



# Ministry of Finance, Federal Government of Somalia



## **Consultancy Services for Development of Somalia Integrated Tax Administration System**

### **Phase 1 Deliverable 2:**

Business Systems Architecture - Inland Revenue

DRAFT

KPMG Advisory Services Limited and KasmoDev Consulting

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Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
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### This document has been reviewed by

Sr. No.	Reviewer	Date reviewed	Version Reviewed
1	Hashim Abdinur	28 June 2021	3
2	Angello Musinguzi	28 June 2021	3
3	Conrad Siteyi	28 June 2021	3
4	Jared Nyarumba	29 June 2021	3
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## Glossary

Acronym	Description
API	Application Programming Interface
BAU	Business as Usual
BDV	Brussels Definition of Value
CBS	Central Bank of Somalia
CIT	Corporate Income Tax
CPF	Country Partnership Framework
CAS	Customs Automated System
CMIS	Customs Management Information System
COMESA	Common Market for East and Southern Africa
CRATES	Customs Reform and Trade Enhancement Somalia
DG	Director General
DR	Disaster Recovery
DRM & PFM	Domestic Revenue Mobilisation and Public Financial Management Capacity Strengthening Project
EAC	East Africa Community
ECOWAS	Economic Community of West African States
FCDO	Foreign, Commonwealth & Development Office
FGS	Federal Government of Somalia
FOB	Free on Board
GATT	General Agreement on Tariff and Trade
HP	Hewlett Packard
hp	Horsepower
HR	Human Resources
HS	Harmonised System
ICT	Information Communication Technology
IRD	Inland Revenue Department
IT	Information Technology
ITAS	Integrated Tax Administration System
LT	Large Taxpayers
Mbps	Megabytes per second
MoF	Ministry of Finance
NGO	Non-Government Organisation
NISA	National Intelligence and Security Agency
PAYE	Pay-As-You-Earn
RAL	Revenue Administration Law
SFMIS	Somalia Integrated Financial Management System
Sh.So.	Somali Shilling
SOMSAD	Somali Single Administrative Document
SteerCo	Steering Committee



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
June 2021

<b>Acronym</b>	<b>Description</b>
TCC	Tax Compliance Certificate
TIN	Tax Identification Number
TSA	Treasury Single Account
UPS	Uninterrupted Power Supply
TV	Television
USD	United States of America Dollar
UN	United Nations

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## Contents

1	Introduction and Background .....	1
1.1	Background .....	1
1.2	Vision.....	1
1.3	Objectives.....	2
1.4	Goal of this Report.....	2
2	Approach and Methodology .....	3
2.1	Responding to Gaps Identified in the “As-Is” Assessment .....	3
2.2	Validation workshops.....	3
2.3	Benchmarking FGS Tax environment with the Region.....	3
3	Gaps/ Pain-Points from “As-Is” Assessment.....	5
4	Income Tax - “To-Be” State.....	12
4.1	Corporate Income Tax (CIT).....	12
4.2	CIT and PIT Payment.....	14
4.3	Quarterly prepayments.....	14
4.4	Operational Losses.....	15
4.5	Penalties for Non-Compliance.....	15
4.6	Process of paying CIT and PIT.....	16
4.7	Key Considerations in Filing Income Tax Return .....	17
4.8	Income Tax Audit process.....	17
4.8.1	Key Steps in conducting CIT audit.....	18
4.8.2	Sample ITAS tax declaration design.....	19
5	Employment Tax - “To-Be” State .....	20
5.1	Description.....	20
5.2	Who should register for Employment Income Tax.....	20
5.3	Taxable Employment Income .....	21
5.4	Obligation of Employers .....	22
5.5	Types Employees .....	22
5.6	PAYE Rates.....	22
5.7	Taxation of casual labourers .....	22
5.8	Taxation of employees with more than one employer .....	23
5.9	Taxation of benefits in kind.....	23
5.10	Declaration and payment of employment tax .....	23
5.11	Tax Return Template.....	24
6	Excise Duty - “To-Be” State .....	26
6.1	Description.....	26
6.2	Registration for excise duty .....	26



