative is being implemented in two phases:
 - *Phase one comprised 600 specially selected large*
 - *phase two covers 600 large taxpayers and more than 2,000 small and medium taxpayers*

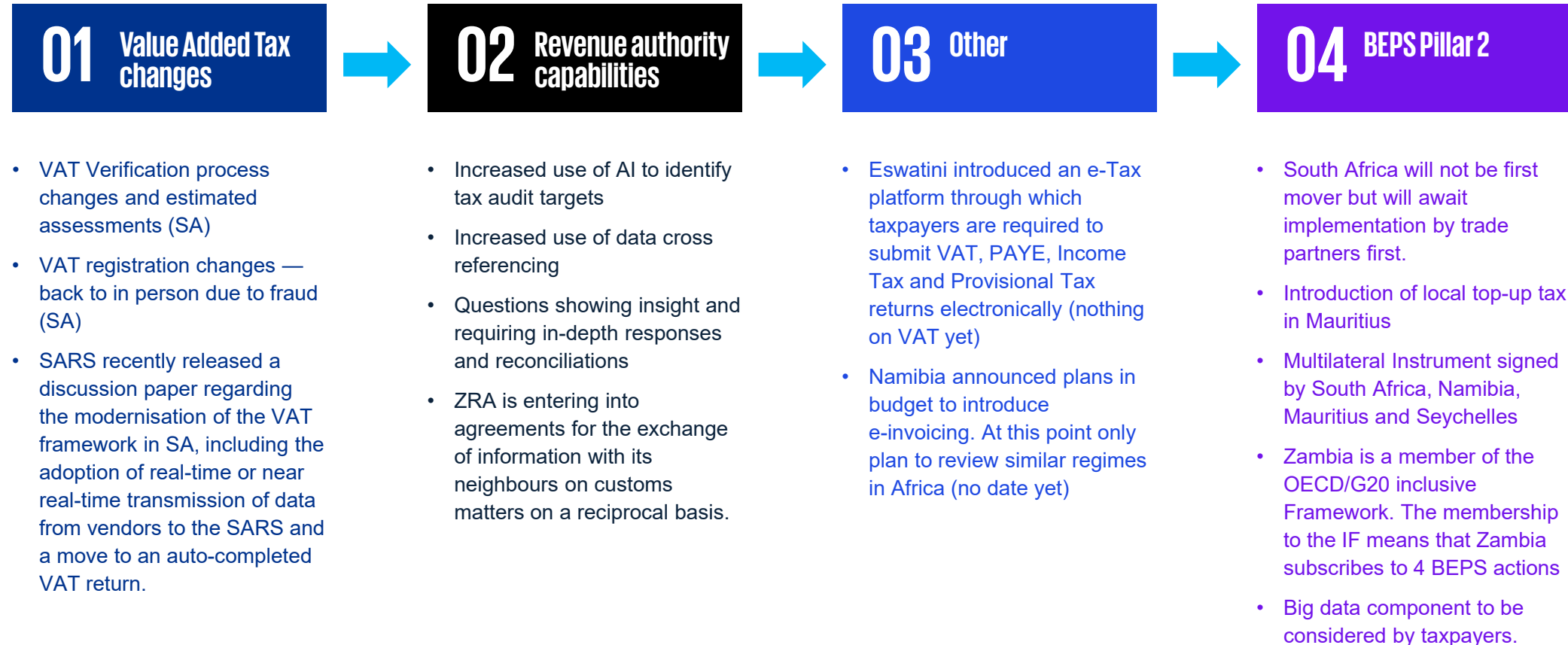
A blue-tinted photograph of a city skyline. The most prominent feature is a tall, slender tower with a circular observation deck near the top, set against a clear blue sky. The foreground shows a dense urban area with various buildings, including some with satellite dishes on their roofs. The overall scene is captured in a monochromatic blue color scheme.

