

1. Introduction

This is an investigation conducted into allegations that a taxpayer has been evading tax by conducting business without issuance of Electronic Tax Receipts (ETR) for all transactions in his timber sales business XYZ Ltd. The information was shared by an informant through the KRA Anonymous Reporting System (*iWhistle*) and investigated by a multi-departmental team.

What is the purpose of ETR?

Electronic Tax Register (ETR) is a **cash register used to record sales and provide ETR receipts to customers**. It connects your business to the taxman, preventing fraud and improving cash flow. ETR machine also saves costs, improves VAT collection, and prevents tax evasion.

2. Investigation techniques

- ❖ An interdepartmental team was formed which included Investigations and Enforcement Department that is mandated to investigate potential criminal violations of the revenue laws by tax payers and the Internal Affairs Unit mandated to investigate conduct of staff who could potentially be aiding taxpayers in contravening tax laws.
- ❖ Preliminary Investigations were conducted upon receipt of information in order to ascertain the veracity of the allegations of tax evasion and the case was registered for full investigations.
- ❖ Surveillance was conducted on the taxpayer's business premises to identify the nature of business and mode of operations to assist in gathering evidence.

2. Investigation techniques

- ❖ Notice to investigate was issued to the taxpayer informing them that they were under investigations and outlining the reasons for such investigations. Records were obtained and analyzed against the taxpayer's self-declaration to establish the actual tax liability.
- ❖ Interviewing and Recording of Statements was undertaken from the tax-payer, his employees and enforcement officers

3. Findings

1. Investigations established that the taxpayer had not been issuing Electronic Tax Receipts (ETR) for all transactions.
2. Internal Affairs Unit did not find evidence on culpability of enforcement officers in aiding the taxpayer evade tax and recommended intensive spot checks on ETR compliance.
3. Investigations and Enforcement Department found the tax payer culpable of the following offenses: -
 - ❑ Failure to comply with electronic tax system. **Sanction/Penalty of Kshs 100,000 (USD 880)**
 - ❑ Tax Avoidance. **Sanction/Penalty - Double the tax liability**
 - ❑ Omission of income from returns, under declarations of income, or deliberately defaults on an obligation imposed by a tax law. **Sanction/Penalty -Fine of Ksh 10 million (USD 88,000) or double the tax evaded, whichever is higher or to imprisonment for a term not exceeding ten years, or to both.**

3. Status of the case

- ❖ The taxpayer has applied for compounding of the offense and cooperated with investigations. The application is pending approval.

THE END