6.3	Accounting for Excise Duty.....	27
6.4	Controlling of goods designated for Export .....	28
6.5	Valuation methods for excise duty.....	28
6.6	Declaration and payment of Excise duty .....	29
6.7	Sample Excise Duty Declaration Form.....	31
6.8	Records to be maintained by Manufacturers.....	32
7	<b>Sales Tax - “To-Be” State .....</b>	<b>33</b>
7.1	Description.....	33
7.2	Registration for Sales Tax .....	33
7.3	Accounting for Sales Tax.....	33
7.4	Declaring Sales Tax .....	33
7.5	Weaknesses in the Current Sales Tax Law.....	35
7.6	Consideration for the introduction of Value Added Tax (VAT) as an option to improve the Sales Tax Law .....	35
8	<b>Telecommunication Tax “To-Be” State .....</b>	<b>36</b>
8.1	“As-Is” Assessment .....	36
8.2	“To-Be” State .....	36
9	<b>Rental Tax - “To-Be” State .....</b>	<b>38</b>
9.1	“As-Is” Assessment .....	38
9.2	Gaps and Issues identified with Rental Income Tax.....	38
9.3	Proposed “To-Be” State - Rental Income Tax .....	38
9.4	Proposed Procedures for filing Rental Income Tax.....	40
9.5	Taxpayers obligations.....	40
9.6	Entitlement to Tax Credit.....	41
9.7	Sample Automated Rental Income Tax Returns .....	41
10	<b>Stamp Tax - “To-Be” State .....</b>	<b>42</b>
10.1	“As-Is” Assessment .....	42
10.2	Proposed “To-Be” State.....	42
10.3	Process Flow Map.....	44
11	<b>Road Tax- “To-Be” State.....</b>	<b>45</b>
11.1	Description.....	45
11.2	Current Challenges.....	45
11.3	Proposed “To-Be” State.....	45
12	<b>Registration Fees- “To-Be” State .....</b>	<b>46</b>
12.1	“As-Is” Assessment .....	46
12.2	Gaps identified.....	46
12.3	“To-Be” State .....	46



13	Court Fees - “To-Be” State.....	47
13.1	“As-Is” Assessment .....	47
13.2	Proposed “To-Be” State.....	47
13.3	Sample ITAS Form for Court Fees Payment.....	47
14	Business Processes and Related Automation .....	48
14.1	Taxpayer Registration Process .....	48
14.2	Filing and Declaration Process.....	49
14.2.1	Business Rules - Employment Tax (Payroll Tax).....	51
14.2.2	Business Rules - Sales Tax .....	52
14.2.3	Business Rules - Corporate Tax .....	53
14.2.4	Business Rules - Production/Excise Tax .....	54
14.2.5	Business Rules - Rental Income Tax (RIT).....	55
14.2.6	Business Rules - Road Tax (RT) .....	55
14.2.7	Business Rules - Court Fees .....	56
14.2.8	Business Rules - Stamp Duty .....	56
14.3	Payment and Collection Process.....	57
14.4	Taxpayer Accounting Process.....	58
14.5	Arrears and Follow-up Process .....	59
14.6	Revenue Accounting Interfaced with SFMIS .....	60
15	Conclusion and Recommendations .....	61



## List of Tables

Table 1 - High-Level view for Inland Tax Instrument and Processes To-Be.....	6
Table 2 - Income Tax Brackets.....	20
Table 3 - Registration for Employment Income Tax .....	21
Table 4 - Considerations for descriptions of Employment Tax .....	21
Table 5 - Employee descriptions.....	22
Table 6 - Income Tax Brackets.....	22
Table 7 - Valuation and taxation of benefits in kind .....	23
Table 8 - PAYE Tax Return template.....	25
Table 9 - Accounting for Excise Duty.....	27
Table 10 - Suggested processes for Exports.....	28
Table 11 - Excise Tax Rates for different products.....	28
Table 12 - Telecommunication Sales Tax rate .....	36
Table 13 - Rental Income Tax Brackets.....	38
Table 14 - Proposed “To-Be” state- Rental Income Tax.....	38
Table 15 - Proposed Procedures for filing Rental Income Tax for Individuals.....	40
Table 16 - Proposed Procedures for filing Rental Income Tax for Partnerships.....	40
Table 17 - Taxpayer registration process steps.....	48
Table 18 - Filing and declaration process steps .....	49
Table 19 - Filing and declaration business rules - Employment Tax .....	51
Table 20 - Filing and declaration business rules - Sales Tax .....	52
Table 21 - Filing and declaration business rules - Corporate Tax .....	53
Table 22 - Filing and declaration business rules - Production/ Excise Tax .....	54
Table 23 - Filing and declaration business rules - Rental Income Tax (RIT).....	55
Table 24 - Filing and declaration business rules - Road Tax.....	55
Table 25 - Filing and declaration business rules - Court Fees .....	56
Table 26 - Filing and declaration business rules - Stamp Duty .....	56
Table 27 - Payment and Collection process steps .....	57
Table 28 - Taxpayer Accounting process steps.....	58
Table 29 - Arrears and Follow-up process steps .....	59
Table 30 - Revenue Accounting interfacing with SFMIS .....	60





## List of Figures

Figure 1 - Approach and methodology .....	3
Figure 2 - ITAS and M-Declaration .....	13
Figure 3 - Process of declaring CIT and PIT in the ITAS system .....	16
Figure 4 - Sample ITAS Tax declaration Form .....	19
Figure 5 - Sample Excise Duty Declaration Form.....	31
Figure 6 - Sample Sales Tax Return Form (1).....	34
Figure 7 - Sample Sales Tax Return Form (2).....	34
Figure 8 - Sample Login for Telecommunication Tax filing.....	37
Figure 9 - Sample for Telecommunication Tax filing .....	37
Figure 10 - ITAS login page.....	41
Figure 11 - Sample for Rental Income Tax Filing - CSV/Excel file .....	41
Figure 12 - Stamp Tax “As-Is” Assessment.....	42
Figure 13 - Sample login for Stamp Tax .....	43
Figure 14 - Sample for declaration and payment of Stamp Duty.....	43
Figure 15 - Stamp Tax - proposed process .....	44
Figure 16 - Court fees payment through the ITAS judicial automation module .....	47
Figure 17 - Process map - Taxpayer Registration .....	48
Figure 18 - Process map - Filing and Declaration .....	50
Figure 19 - Process map - Payment and Collection .....	57
Figure 20 - Process map - Taxpayer Accounting .....	58
Figure 21 - Process map - Arrears and Follow-up.....	59
Figure 22 - Process map - Revenue Accounting Interfaced with SFMIS.....	60