Southern Africa

e-Invoicing considerations in Southern Africa



Other key digitisation considerations in Southern Africa

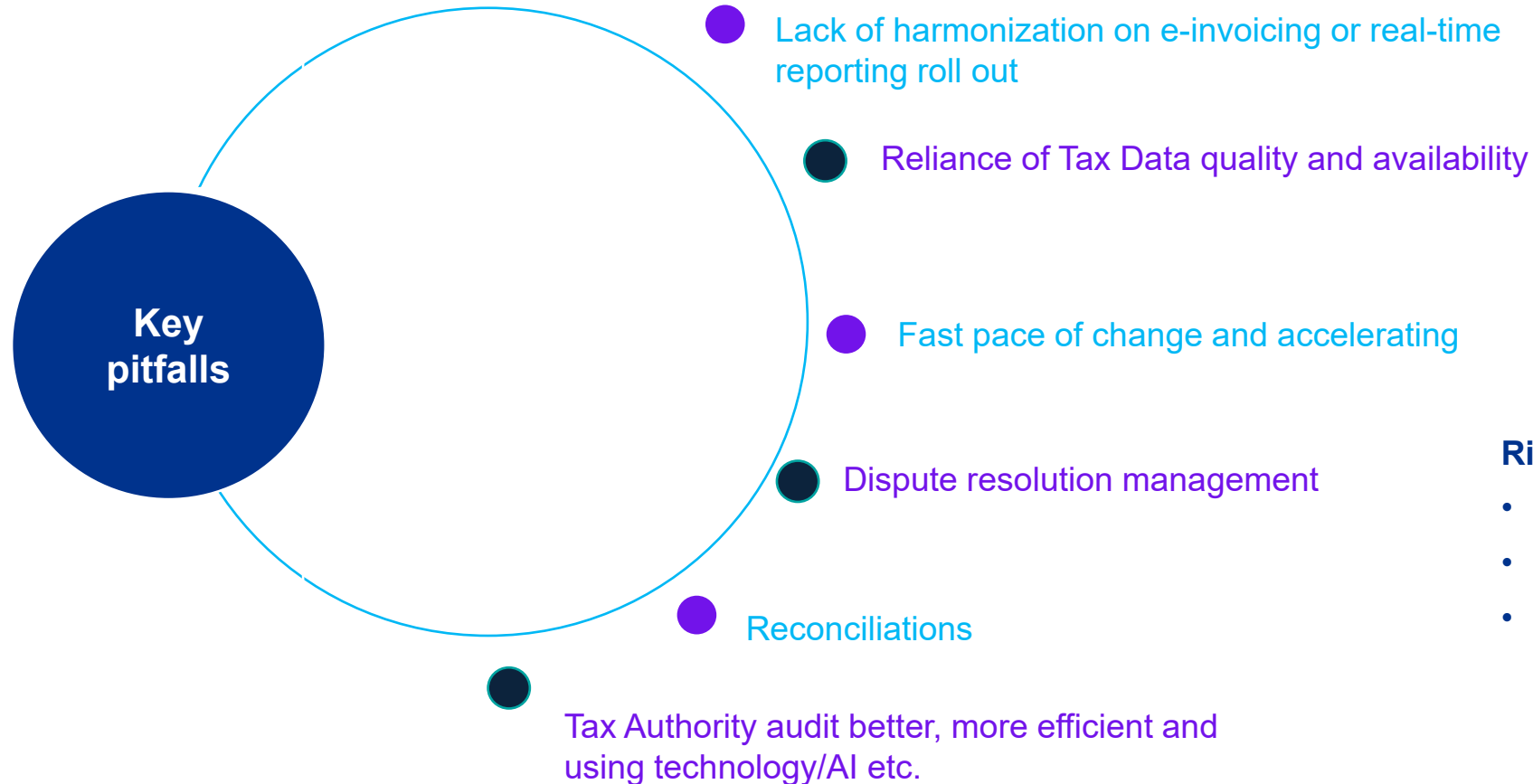


04

Pain points



Challenges across Africa



Risks

- Penalties
- Loss of business
- Reduced ability to get paid

05

Verification process



SARS focus

- SARS' focus in respect of VAT Compliance/Administration boils down to heightened collection & compliance activities
- SARS continues to enhance its processes and increase activities to improve collections, efficiencies and deter vendor non-compliance by way of:
 1. Rigorous VAT registration procedures encompassing in person meetings and bank account confirmations
 2. Increased requests for information to registered (and non-registered) VAT vendors based on source documents and transactions reviewed during audits or inspections at business associates
 3. Recent changes to the VAT verification notice procedures requesting more extensive and comprehensive information and documentation
 4. Not supplying SARS with sufficient information to verify disclosures results in estimated assessments being issued

