

Documental tax inspections and chronometric observation: a step by step approach



Important message for a reader of this manual

The manual herein is prepared by PricewaterhouseCoopers Tax and Advisory LLP based on current tax legislation of the RK (Code No. 99-IV of the Republic of Kazakhstan “Concerning Taxes and Other Obligatory Payments to the Budget”, dated 10 December 2008 (effective as of 14 January 2016) and based on actual tax practice.

The manual cannot be considered as a professional report or a tax advice on tax inspections as it stands only as general recommendations for a wide range of taxpayers.

Please note that any recommendation given by us is solely for use for the purpose for which the advice is given. It is inappropriate to apply this advice in a different context or at a later date. In the event that you wish to do so, you ought to contact us so that we may confirm whether this advice remains valid for the purposes required.

For individual and detailed consulting in regards to tax inspections and in case you have additional questions on our services described in current manual please contact our specialists mentioned in “Our team” section of the manual.

By providing current manual we hold no responsibility or admit no liability for any reason and to any individual or legal entity in case if that individual or entity follows recommendations of the manual without prior discussion with us.

In addition, tax law, regulations and interpretations in Kazakhstan are subject to change at any time, and such changes may have retroactive effect and may be applicable to advice given or other services rendered before their effective dates. We do not assume responsibility for such occurring after the date we have completed the services.