# 1 Introduction and Background

## 1.1 Background

The World Bank governance operations in FGS are focussed on building institutions to enhance service delivery. The Domestic Revenue Mobilisation and Public Financial Management Capacity Strengthening Project (DRM & PFM) project is strengthening systems for revenue mobilisation (to ensure increased revenue collection) and expenditure management (to help government spend it wisely).

There is an existing Financial Management Information System (FMIS) which provides basic revenue receipting and Tax Identification Number (TIN) generation functionalities for Inland Revenue collections. There are ongoing discussions about improving the TIN structure. Most Government revenues are receipted through the FMIS, which is connected to several revenue points.

To scale up DRM & PFM's early successes, The World Bank governance support is directed at modernisation and automation support in FGS focussed on:

- i. Development and implementation of integrated revenue automation system/ Integrated Tax Administration System (ITAS) including user requirement specifications
- ii. Information and Communication Technology (ICT) strategy
- iii. Establishment of ICT Competency Centre
- iv. Financing and supporting deployment of a 'fit-for-purpose' ITAS fully interfaced with FMIS
- v. Training and change management strategy development and implementation, to facilitate adoption of the system by both staff and taxpayers

## 1.2 Vision

The ITAS project seeks to deliver a “fit-for-purpose” robust, dynamic, scalable, efficient and futuristic Integrated Tax Administration System (ITAS) that meets FGS current and future needs.

The project will implement a “fit-for-purpose” robust and technologically advanced Integrated Tax Administration System through business process reviews, research, selection, deployment processes and quality assurance that will support the delivery of effective service to citizens while protecting and maintaining internal and regulatory controls to maximise stakeholder value.



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
June 2021

### 1.3 Objectives

The objective of this assignment is to assess, design, support government to procure a third party "fit-for-purpose" ITAS system, and quality assure the third party, in a phased manner following the client priorities. This includes:

- Phase 1 - Design the "Fit for Purpose" tax administration system which fits the budget and local context of Somalia
- Phase 2 - Support Government to Procure a third-party Service Provider who shall implement the fit for purpose ITAS
- Phase 3 - Quality Assurance (QA) role over implementation of the fit for purpose ITAS by the third-party service provider

### 1.4 Goal of this Report

The goal of this report is to document the 'to-be' processes that will be automated focusing on:

- a) Linkages between business needs and the ITAS
- b) Functional gaps
- c) Recommendations to improve and simplify procedures, forms and steps and functional gap analysis which compares actual performance with potential or desired performance, fully indicating estimated time and cost saving as a result of the recommendation.

## 2 Approach and Methodology

This section provides a description of the approach and methodology for the “To-Be” Design for Revenue and Tax Administration as outlined in

