

Electronic Tax Invoice Management System (eTIMS)

Finance Act 2023 assented on 26th June 2023, Section 16 of the Income Tax Act is amended —

a) In subsection (1), by inserting the following new paragraph immediately after paragraph (b) - (c) any expenditure or loss where the invoices of the transactions are not generated from an electronic tax invoice management system (eTIMS) except where the transactions have been exempted in accordance with the Tax Procedures Act 2015.

eTIMS stands for Electronic Tax Invoice Management System, which is an initiative by the Kenya Revenue Authority (KRA) aimed at modernizing tax administration and ensuring better compliance with tax laws.

The eTIMS system is a key part of the KRA's strategy to digitize and streamline the invoicing, reporting, and collection processes for VAT and other taxes. Through eTIMS, businesses can issue and report tax invoices electronically, helping improve transparency, reduce tax evasion, and ensure a more efficient tax collection system.



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The Electronic Tax Invoice Management System (eTIMS), introduced by the Kenya Revenue Authority (KRA), is a critical component of Kenya's ongoing efforts to digitize and streamline the tax collection and reporting processes. eTIMS requires businesses to issue and report their Value Added Tax (VAT) invoices electronically, directly linking businesses with KRA's systems in real-time. This system helps enhance transparency, reduce tax evasion, and improve overall tax compliance in Kenya.

While initially targeted at VAT-registered businesses, KRA has indicated that all businesses, including small enterprises, may soon be required to use eTIMS for tax reporting.

Businesses that fail to comply with eTIMS risk being flagged by KRA for audits and could face delays in tax clearance certificate (TCC) approvals, affecting business operations like tender applications and financing.

Since eTIMS allows real-time tracking of invoices, businesses can avoid working with fake VAT suppliers who issue fraudulent tax invoices—protecting them from KRA penalties for claiming invalid tax deductions.

The Benefits of eTIMS for Kenyan Businesses

For Kenyan businesses, the implementation of eTIMS provides a range of benefits. From improving tax compliance to enhancing operational efficiency, eTIMS is transforming how businesses manage their tax obligations.

1. Improved Tax Compliance and Reduced Risk of Penalties.

One of the primary advantages of eTIMS for businesses is improved tax compliance. The system automates the invoicing process, ensuring that businesses issue VAT-compliant invoices that meet KRA's standards. Since eTIMS automatically records transactions and submits data to KRA in real-time, businesses can be confident that their tax filings are accurate and up-to-date.

Key Benefits



Real-time reporting: Businesses no longer have to wait for the end of the month or year to submit tax returns. The system automatically sends data to KRA as soon as an invoice is issued



Reduced errors: eTIMS minimizes human errors, such as data entry mistakes or missed invoices, which are common in manual systems.



Avoiding penalties: By ensuring compliance with VAT laws and invoicing regulations, businesses reduce the risk of tax audits, penalties, and fines for non-compliance.

2. Simplified Invoicing and Tax Reporting

The eTIMS platform simplifies the process of issuing invoices and reporting VAT. Traditionally, businesses had to manually prepare and file tax returns, often leading to delays and mistakes. eTIMS automates much of this process, making invoicing more efficient and less time-consuming.

Key Benefits



Automation of VAT invoicing: eTIMS generates VAT-compliant invoices automatically, ensuring that the correct tax rate is applied.

Streamlined tax reporting: Businesses no longer need to manually submit VAT returns. The system sends the data directly to KRA, reducing paperwork and administrative overhead.





Integration with accounting systems: eTIMS can be integrated with a business's existing accounting software or Enterprise Resource Planning (ERP) system, further simplifying tax reporting.

3. Real-time Monitoring and Transparency

eTIMS enhances transparency in the tax system. Since all invoices are recorded and transmitted to KRA in real-time, businesses have a clear and auditable trail of their transactions. This transparency helps improve business operations and reduces the likelihood of disputes with tax authorities.

Key Benefits



Instant validation of invoices: KRA can immediately verify whether invoices are legitimate and compliant, which reduces the risk of tax fraud or manipulation.



Reduced tax evasion: eTIMS helps KRA monitor VAT transactions and ensures that businesses report their sales accurately, reducing opportunities for tax evasion.



Clear audit trail: Businesses can easily track and review their invoices, providing clear documentation for audits or financial reviews.

4. Enhanced Operational Efficiency

By automating the invoicing and tax reporting process, eTIMS significantly enhances the operational efficiency of businesses. This leads to better resource allocation, fewer administrative tasks, and more time for businesses to focus on core activities.

