KENYA REVENUE AUTHORITY

KENYA COUNTRY PAPER

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**THEME:
LEVERAGING TECHNOLOGY TO ENHANCE REVENUE COLLECTION**

**TITLE:
FACILITATING, MONITORING AND ENABLING COMPLIANCE THROUGH TECHNOLOGY**

Facilitating, Monitoring and Enabling Compliance through Technology

1. Introduction

Revenue administrations globally have had to adapt technology in ensuring efficiency in tax revenue mobilization. This is against a backdrop of declining funding from respective National Treasuries burdened with numerous financial obligations to deliver services to the citizens, as well as honour international financial commitments. In some tax jurisdictions, the size of government *(the executive, legislature and judiciary)* has increased three-fold compared to what it was previously. This has inevitably brought an additional burden of financing and maintaining government programmes, which are largely financed from tax revenues.

Whereas successful revenue administrations thrive on the taxpayers' perception that *'Big brother is watching'*, this has not been fully realized in most tax jurisdictions due to low or limited levels of automation of the tax administrations' processes, non-integration of key systems (that move large volumes of transactions in the economy) to the tax administration systems, unstable and/or unavailable systems as well as manual interventions. Automation of tax administrations' processes is therefore key in shaping this perception among taxpayers, thereby pushing taxpayers towards full disclosure.

2. Technology within Business Processes

In a deliberate effort to enhance efficiency in its operation, the KRA has over the years allocated a significant proportion of its financial resources on IT investments, thus automating its internal systems. In this regard, the iTax solution was developed, and now serves as the main technology interface between Taxpayers' and tax administration in Kenya. In addition, other IT systems have also been implemented to support indirect taxes such as the Excise Goods Management System (e-stamping), and Regional Electronic Cargo Tracking System (exports and transit goods).

Developed through a modular approach, iTax operations modules include: Audit, Compliance and Debt modules, whose business requirements were developed by subject matter experts within KRA. A key functionality in the back office modules is the ability to determine risk levels through cross-matching of internally declared data (tax returns, claims, import lodgements and other supporting data), thereby detecting mismatches, under-declarations, inflated claims as well as other inconsistencies.

The most notable change as disruption brought about by technology in operations is case selection. Whereas, the legacy approach involved a case selection committee at the Station that would review proposed cases for Audit based on justification prepared by the Audit Manager, the Audit module in iTax is designed to identify risk from a wider range of taxpayers' transactions as captured electronically through other systems and cross matched against return declarations.

3. Technology and Service Delivery

In the manual processes regime, service delivery to taxpayers was a cumbersome process that involved travelling to the nearest KRA office, queuing for long hours for service and eventually submitting necessary applications, upon which one would be guided on when (which could be some weeks later) to return and check for the outcome of the application. This involved such services as: processing of refunds and processing of tax compliance certificates (TCC) among others. Delays in provision of these services often resulted in lost opportunity and an unfavourable cash flow position for respective taxpayers.

The roll-out of iTax has been a game changer in the service delivery front. Anchored on the premise of availing both convenience and simplicity to the taxpayer, iTax delivers web based services and products to the taxpayer's access point. A further plus is the provision of self service facilities to allow taxpayers to query their own information without having to physically visit a KRA office. For example, a tax compliance certificate application is lodged through the KRA website, an acknowledgment number issued, processing is done in the back office and the certificate issued and sent to the applicant through his email. This is a very popular service with suppliers who seek government tenders and require the coveted TCC, hence a win-win for both revenue administration and the bidder.

4. Compliance Interventions in the technology platform

Manual compliance interventions within revenue administrations are often punctuated with inherent limitations. One such limitation is the un-traceability of the delinquent taxpayer, manifesting through: unanswered phone calls; mails returned to sender and emails without response. This draws from the fact that revenue administration's manual interventions can only reach a limited proportion of non compliant taxpayers. Ultimately, any unpaid tax becomes accrued debt thereby building into the existing debt portfolio.

Having been subjected to this challenge over time, KRA adopted the bulk messaging approach whereby taxpayers are alerted of their non-compliant position immediately after due date, and reminded to immediately remedy the situation by either filing or effecting the requisite payments.