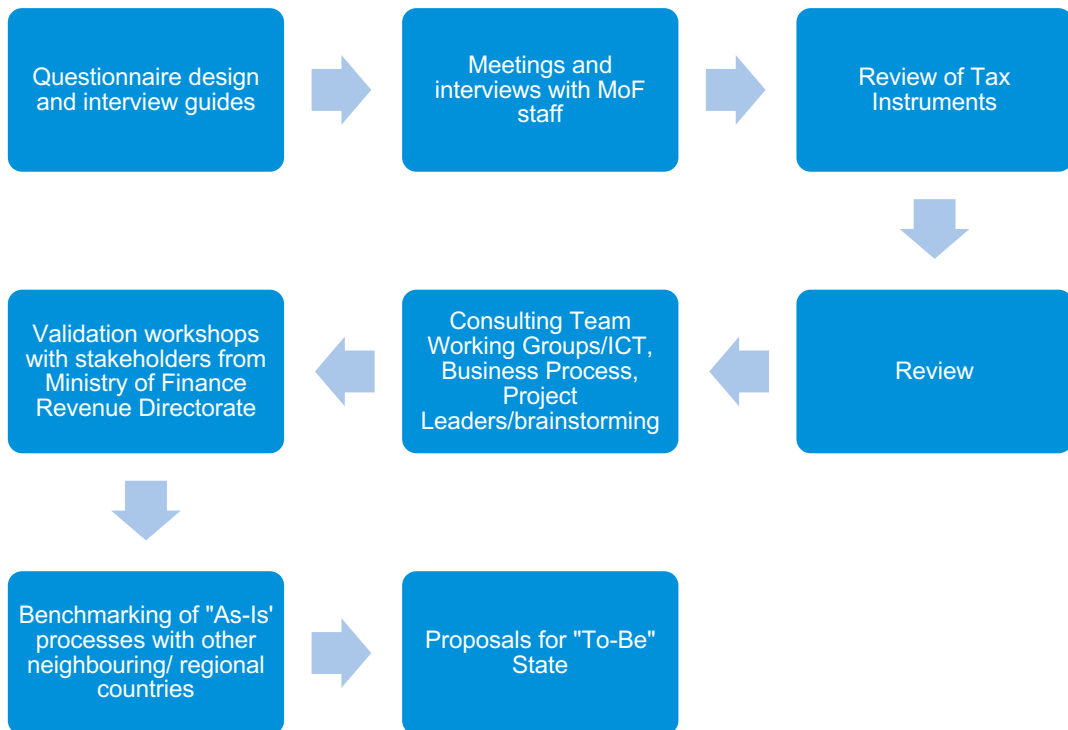


Figure 1 below:

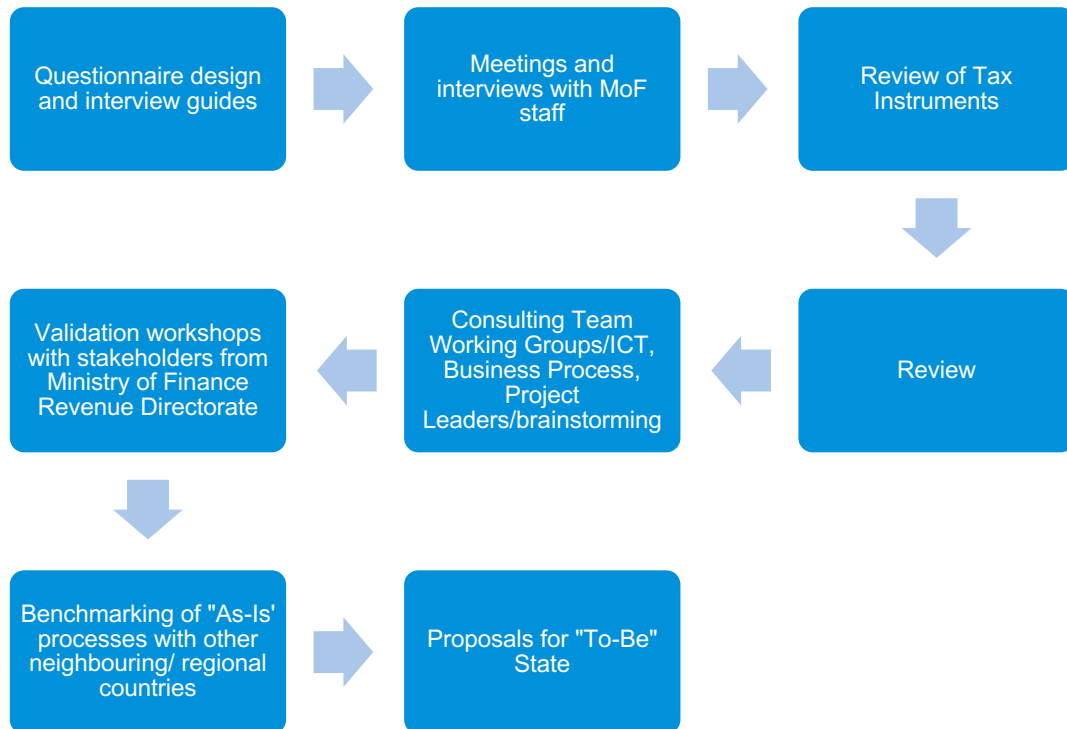


Figure 1 - Approach and methodology

## 2.1 Responding to Gaps Identified in the “As-Is” Assessment

The KPMG and KasmoDev consulting team formed Working Groups to propose solutions addressing gaps identified in the Current State Assessment of Revenue Administration, Information, Communication and Technology (ICT). For each tax instrument and the ICT function, proposed solutions were formulated to respond to the gaps and weaknesses to effectively respond to the issues experienced by FGS’s Inland Revenue Department (IRD) in establishing sound revenue administration and ICT processes.

## 2.2 Validation workshops

Validation workshops and walk through were also conducted to validate the information obtained through questionnaires and interview guides for revenue administration.

## 2.3 Benchmarking FGS Tax environment with the Region

Existing Revenue and ICT Processes in FGS were compared with the other countries’ in the Trading Blocks such as The East Africa Community (EAC), The Common Markets for Eastern and Southern Africa (COMESA), and The Economic Community of West African States (ECOWAS).

Based on the revenue administration practices across these regions, proposals have been generated for optimal and efficient to-be processes of revenue administration by



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
June 2021

outlining key steps of declaring, filing and paying taxes through the Integrated Tax Administration System (ITAS) environment.



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
June 2021

### **3 Gaps/ Pain-Points from “As-Is” Assessment**

These are the gaps identified in the current state of revenue and tax administration of various tax instruments and the ICT environment.

Table 1 summarises gaps/ pain points uncovered in the “As-Is” assessment, for which the suggested “To-Be” states have been developed.