06

VAT Reconciliations



Types of reconciliations

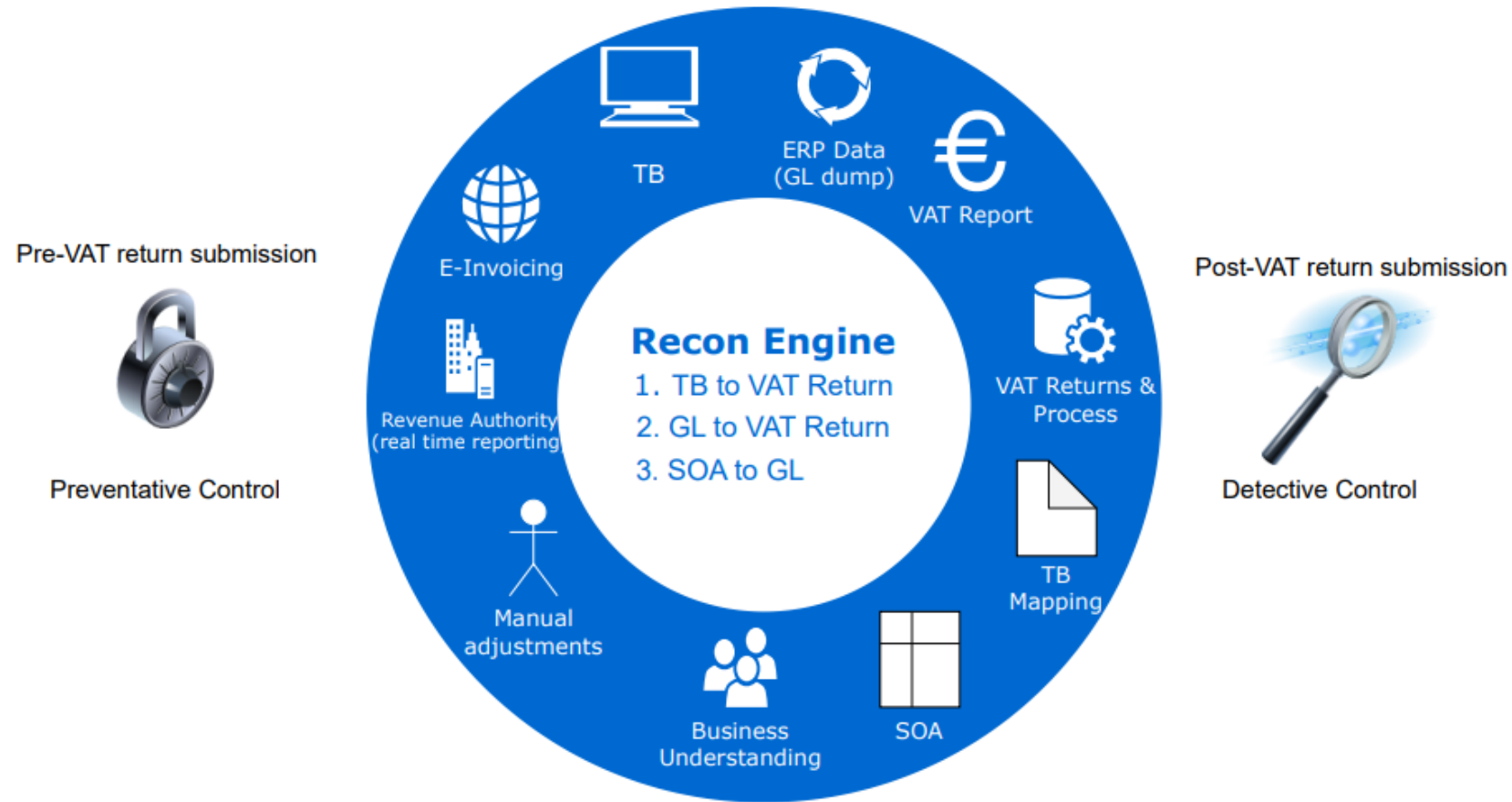
Trial Balance recon to VAT Return

- Reconcile the VAT returns to the supporting VAT workings
- Perform either of the following recons:
 - Reconcile the VAT returns to the Trial Balance accounts (high-level)
 - Reconcile the VAT returns to the GL accounts (in-depth to eliminate blanks)
- This can be performed using one of the following two methods:
 - Tax codes
 - VAT Control Account