Whereas the Kenyan approach involved personalized messages that included current tax liability, it did not divulge details of the taxpayer account. However, in its initial application, the highest local VAT collection (net) of US$ 170M was realized in February 2017, overshadowing the US$ 150M highest collection realized prior to this intervention.

5. Technology, Tax Payments and Use of Call Centre

The iTax system links with more than 35 out of the 42 commercial banks in Kenya through a Payment Gateway. This facilitates real-time update of payment data on the taxpayers' ledgers. Additionally, the system is also interfaced with the mobile service providers to provide a platform for payment of taxes through mobile devices. The taxpayers are able to pay small amounts of taxes (up to US$ 1,400) through their mobile phones at any place within the network coverage areas.

With the rollout of iTax and its mandatory use across all taxes, KRA expanded the Contact Centre to enable it to handle many more calls from the taxpayers real-time. Plans are underway to upgrade the Contact Centre and this is expected to create uniformity of inbound calls and consistency of service across board for outbound calls and the received inbound calls.

6. Technology and Performance Monitoring

Performance tracking for tax officials directly involved in revenue mobilization entails use of manual templates which are not effective. However, this is bound to change as and when all reports and feedback shall fully be *i*Tax generated. Through *i*Tax, the performance evaluation space shall be enhanced to include other key performance indicators including time taken to discharge an allocated task, proportion of tasks delivered within deadline and actual revenue realized. In the KRA's Transformation Agenda, *i*Tax shall be linked to the *i*Support (ERP) system which has a performance Management module, thereby measuring accurately staff efficiency.

7. Technology solution for Knowledge Management

The KRA has established a Knowledge Sharing Platform for transforming how employees interact, collaborate and share knowledge resources. Through the platform, employees in networks (or communities of practice) engage in peer-to-peer problem solving, daily sharing of experiences, expertise, best practices and lessons learnt so as to improve productivity, operational and revenue performance.

Community members work together to identify common problems and explore solutions, and they often develop and implement best practices. Collective disciplines are identified by shared passion for a subject, a shared level of practice within a discipline, and trust and willingness to solve problems collaboratively. This has extended localized interaction into the online space, thereby increasing contributions and exchange of ideas.

8. **Social Media and Tax Administration**

Today, customers are already using this platform to complain, compliment and make inquiries of our services. Notable examples include: informing customers on the new initiatives, services and products; educating online users; getting customers feedback through Twitter polls and Facebook surveys; linking subject matter experts to online users through Twitter chats; and covering major Tax events/activities through social media platforms.

Notwithstanding the gains achieved, 100% implementation of the Customer Relationship Management solution will provide a facility for audience segmentation that will make it possible for customized online campaigns (social media channel and message) with specific target audiences such as SME's. KRA has not been left behind in the utilization of social media technologies to support tax administration.

9. **Analytics, Block Chain Technology, Artificial Intelligence and usage in Tax Administration**

Analytics is becoming a cornerstone capability for operational and strategic decision making in tax administration. Kenya's tax administration agency is in the process of implementing a Data Warehouse and Business Intelligence solution to provide such capabilities. The sources of information either internal or external (other Government Agencies and private sector) have been identified and will be critical for the success of the project.

Going forward, artificial intelligence (AI) in tax administration will be explored further. For KRA, this will be instrumental in managing compliance and enhancing service delivery. AI will be mainly used for predictive analysis that will enable fraud detection at the point at which a taxpayer files a return or makes a claim for refund. Deployment of blockchain technology is yet to be considered, but research on what it will mean for tax administration is on-going. It is anticipated that it will trigger phenomenal transformation on some aspects of tax administration.

10. **Conclusion**

With the increased number of taxpayers who are active on iTax and the vast amount of data that would be generated from the linkage of iTax to other systems, technology offers an opportunity for KRA to achieve one of its strategic goal of "*enhancing revenue mobilization by broadening the revenue base, enhancing compliance and combating tax evasion and fraud using intelligence and risk-based forward looking enforcement*".