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
 June 2021

Table 1 - High-Level view for Inland Tax Instrument and Processes To-Be

Tax category	“As-Is” assessment	Gaps/ Pain-Points considered in “To-Be” State
Rental Income	<ul style="list-style-type: none"> <li>— This is a self-assessment tax and the process is manual in nature</li> <li>— Compliance level is currently very low as most businesses and individuals do not file rental income tax</li> <li>— The filing of income is through self-assessment</li> <li>— If one does not declare taxes, there is currently very limited avenue for the government to know if someone has rental income or not.</li> <li>— The landlord calculates his/her rental income and submits the return to the tax authority</li> <li>— Taxable rental income is net of the gross income for an amount equal to 20% of such income for repairs, maintenance, and any other expense or loss which might have been incurred.</li> <li>— The Inland Revenue Department (IRD) office issues the taxpayer with an invoice for the tax amount due</li> <li>— The taxpayer submits the payment slip to the IRD which then issues a receipt as evidence of the tax having been settled</li> </ul>	<ul style="list-style-type: none"> <li>— There should be clarity on whether residential and commercial rental income is treated the same. There should be separate declaration of buildings for residential occupancy and for rental purposes. For businesses or organisations that generate rental income, this income should be added to operational income and charged Corporate Income Tax</li> <li>— There should be guidance on how to calculate and file the tax return on income from buildings and other installations</li> <li>— There should be clarity of losses arising from rental income, whether it should be carried forward or not. If the landlord has interest payable on the loan used to acquire the building, that interest should also be deducted.</li> <li>— There is no guidance on how to calculate and file the tax return on income from buildings. This should be made clear to the taxpayers</li> <li>— There is no clarity on when the rent should be paid. This should be clarified</li> <li>— It is not clear on penalties for filing late or failure to file. This should be clarified and applied</li> </ul>





Ministry of Finance - Federal Government of Somalia

**Consultancy Services for Development of Somalia Integrated Tax Administration System**

June 2021

Tax category	“As-Is” assessment	Gaps/ Pain-Points considered in “To-Be” State
Income Tax (CIT/PIT)	<ul style="list-style-type: none"> <li>— This is a self-assessment tax and the process is manual in nature</li> <li>— The taxpayer manually submits their corporate tax computation together with the income statement to IRD officers for review</li> <li>— The IRD office issues the taxpayer with an invoice for the tax amount due</li> <li>— The taxpayer pays the tax due to the Central Bank of Somalia (CBS) or in designated accounts at commercial banks</li> <li>— The taxpayer submits the payment slip to the IRD which subsequently issues a receipt as evidence of the tax having been settled</li> <li>— Same corporate tax rate for resident and no-resident companies</li> </ul>	<ul style="list-style-type: none"> <li>— This tax should be enforced and paid by all registered taxpayers</li> <li>— The process is manual in nature and hence cumbersome. It should be simplified for taxpayers to understand and comply</li> <li>— It should be clear if the year for review is fiscal year or calendar year.</li> <li>— It should be clarified whether audited accounts are required or not.</li> <li>— The corporate tax rates are quite numerous. There is need to streamline the tax rates and remain with few.</li> <li>— Forms for declaring and paying tax should be designed and simplified for different categories of taxpayers</li> </ul>
Sales Tax	<ul style="list-style-type: none"> <li>— This is a self-assessment tax and the process is manual in nature</li> <li>— The company manually submits their sales tax computation to IRD officers for review</li> <li>— The IRD office issues the company with an invoice for the tax amount due</li> <li>— The company pays the tax due to the Central Bank of Somalia (CBS) or in designated accounts at commercial banks</li> <li>— The company submits the payment slip to the IRD who shall issue a receipt as evidence of the tax having been settled</li> <li>— No electronic invoicing is in place</li> </ul>	<ul style="list-style-type: none"> <li>— It should be clear if input tax can be claimed by the taxpayers</li> <li>— Computation of penalties is not clear if tax is not filed on time. This should be clarified</li> <li>— Should be clarified if a taxpayer can file a NIL tax return</li> <li>— There is no consistence in verifying the accuracy of the data filed. This should be clarified, and procedures and guidelines put in place</li> <li>— Penalties are outdated, they should be reviewed and updated</li> <li>— FGS should consider electronic invoicing which increases compliance and transparency</li> </ul>



Ministry of Finance - Federal Government of Somalia

**Consultancy Services for Development of Somalia Integrated Tax Administration System**

June 2021

Tax category	“As-Is” assessment	Gaps/ Pain-Points considered in “To-Be” State
Production tax/Excise Duty	<ul style="list-style-type: none"> <li>— Key sectors of production in Somalia include drinking water, polythene bags, nylon rubs, sim-sim oil, and serviette/napkins, plastics</li> <li>— Not developed because of recovery from the 30-year civil war</li> <li>— Most of the manufacturers are not registered for production and excise tax</li> <li>— Production and excise tax not well understood by the local producers</li> <li>— It is charged on some imported and locally manufactured goods</li> <li>— No specification for record keeping</li> </ul>	<ul style="list-style-type: none"> <li>— Not well understood by the local producers-Sensitization required</li> <li>— No clear automated system – A system should be in place</li> <li>— No tax stamps – These should be used to mark goods subject to excise duty since it is a requirement of the law</li> <li>— Taxable base should be clear and INCOTERMS used clarified</li> <li>— Records to keep by manufacturers should be clear and clarified</li> <li>— Penalties should be clarified to taxpayers</li> <li>— The tax should be automated to facilitate compliance</li> </ul>