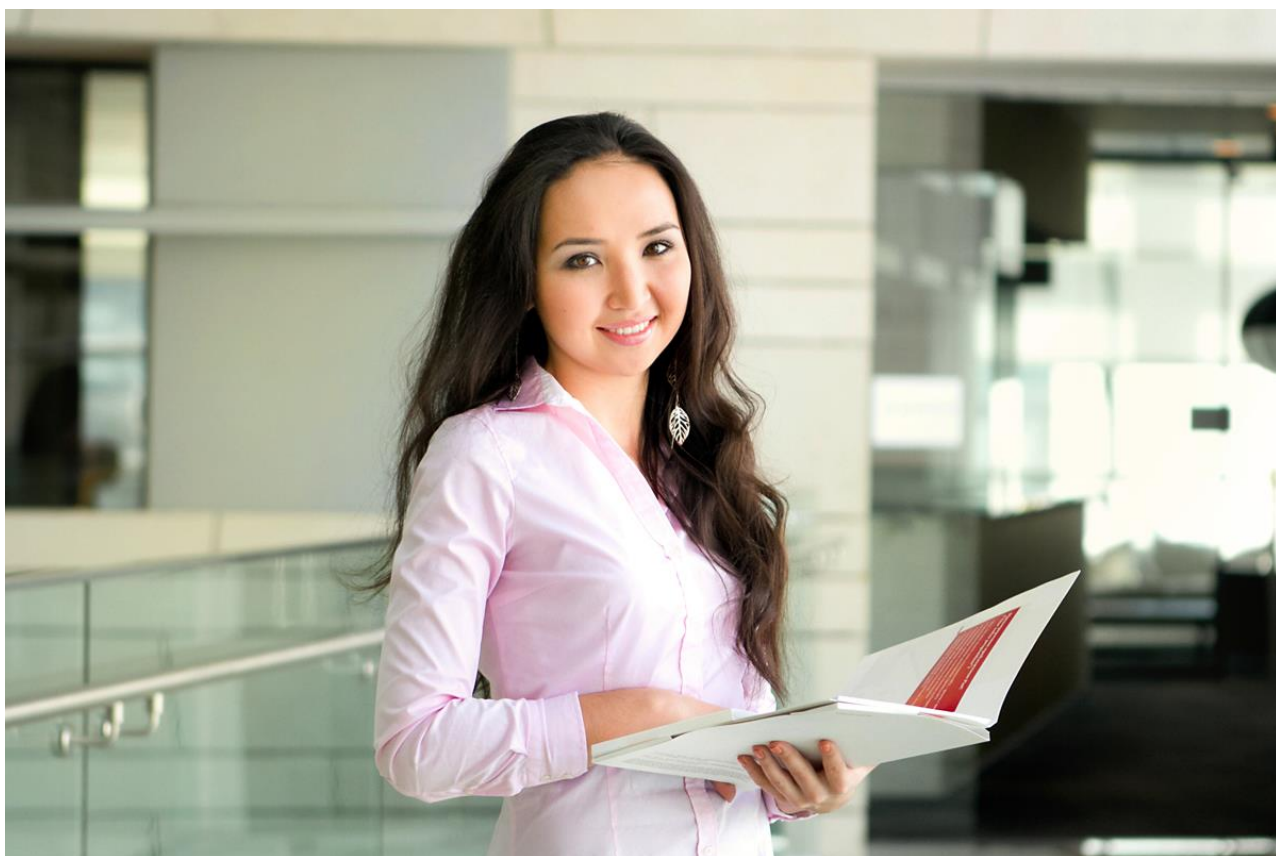
Introduction

Tax inspection is one of key instruments used by the tax authorities of Kazakhstan for the purposes of additional tax assessment.

Chronometric observation is kind of the tax inspection conducted by the tax authorities, in order to establish the actual income of the taxpayer and the actual costs, which needed in order to generate income activities for the period during which the observation is conducted.

Effective preparation for inspection may help to minimize additional tax assessments, while compliance with several simple rules during a tax inspection will make it easier to resolve any possible disputes with the tax authorities.

This brochure contains practical advice on how to prepare for a tax inspection and make sure it has minimum consequences for your company.



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General information

Tax inspections are regulated mainly by provisions of the Code of the Republic of Kazakhstan “On taxes and other obligatory payments to the budget” (hereinafter – Tax Code of the RK).

Categories and types of tax inspections

There are following categories of tax inspections – **documentary** (comprehensive, limited scope, counter), **chronometric observation**.

Types of tax inspections – spot and unscheduled:

- **spot** – tax inspections related to taxpayers on the analysis of tax reporting, information of the state bodies, as well as other documents and information about the activity of the taxpayer (tax agent);
- **unscheduled** – other tax inspections which do not fall into spot tax inspections, including those initiated by taxpayer’s application, those based on taxpayer’s claim, those initiated based on a state regulatory body’s decision, etc.

Cases for chronometric observation:

- in integrated and thematic documentary tax audits ;
- by the request of the taxpayer;
- by decision of the tax authorities.

When conducting a chronometric observation, presence of a taxpayer and (or) his legal (authorized) representative is mandatory.

The basis of the tax audit is **an order**, issued by the tax authority.

It should be remembered that in case of rejection of chronometric observation tax authorities have a right to prepare an Act of observation. This Act gives the tax authorities the full right to initiate the procedure which removes the taxpayer from the registration for VAT.

What should be considered with regards to tax inspections (1/3)

Large taxpayers are under special regulation of the tax authorities, therefore, if there is a 4-year tax period not checked previously then there is a comprehensive tax inspection to be initiated soon.

In regards to other taxpayers there is a comprehensive approach of risk management based on certain criteria.

Timing of tax inspections

Start of a tax inspection

Tax inspection is performed by the tax authorities based on a taxpayer's registration place and on its territory. If required some of the work can be performed in the office of the tax authority.

Before conducting a **spot** comprehensive tax inspection and (or) spot limited scope tax inspection a taxpayer receives a notification about an upcoming tax inspection **30 calendar days** prior to its starting date. Delivering of the notification does not initiate a tax inspection; therefore during the period starting from the date of receipt of the notification till the last day before the date mentioned in the notification a taxpayer has a right to adjust its tax liabilities by filing additional tax returns.

In case of **unscheduled** tax inspection it can be started without preliminary notification of a taxpayer. However, there can be several notifications on a certain issue within desk control, inspection by other state authorities or a complaint from third parties prior to such tax inspection.

Tax inspection is considered to be started only after delivering of **prescript of tax inspection**. The prescript should contain information about the periods and taxes to be checked, as well as details about tax inspectors who will perform the inspection. The prescript is an important document; therefore there is no need to fulfill requirements of the tax authorities that go beyond of what is described in the prescript (tax periods, types of taxes, provision of documents to those who are not stated in the prescript).