Statement of Account to VAT Control Account (VAT roll-forward)

- Reconcile the various SOA's to the VAT returns submitted
- Reconcile the VAT Control account to the SOA
- Consider all reconciling items e.g. payments/refunds not captured on the SOA, manual adjustments etc

Driving all directions of reconciliations



Benefits:

Various insights and visibility over the disclosure e.g. processing of discounts for accounting vs disclosure in return, Bad debts written off and inconsistently treated as well as exempt income/blanks.

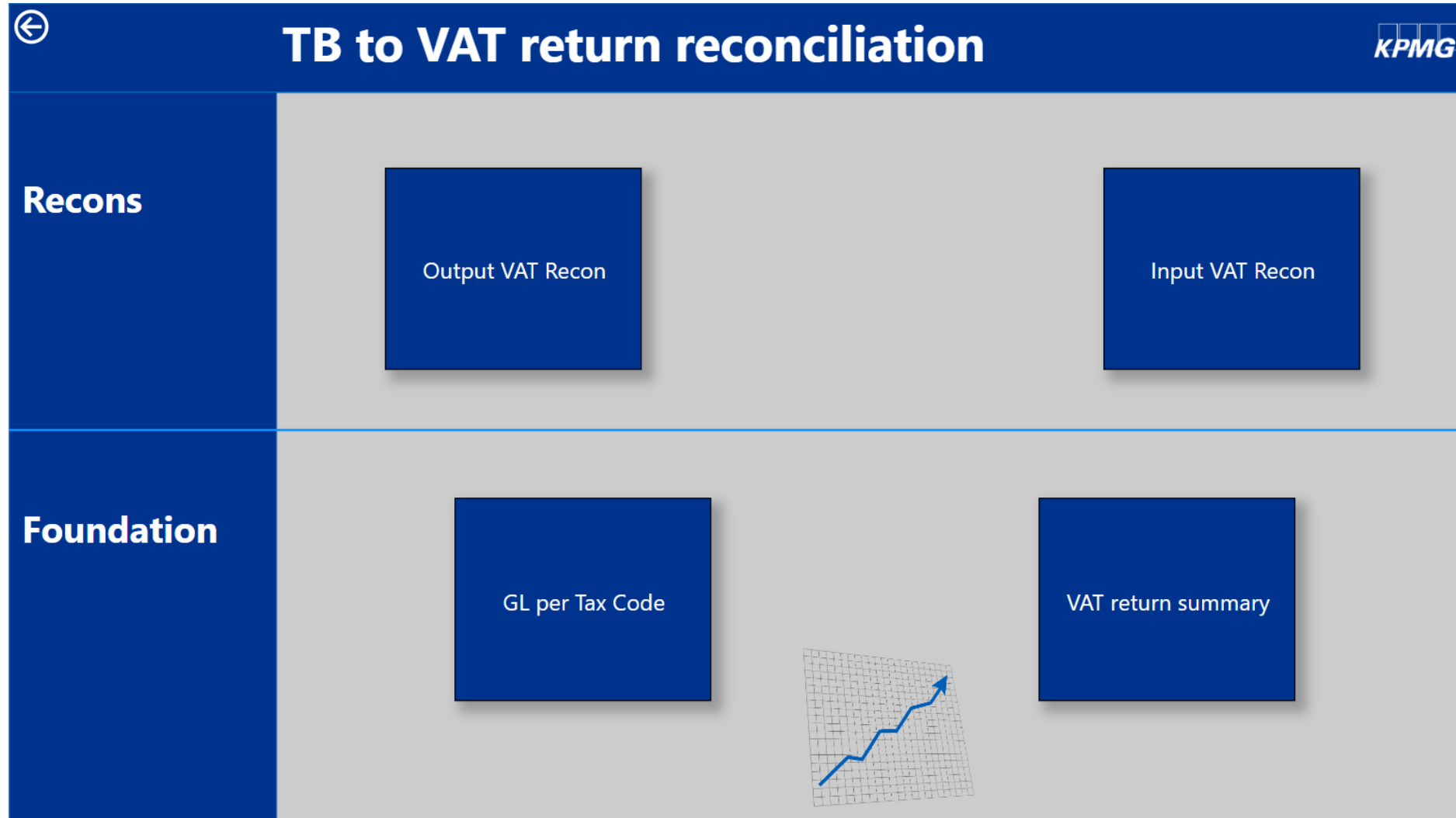
VAT Reasonability — manual vs data

Key difference — Visibility (Power BI)

Acc num	Acc Description	Feb	AFS Captions	Business Proce	Blank	Tax Code 00 - Exempt	Tax Code 01 - 14%	Tax Code 03 - Zero Rate	Tax Code 05 - 15%	Tax Code I0 Exempt Input
800000	Revenue Local	- 1 811 276 973	Revenue - Local	Sales	296 030 454	- 43 911 445	0,01	0	- 2 064 073 880	677 898
800010	Revenue Foreign	- 43 053 721	Revenue - Export	Sales	-	- 43 053 721	0	0	0	0
800030	Revenue OEM	- 45 861 685	Revenue - Local	Sales	7 961 065	0	0	0	- 53 822 750	0
800040	Revenue Africa	- 154 563 028	Revenue - Africa	Sales	- 1 293 133	- 138 125 292	-	- 6 224 393	- 8 920 210	0
800050	Revenue InterGroup	- 69 077 477	Revenue - Local	Sales	3 001 509	- 46 310 304	-	-	- 25 768 681	0