Ministry of Finance - Federal Government of Somalia

**Consultancy Services for Development of Somalia Integrated Tax Administration System**

June 2021

Tax category	“As-Is” assessment	Gaps/ Pain-Points considered in “To-Be” State
Employment Tax CHAPTER VII Income from Employment	<ul style="list-style-type: none"> <li>— Most enforced tax in FGS and the process of declaring and payment is manual</li> <li>— Payroll tax deductions are withheld by International NGOs and International Companies, public entities, on a monthly basis</li> <li>— Employers go to the IRD offices to submit the payroll summary manually</li> <li>— IRD reviews the payroll summary and the tax due to check if it is accurate</li> <li>— IRD compares current month payroll tax amount to the previous month and questions any variance of the payroll tax</li> <li>— Payroll review processes is tedious and time consuming; sometimes companies are returned for various queries, yet some organizations do not have sufficient knowledge about this tax</li> <li>— It can take up to 3 days for the final acknowledgement to be received for some organizations</li> <li>— Mostly, payroll tax compliance is for established businesses and international NGOs and Government employees</li> </ul>	<ul style="list-style-type: none"> <li>— Unless individual is a vendor consultant, TIN is strictly for organizations – Self-employed people are given PIN</li> <li>— Time consuming - IRD Officers return taxpayers’ multiple times without clarifying the issues (as reported by some taxpayers) – the process should be automated</li> <li>— Critical tax awareness campaign is required</li> <li>— The process is manual, and tedious – It should be automated</li> <li>— Depends on walk in taxpayer given no platform to do individual tax assessment-Automation is required</li> <li>— No guidance on Fringe Benefit Tax (FBT)-Should be included in the calculation of tax to be paid since it is in the law</li> <li>— No guidance on Non-Cash Benefits provided by employers-Guidance should be given and included on payroll</li> <li>— No guidance on car Benefit-Should be clarified and added on payroll</li> <li>— No guidance on value of Premises provided by Employer-Should be included on payroll</li> <li>— No platform to submit payroll returns to IRD-Automation is required</li> <li>— Individuals cannot do online return submission given that majority of employees excluding vendor consultants do not have a TIN</li> </ul>



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
 June 2021

Tax category	“As-Is” assessment	Gaps/ Pain-Points considered in “To-Be” State
Telecommunication tax	<ul style="list-style-type: none"> <li>— Data services</li> <li>— Fibre Equipment and infrastructure</li> <li>— Websites and webhosting</li> <li>— Software</li> <li>— Image, text and information</li> <li>— Telecommunication services by corporation</li> <li>— Databases</li> <li>— Telecommunication remittances and signals</li> </ul> <p>The payment is due each calendar month and paid into the Treasury Single Account of the Federal Government of Somalia at the Central Bank, Mogadishu within 10-days after the end of each calendar month.</p>	<ul style="list-style-type: none"> <li>— Telecommunication tax should be filed by all the telecom firms operating within the jurisdiction of the Federal Government by logging in and upload the services report on a monthly basis. The upload template could be in the form of CSV file or a Microsoft Excel sheet</li> <li>— Payment should be done by 10th of the subsequent month</li> <li>— IRD to provide tariff and services catalogue to telecommunications service providers for ease of reference</li> </ul>
Road tax	<p>The challenges faced in the implementation of Road tax are:</p> <ul style="list-style-type: none"> <li>— Tax process is manual hence high rate of avoidance</li> <li>— Low awareness among taxpayers</li> <li>— Operational efficiency depends on the road patrol and physical check points</li> <li>— SFMIS has no specific road module</li> <li>— Tax base- not clear if all vehicles are registered</li> <li>— Imported cars pay road tax for 3 months, difficult to enforce the subsequent months once the vehicle is on the road</li> </ul>	<ul style="list-style-type: none"> <li>— Fuel Road Tax - The government should consider introducing Fuel Road Tax to be paid in customs by importers of fuel to compensate for road tax. For example, 2% can be charged on petroleum as road tax</li> <li>— Excise Duty - Introduce Excise Duty Tax, say of 10% on imported motor vehicle and motorcycles and should be collected in customs.</li> <li>— Fixed amount to be paid at importation - Importers should pay a one-off tax (fixed amount) tax at customs when the vehicle is imported depending on horsepower (HP) of the vehicle</li> <li>— Automation of the current Road Tax through ITAS</li> </ul>
Court fees	<p>The court fees are determined by the nature of the case and are collected by the Clerk of the Court</p>	<p>ITAS to be configured and ensure it captures the various court fees such as costs for filing cases, fines, etc.</p>