Key Benefits



Less manual intervention: With eTIMS handling much of the invoicing and reporting work, businesses no longer need to manually process invoices or prepare tax returns.

Cost savings: Businesses can reduce costs related to tax compliance, such as hiring additional staff for manual invoicing and reporting tasks.



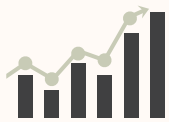
Improved workflow: The automation of these processes reduces delays, errors, and redundancies, ensuring that businesses can maintain a smooth workflow.



5. Better Cash Flow Management

eTIMS provides businesses with more accurate and timely information regarding their tax liabilities. By automating VAT invoicing and reporting, businesses can better forecast their cash flow, ensuring they have sufficient funds set aside for tax payments. This improved visibility into tax obligations helps businesses plan their financials more effectively.

Key Benefits



Accurate tax liability projections: With real-time reporting and invoicing, businesses can better predict their VAT obligations and avoid unexpected tax bills.



Timely payments: eTIMS ensures that businesses are consistently up-to-date with their tax filings, preventing late payments and interest charges.



Improved financial planning: With a more accurate understanding of their tax obligations, businesses can make better decisions regarding investments, spending, and budgeting.

6. Increased Business Credibility

Businesses that comply with eTIMS and KRA's tax requirements demonstrate a commitment to tax compliance and transparency, which can enhance their credibility with customers, suppliers, and financial institutions.

Key Benefits



Access to financing: Banks and financial institutions may be more willing to provide financing to businesses that demonstrate good tax compliance, as they are seen as lower-risk borrowers.

Trust with customers: Customers may feel more confident working with businesses that comply with tax regulations and maintain transparent financial practices



Better relationships with suppliers and partners: Suppliers and partners may prefer to work with businesses that have a solid reputation for complying with tax laws, which can lead to better business relationships and opportunities

7. Facilitates E-Commerce and Cross-Border Transactions

For businesses involved in e-commerce or international trade, eTIMS facilitates the digitization of tax reporting, making it easier to comply with VAT regulations for cross-border transactions. This is especially important for businesses engaging with international clients or selling goods and services online.

Key Benefits



Seamless cross-border transactions: eTIMS enables businesses to easily issue and report VAT invoices for international transactions, making it easier to manage VAT obligations across borders.



Improved e-commerce integration: Online businesses can integrate eTIMS with their digital platforms, simplifying the tax invoicing and reporting process



Compliance with international standards: As the global economy becomes more digital, businesses that adopt eTIMS are better positioned to comply with international tax regulations and standards.

8. Support and Resources from KRA

KRA provides businesses with the necessary support and resources to ensure smooth adoption and use of the eTIMS system. This support includes training and guidance on how to integrate eTIMS into business operations, making the transition easier for businesses of all sizes.

Key Benefits



Training and workshops: KRA offers training to help businesses understand the system, ensuring that they can use eTIMS effectively and efficiently.

Technical support: KRA provides technical assistance to help businesses integrate eTIMS with their existing accounting or invoicing systems.



User-friendly platform: The eTIMS platform is designed to be user-friendly, with clear instructions and resources to help businesses get started.



Understanding the eTIMS Registration and Integration Process for Kenyan Businesses.

Who Needs to Register for eTIMS?

The eTIMS registration process is mandatory for all VAT-registered businesses in Kenya. However, businesses with a turnover of less than KES 5 million per year are not required to integrate with eTIMS, though they can voluntarily opt into the system.

The following types of businesses must register for eTIMS:

- VAT-registered businesses: Any business that is registered for VAT with KRA.
- Businesses with an annual turnover exceeding KES 5 million: These businesses are required to comply with eTIMS for VAT invoicing and reporting.
- E-commerce businesses: Businesses that engage in e-commerce or online sales are also required to comply with eTIMS.

The eTIMS Registration Process

To integrate with eTIMS, businesses must follow a series of steps, from registration with KRA to the actual setup of the system. Below is a step-by-step guide to the eTIMS registration process:

Step 1: Verify VAT Registration Status

Before registering for eTIMS, ensure that your business is VAT-registered with KRA.

If you are not registered for VAT, you will need to apply for VAT registration through the KRA iTax portal.

Once your business is VAT-registered, you can proceed with eTIMS registration.