800060	Revenue Traded	- 178 023	Revenue - Local	Sales	8 829	0	0	0	- 186 852	0
800100	Revenue Accrual	- 112 759	Revenue - Local	Sales	112 759	0	0	0	0	0
	Total Revenue	- 2 123 898 146			305 821 484	- 271 400 763	0	- 6 224 393	- 2 152 772 373	677 898

Acc num	Acc Description	Feb	AFS Captions	Busine	Blank	Tax Code 00 - Exempt	Tax Code 01 - 14%	Tax Code 03 - Zero Rate	Tax Code 05 - 15%	Tax Code I0 Exempt Input	Tax Code I4 Zero Rate	Tax Code I8 15% Input
281050	Insurance Claims	- 12 811 168	Other Income	Sales	2 176 389	0	0	0	0	- 20 813	- 920 397,30	- 14 046 346,73
299000	Other operating income	- 49 002	Other Income	Sales	-	- 12 691	-	-	- 36 311	0	0	0
299010	SDL Refund	- 128 865	Other Income	Sales	- 128 865	0	0	0	0	0	0	0
299020	Scrap Deposit	- 33 442 868	Scrap Deposit Income	Sales	- 347 724 903	-	-	-	314 282 035	0	0	0
478000	Trade Incentives - Customers	418 943	Rebates and Discounts	Sales	418 943	0	0	0	-	0	0	0
478010	Trade Incentives - Retail Ag	6 496 966	Rebates and Discounts	Sales	6 082 778	0	0	0	-	414 188	0	0
800071	Sales - Rebates	47 209 528	Rebates and Discounts	Sales	47 176 876	0	0	0	32 652	0	0	0
809010	Rent Received - Intergroup	- 1 816 285	Rental Income	Sales	- 10 210	0	0	0	- 1 806 075			
884000	Trade Rebates	65 638 493	Rebates and Discounts	Sales	65 870 138	9 377	-	-	87 979			- 329 001

