

Kenya introduces taxes for the digital economy

PwC Kenya is available to ensure your business is tax compliant

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A number of businesses have scaled up their presence in digital platforms where they now routinely conduct and conclude transactions. In recognition of this shift, many jurisdictions around the world have in the recent past enacted tax legislation aimed at taxing the digital economy, and Kenya has not been an exception. In 2020, Kenya introduced two types of taxes targeted at the digital economy, namely; Digital Service Tax (DST) and Value Added Tax on Digital Marketplace Supply (VAT-DMPS). These taxes mainly target businesses that are not resident in Kenya.

The legal framework paving way for the implementation of these taxes is largely complete. The DST Regulations have been gazetted and approved by the National Assembly, and therefore DST is now operational. However, for the VAT-DMPS Regulations, they have been gazetted but are awaiting approval by the National Assembly.

Brief overview of the two digital taxes

Resident and non-resident entities who offer digital services that are within the scope of DST in Kenya are liable to DST payable at a rate of 1.5% of the gross transaction value, effective from 1 January 2021.

The effective date for VAT-DMPS is expected to be April 2021. However, this is dependent on the Regulations being approved by Parliament. The tax will be payable at the standard rate, currently 16% on the value of the taxable services offered by a non-resident digital marketplace to a customer who is resident in Kenya.

Both the DST and VAT-DMPS are due by the twentieth day of each month.

Non-residents who do not have a permanent establishment in Kenya have two methods of

accounting for the digital taxes. They can opt to appoint a tax representative in Kenya. The tax representative will be a Kenyan entity who will be responsible for filing the returns, making payments and maintenance of tax records on behalf of the non-resident. Alternatively, the non-resident could rely on an agent appointed by the Kenya Revenue Authority (KRA) on their behalf who is likely in most instances to be a payment service aggregator. Resident entities and non-residents with a permanent establishment in Kenya have the option of accounting for DST by themselves.

Who is impacted?

Entities that offer in-scope digital services to Kenyan consumers are liable to the payment of DST and/or VAT-DMPS. Some of the services qualifying for DST and/or VAT-DMPS include, among others, digital marketplaces that act as platforms where buyers and sellers interact e.g. e-commerce companies.

How can PwC Kenya help?

At PwC Kenya, we have a team of tax experts ready to assist you navigate these new taxes landscape. Please reach out to us for:

1. An assessment of whether or not, and to what extent, you are impacted by DST and VAT-DMPS;
2. Provision of tax representative services. We will account and pay the resultant taxes on your behalf; and
3. Monthly tax compliance services including preparation and submission of the tax returns and assistance in making the payments.

Feel free to reach out to your usual PwC contact for an analysis of how these changes may impact you.

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