Ministry of Finance - Federal Government of Somalia

**Consultancy Services for Development of Somalia Integrated Tax Administration System**

June 2021

Tax category	“As-Is” assessment	Gaps/ Pain-Points considered in “To-Be” State
Stamp tax	<p>The tax rate is 2% of the value of the transaction. It is collected by the MoF, IRD. It is also charged on Civil Acts, Administrative Acts, Judicial Acts, Acts and documents of foreign origin, ship’s Manifests and Registers and day books.</p> <p>The tax is collected by the relevant government agency. The main challenge facing administration of stamp duty tax is lack of awareness among taxpayers as well as the lack of capacity among the staff to implement the tax.</p>	Proposed automation of stamp tax in the ITAS system
Registration fees	The Ministry of Commerce is responsible for registering both local and international businesses and taxpayers. Taxpayers pay registration fees before they are licensed. Entities are issued with annual business licenses that should be renewed annually.	<ul style="list-style-type: none"> <li>— Establish online business and NGO registration services</li> <li>— One Stop shop integration of business and organization registration with ITAS</li> <li>— Develop a centralised data management system – FGS will collect companies, businesses, market data and payments, view key information such as number of businesses registered, regional spread, analyse shareholding and payments reporting.</li> </ul>

## 4 Income Tax - “To-Be” State

There are two types of Income Tax. Personal Income Tax (PIT) which is charged on sole traders, partnerships and unincorporated businesses.

Corporate Income Tax (CIT) is charged on companies incorporated as limited liability companies in FGS. The rates of PIT and CIT are the same for all types of Income.

### 4.1 Corporate Income Tax (CIT)

CIT is provided for in Article 12, Law Number 5 of 1966.

The law states that Corporate Income Tax shall be charged upon the following incomes accruing or received in the territory of the FGS:

- a) profits from any industrial, commercial, professional or vocational activities, irrespective of the duration of such activity
- b) interest or discounts, charge or annuities, rents and royalties
- c) occasional and extraordinary gains and any other income of any nature whatsoever deriving from other sources

CIT is charged on both local and foreign outsourced income. CIT should be enforced and paid by all registered taxpayers in FGS because some small and medium taxpayers are not registered.

In order to streamline tax collection, Electronic Tax System (ITAS) should be introduced in FGS. Also, small taxpayers should be facilitated by introducing Mobile Money tax paying system (M-Declaration). Types of Income Tax declared using ITAS or M-Declaration is illustrated in Figure 2 below:

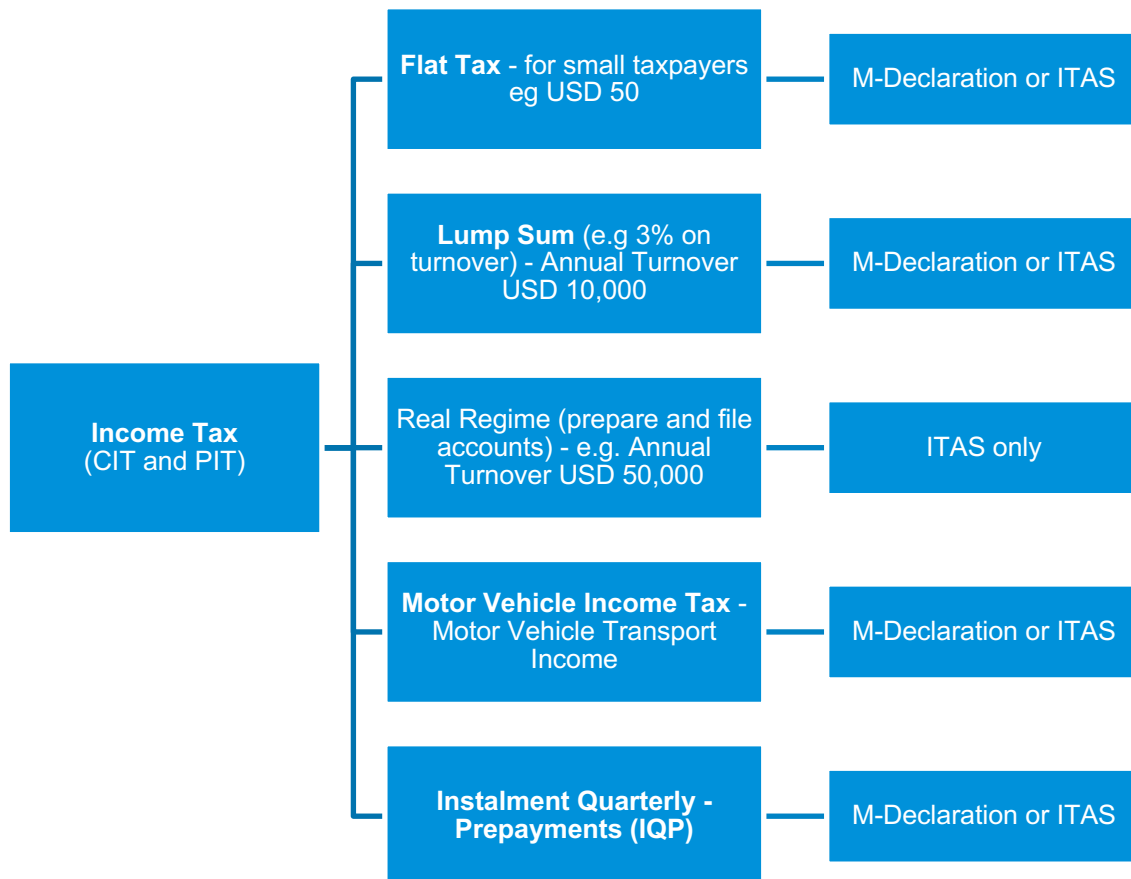


Figure 2 - ITAS and M-Declaration

According to the Income Tax law (ITL), taxable income is reduced by business expenses incurred during the tax period. These expenses must be related to the business in the financial period and must not be personal expenses.