VAT Fusion



Output VAT recon results

← Output VAT Recon	-3.45M	-517.16K	0.00	KPMG
	Recon difference (100%)	Recon difference (15%)	% Difference	
Output VAT Reasonability - January 2023 to December 2023			FY23	Notes
Supplies per Trial Balance - revenue per AFS			-5 173 557 760.60	
Blanks (entries included in revenue processed without a tax code)			105 147.00	
Revenue processed with input VAT codes			-95 605 997.00	
Other income statement items on which Output VAT was declared			-190 176 135.10	
Balance sheet items on which Output VAT was declared			6 226 037.00	
Disclosure of Zero rate & exempt supplies				
Zero rate items:				
Disclosed as per VAT return			-324 869 217.00	
Amount processed with zero rate tax code			326 760 730.17	
Exempt items:				
Disclosed as per VAT return			-8 868 042.00	
Amount processed with exempt tax code			0.00	
Differences				
Between GL/TB & VAT report:				
Between VAT report & VAT return:				
Supplies per VAT return			-5 463 432 990.30	
Unreconciled difference (100% value)			-3 447 752.77	
VAT amount (15%)			-517 162.92	
Percentage difference			0.00	

Output VAT
Recon

GL per tax code

GL Per Tax Code		-365.48K	-28M	-123.69M	-27M	459	KPMG	
		Input Base	Input Tax Amount	Output Base	Output Tax Amount	G/L Acct triggered VAT		
BS / IS	NAME	BS / IS	Sum as Per TB	Sum_Tax Base Amount	Blank Tax codes	A0	A3	
<input checked="" type="checkbox"/> Select all	204000 Non Operating Exp Plant Relocation	Income statement	1 444 720.78	-235 492.65	1 680 213.43			
<input type="checkbox"/> (Blank)	204001 Non Operating Exp Site Rehabilitation	Income statement	-0.02	-0.02	0.00			
	204002 Non Operating Inc Exp-Expenses clearing	Income statement	-2 224 830.02	-414.26	-2 224 415.76			
	204004 Non Op Inc Exp - Retrenchment costs	Income statement	0.00		0.00			
G/L Acct	220000 Interest Payable-Ext-Thirds	Income statement	2 367.87		2 367.87			
All	220001 Interest Payable-Ext-Alfin	Income statement	0.00		0.00			
	220002 Interest Payable-Internal	Income statement	0.00		0.00			
	220003 Interest Payable - Receiver of Revenue	Income statement	2 047.06		2 047.06			
	220004 Interest Payable-Ext-Chinese Construction Bank	Income statement	0.00		0.00			
	220005 Interest Payable-Ext-Standard Chartered Bank	Income statement	22 461 009.96		22 461 009.96			
	220200 Interest Paid Std-Bank	Income statement	0.00		0.00			
	220201 Interest Paid SASFIN	Income statement	0.00		0.00			
	220301 Interest Paid - First National Bank	Income statement	7 621 413.22		7 621 413.22			
	220311 Interest Paid - Powertech Industries (Pty) Ltd	Income statement	0.00		0.00			
	230000 Unrealized Forex P/L AC112	Income statement	-51 834.84		-51 834.84			
	230010 Unrealized Forex P/L AC133	Income statement	-1 812 996.00		-1 812 996.00			
	230020 Realized Forex Losses	Income statement	23 103 855.99	20 956 330.46	2 147 525.53			
	230030 Realized Forex Profit	Income statement	-28 548 499.69		-28 548 499.69			
	238050 Exp Small Differences GL Clearing	Income statement	0.00		0.00			
	240000 Normal Taxation	Income statement	103 354 325.00		103 354 325.00			
	240001 Taxation-Prior Year Adjustment	Income statement	0.00		0.00			
	241000 Taxation-S T C	Income statement	0.00		0.00			
	245101 Interest Rec-Ext-Ex Thirds	Income statement	-5 316 422.47		-5 316 422.47			
	245103 Interest Rec-Ext-Altron Financ	Income statement	0.00		0.00			
			4 905 376 634.90			66 508 361.36	-190 195	