Step 2: Visit the eTIMS KRA Portal

- Access the KRA eTIMS portal (<https://etims.kra.go.ke>) to begin the sign up process.
- Proceed to verify the pin by submitting a request by providing the company KRA pin.
- An otp will be sent to the registered number
- Proceed to login (<https://etims.kra.go.ke>)

Step 3: Submit a Request for eTIMS Registration

Once logged in, apply for eTIMS by selecting service request and select the type of eTIMS that your company requires.

Note that the system upgrade allows for self onboarding by eliminating the requirement for eTIMS approval of taxpayer applications by KRA.

Sterling Africa can assist with this process seamlessly.

Step 4: Receive Approval from KRA

After submitting your eTIMS registration request, KRA will review your application. If everything is in order, you will receive approval and instructions for proceeding with the eTIMS integration process

Step 5: Obtain the eTIMS Certificate

Once your registration is approved, you will receive an eTIMS certificate. This certificate is proof that your business is now registered on the eTIMS platform. Keep this certificate for future reference.

Integrating eTIMS with Your Business Systems

After successfully registering with eTIMS, the next step is integrating the system with your business operations.

eTIMS is designed to work seamlessly with your accounting software or Enterprise Resource Planning (ERP) system to automate invoicing, tax reporting, and compliance.

Here's how to integrate eTIMS with your existing systems:

Step 1: Choose eTIMS Compatible Software

To integrate with eTIMS, your business needs eTIMS-compatible invoicing or accounting software.

The software should be able to generate VAT-compliant invoices in real-time and send them directly to KRA's eTIMS platform.

If you already use an ERP system or accounting software, check with the software provider to ensure it is compatible with eTIMS.

Alternatively, you may choose to use KRA-approved third-party solutions that integrate seamlessly with the eTIMS platform.

Step 2: Integrate Your Accounting System with eTIMS

Once you've chosen the right software, you need to configure it to communicate with eTIMS. This integration can be done in the following ways:

- **API Integration:** Many accounting systems can integrate with eTIMS via APIs which allow your system to send tax invoice data directly to KRA in real-time.
- **Direct Integration:** businesses may choose to integrate directly with the KRA eTIMS platform by using the KRA-provided tools or plugins, which are designed to work with common accounting systems.
- **Custom Development:** Businesses can engage a developer to create a tailored solution that integrates eTIMS with your business system.

Step 3: Test the System

Before going live with eTIMS, perform testing to ensure that your system is working correctly. This involves:

- **Generating test invoices:** Issue test invoices and verify that they are correctly transmitted to KRA's eTIMS platform.
- **Validating invoice details:** Ensure that the invoice data, such as VAT amounts, product details, and customer information, is correctly recorded and reported.
- **Checking for errors:** If there are any issues with the integration or reporting, work with your software provider or KRA's technical support to resolve them.

Step 4: Go Live with eTIMS

Once testing is successful and your system is working as expected, you can begin using eTIMS for all your VAT invoicing and reporting.

From this point onward, all VAT invoices must be issued through the eTIMS system, and KRA will automatically receive real-time data from your business.

Ongoing Support and Maintenance

After integrating eTIMS into your business systems, it's essential to maintain the system to ensure it continues to function smoothly:

- **Training of employees:** Provide ongoing training for your accounting and finance team to ensure they are familiar with the eTIMS system and can troubleshoot common issues.
- **Technical support:** KRA provides a support desk to assist businesses with any technical challenges related to eTIMS. You can contact KRA's helpdesk for assistance with registration, integration, or troubleshooting issues.

Common Challenges and How to Overcome Them

While eTIMS is designed to simplify tax invoicing and reporting, businesses may face some challenges during the registration and integration process:

- **Software compatibility issues:** Ensure that your accounting software is eTIMS-compatible before beginning the integration.
- **Data integration errors:** When integrating eTIMS with accounting or ERP systems, data errors can occur. Ensure that all tax invoice fields are correctly mapped and that your system adheres to KRA's formatting requirements.
- **Training and user adoption:** Some businesses may struggle with the transition to eTIMS due to a lack of familiarity with the system. Providing proper training and support can help ensure smooth adoption by your team.

Conclusion

The eTIMS registration and integration process may seem complex at first, but it is a necessary step for businesses in Kenya to ensure compliance with VAT laws and streamline their invoicing processes.

By following the steps outlined above and working with KRA and your software providers, your business can successfully integrate eTIMS and reap the benefits of improved tax compliance, operational efficiency and transparency.

FOR MORE INFORMATION

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