Duration of a tax inspection

Please note that a tax inspection can cover **five years of business activities** and all taxes that should have been paid during this period.

Currently, tax inspections are performed independently by tax departments (tax authorities of regions and cities of Almaty and Astana) or in cooperation with specialists of State Revenue Committee of the Ministry of Finance of the RK.

What should be considered with regards to tax inspections (2/3)

The tax period, to be inspected

Tax audits may be covered by the tax periods and types of taxes within the limitation period (5 years).

The duration of the tax audit

Currently, tax departments (tax authorities of regions and Almaty and Astana cities) alone or together with the employees of the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan conducts tax audit.

Tax inspection can last **30 business days**. However, inspection duration can be extended:

- by the tax authority that prescribed the tax inspection – **up to 45/75 business days**;
- by superior tax authority – **up to 60/180 business days**.

Duration of tax inspection can be suspended for:

- the period while a taxpayer will provide all requested documents and data;
- the period while other state authorities or banks will provide their confirmations;
- the period while foreign countries will provide their confirmations in accordance with international agreements, if required.

Period while a tax inspection was suspended is not included into total duration period of a tax inspection.

In case when a tax inspection is suspended / resumed the tax authorities should provide a taxpayer with a notification on suspension / resumption of a tax inspection not later than **one business day** prior to when it's suspended or resumed, also by notifying an authority of legal statistics.

What should be considered with regards to chronometric observation(3/3)

The decision to conduct a chronometric observation shall be made by the tax authority at the location specified in the registration data of the taxpayer, and (or) at the location of the object of taxation and (or) object related to taxation

Frequency and timing of a chronometric observation

Frequency of chronometric observation is not established in the Tax Code.

Frequency of chronometric observation established by the head of the tax authority or his deputy.

The period of chronometric observation may not exceed 30 working days from the delivery of prescription date. However, specified time may include weekends and holidays, if the taxpayer in these days operates. In addition the observation can be carried out in accordance with the regime work regardless of the time of day.

Also, the duration of the tax audit can be extended depending on the category of taxpayers:

- the tax authority which has appointed a tax audit – ***to 45 / 75 working days;***
- higher tax authority– ***to 60 / 180 working days***

The prescription of a tax audit must specify observation dates, type of inspection and name of inspector .

IMPORTANT: in the order of the chronometric observation does not indicate the test period!

Chronometric observation is carried out on the territory of the taxpayer.

Things to remember:

The tax authorities check the actual revenues and expenses of the taxpayer and takes into account only income and expenses arising strictly from the beginning of chronometric observation. In addition, the start date of chronometric observation will be considered as a date of delivery of order.

Our team

Advantages of cooperation with PwC

One of the main reasons for cooperation with PwC is the fact that PwC is an international consulting company with a wide network of companies in **154 countries** worldwide.

Number of our employees around the world is more than 163,000 people. We cooperate with a wide range of clients from large international corporations to small and medium sized businesses.

We are confident that we can provide our clients with the best solutions that will help them to achieve their strategic objectives due to following advantages:

- practical approach while solving a wide range of issues;
- presence of leading experts with relevant knowledge and experience in Kazakhstan and international tax legislation;
- solid experience in implementing such kind of projects;
- well-coordinated team of professionals in taxation and legislative areas;
- availability of a wide range of local and international clients

One of the main reasons for choosing PwC as a consultant is an availability of professional team of specialists with extensive experience and knowledge of work and long-term, stable relationships with various industries (oil and gas, mining, consumer goods and services, agricultural, etc.).

In this regard, we present a team that meets the above criteria. This team has considerable experience and expertise, as well as it knows what questions may arise either in Kazakhstan or international taxation, thus, it can effectively provide our services.

Our team that provides assistance during tax inspections consists of following specialists:

Our team

Our team has got an extensive experience and high level of qualification in provision of tax and legal services to companies in Kazakhstan



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