Exceptions examples

Exceptions
Output VAT
Input VAT

Count of DocumentNo by Timing_lvl1

Timing_lvl1
● No issue
● Issue

Count of DocumentNo by Timing_lvl1

Timing_lvl1
● Issue
● No issue

CoCd	DocumentNo	Doc. Date	Pstng Date	Timing_lvl1	Timing
ABFI	91795483	06 January 2023	06 January 2023	No issue	Differe
ABFI	91795484	06 January 2023	06 January 2023	No issue	Differe
ABFI	91795485	09 January 2023	09 January 2023	No issue	Differe
ABFI	91795486	09 January 2023	09 January 2023	No issue	Differe
ABFI	91795487	09 January 2023	09 January 2023	No issue	Differe
ABFI	91795488	09 January 2023	09 January 2023	No issue	Differe
ABFI	91795489	09 January 2023	09 January 2023	No issue	Differe
ABFI	91795490	11 January 2023	11 January 2023	No issue	Differe
ABFI	91795491	11 January 2023	11 January 2023	No issue	Differe
ABFI	91795492	11 January 2023	11 January 2023	No issue	Differe
ABFI	91795493	11 January 2023	11 January 2023	No issue	Differe
ABFI	91795496	11 January 2023	11 January 2023	No issue	Differe
ABFI	91795497	11 January 2023	11 January 2023	No issue	Differe

Input and Output Tax Exceptions

Impermissible supplies

NAME	TB total	Tax base ar
013000 Motor Vehicles-Cost	7 717 634.77	
013010 Motor Vehicles-Accum Deprec	-4 671 982.10	
039101 Finance Lease - Motor Vehicles Cost Admin	314 057.00	-1 661
039111 Finance Lease - Motor Vehicles Accum Deprec Admin	-314 057.00	
179523 Accrual-Motor Vehicle Expenses		-354 213.54
420504 Consumables-Diesel	86 225.10	
420507 Boiler Fuel	11 171 114.50	285
434510 Consumables-Generator Fuel	0.00	
438000 Entertainment	761 801.98	374
442501 Licences-Motor Vehicles	2 797.00	
444000 Motor Vehicles-Fuel & Oil	163 226.07	203
444001 Motor Vehicles-Maintenance	109 366.85	103
444002 Motor Vehicles-Hire	100 746.87	114
444005 Motor Vehicles-Allowances	554 990.04	
444006 Forklifts-Fuel & Oil	2 103 559.10	349
450500 Staff Refreshments	1 118 344.88	-3
473510 Exp Consumables-Generator Fuel	294 403.12	16
475005 Exp Depreciation-Motor Vehicles	419 270.76	
478000 Exp Entertainment	1 038 976.94	301
484000 Exp Licences-Motor Vehicles	190 700.19	
486000 Exp Motor Vehicles-Fuel & Oil	3 316 896.62	-264
486001 Exp Motor Vehicles-Maintenance	1 028 824.77	323
486002 Exp Motor Vehicles-Hire	308 224.64	7
486003 Exp Motor Vehicles-Allowances	3 838 353.55	
486004 Exp Forklifts-Fuel & Oil	28 768.28	18
486010 Exp Finance Lease-Motor Vehicles	-62 842.59	
493800 Exp Staff Refreshment	274 043.58	185
Total	29 539 231.38	354

Impermissible category

 Select all
 (Blank)
 Entertainment
 Fuel
 Vehicles

GL_VAT_TEST

 (Blank)
 NO_VAT
 VAT

Entertainment
 Cost
 Forklifts
 Boilers
 Vehicles
 Licences
 Fuel
 Motor
 Exp
 Allowances
 Refreshment
 Maintenance
 Diesel
 Depreciation
 Staff
 Generator
 Refreshments
 Hire

General items identified

Completeness and Accuracy

Insights and Visibility

Gaps in process and controls

1. Tax code usage (incorrect/inconsistent)
2. System controls/master data set-up
3. Incorrect VAT return disclosure (e.g. timing of VAT triggered vs disclosure)
4. Direct postings to the VAT control account — how to automate
5. VAT return process inefficiencies
6. Blanks (items processed without a tax code — potentially not disclosed on the VAT return)



Impact

Impact of issues identified

Each VAT return submitted impacted — Cashflow implication

- Late submission penalty/refunds denied
- Late payment penalty
- Interest
- Prescription period
- Instances where prescription does not apply





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