The Income Tax law states that in arriving at the tax profits, the following expenses are deducted from income:

- Expenses and liabilities incurred by such person in the production of the income
- Further, interests payable to persons having their domicile or residence in FGS, or permanently carrying on their activities therein, are deductible
- Losses incurred by reason of the total or partial destruction of the property pertaining to the enterprise, or of the sale of such property at a price lower than the proportion of costs which has not yet been written off
- Operating deficits (of companies and associations assessable based on the balance sheet), relating to a financial year from the income of subsequent financial years for a period not exceeding 3 years. This provision also applies to persons not assessable based on the balance sheet if their book entries are kept in accordance with the regulations in force

- Depreciation in relation to the wear and tear of movable and immovable property, plants and machinery, patent and concession rights, trademarks and other property subject to depreciation
- Gratuities fund: Any amount yearly and voluntarily set aside in a fund for the payment of gratuities and other benefits relating to termination of service in accordance with the provisions of private employment contracts and collective labour agreements. However, any out payments out of that fund for purposes other than those for which the special fund was formed shall be assessable
- Deductions in respect to gross income from buildings and structures referred to in Article 12 (e) shall be 20% of such income to cater for repairs, maintenance and any other expenses or losses that may have been incurred

Some expenses are not allowed to be deducted from taxable profits. These include:

- Domestic or private expenses
- Any loss, diminutions, exhaustion or withdrawal of capital of any sum employed as capital or any expenditure for a capital purpose
- Any loss or expense which is recoverable under any insurance, contract or indemnity
- Rent of any building or part of buildings not paid for the purpose of producing the income
- Any interest on the owner's capital

## 4.2 CIT and PIT Payment

Final CIT declaration are made once a year, not later than 31st March after the end of the tax period. Extension for late filing should only be allowed by the Director General upon request by the taxpayer if he or she has genuine reasons not to declare on time.

## 4.3 Quarterly prepayments

In addition, if compliance is to be enhanced, taxpayers should be required to declare and pay Instalment Quarterly Prepayments (IQP) equal to  $\frac{1}{4}$  of the annual tax payable. All IQPs that are paid can then be claimed back during annual Income Tax declarations.

Any taxpayer who makes profits in a particular year, he/she should declare and pay quarterly prepayments in the subsequent year based on previous year taxes paid. For example, if during the fiscal year 2021 that runs from January 1<sup>st</sup> to December 31<sup>st</sup>, a taxpayer paid CIT of USD 100,000, he or she should pay IQP in the fiscal year 2022 as follows:

- Q1 25% of USD 100,000 (USD 25,000 to be paid on 30 June 2022)
- Q2 25% of USD 100,000 (USD 25,000 to be paid on 30 September 2022)
- Q3 25% of USD 10,0000 (USD 25,000 to be paid on 31 December 2022)
- Q4 should be paid together with the balance of CIT tax for 2022 by 31st March 2023.



Quarterly prepayment will improve compliance and avail cash flow to the government. If the tax paid in IQPs is more than the total tax payable in the fiscal year 2022, a taxpayer should claim a tax refund.

#### **4.4 Operational Losses**

In accordance with Income Tax Law, Operational losses can be carried forward for three (3) years. This practice may be maintained by FGS as it encourages investment in the country. However, caution should be paid so that losses carried forward are genuine tax losses. This can be assured by establishing and strengthening a competent tax audit department. To encourage domestic production and investment, FGS may consider allowing to carry forward losses indefinitely, of course with care after a tax audit.

To ensure all taxpayers pay their fair share and prevent tax evasion, FGS should consider introduction of a Minimum Alternative Tax (MAT). Such a tax should be based on turnover. A taxpayer either pays CIT or MAT tax liability, whichever is greater. If MAT is greater than CIT, the difference is a tax refund which may be used in future to offset against future tax liability. (MAT can be 1% or 2% of turnover per year)

#### **4.5 Penalties for Non-Compliance**

Article 91 of the Revenue Management Act, 2019 states that a person who fails to pay taxes on or before the due date has committed an offense. The penalties are:

- a fine of not less than 5% and not more than 25% of the amount of tax applicable
- imprisonment of not less than 1 month and not more than 3 months
- or both

These should be enforced in FGS to deter noncompliance.

## 4.6 Process of paying CIT and PIT

An ITAS system should be designed, and CIT and PIT should be declared on a self-assessment basis by the taxpayers. The process of declaring and paying CIT and PIT is elaborated in the flow diagram as shown in Figure 3 below in the ITAS system.

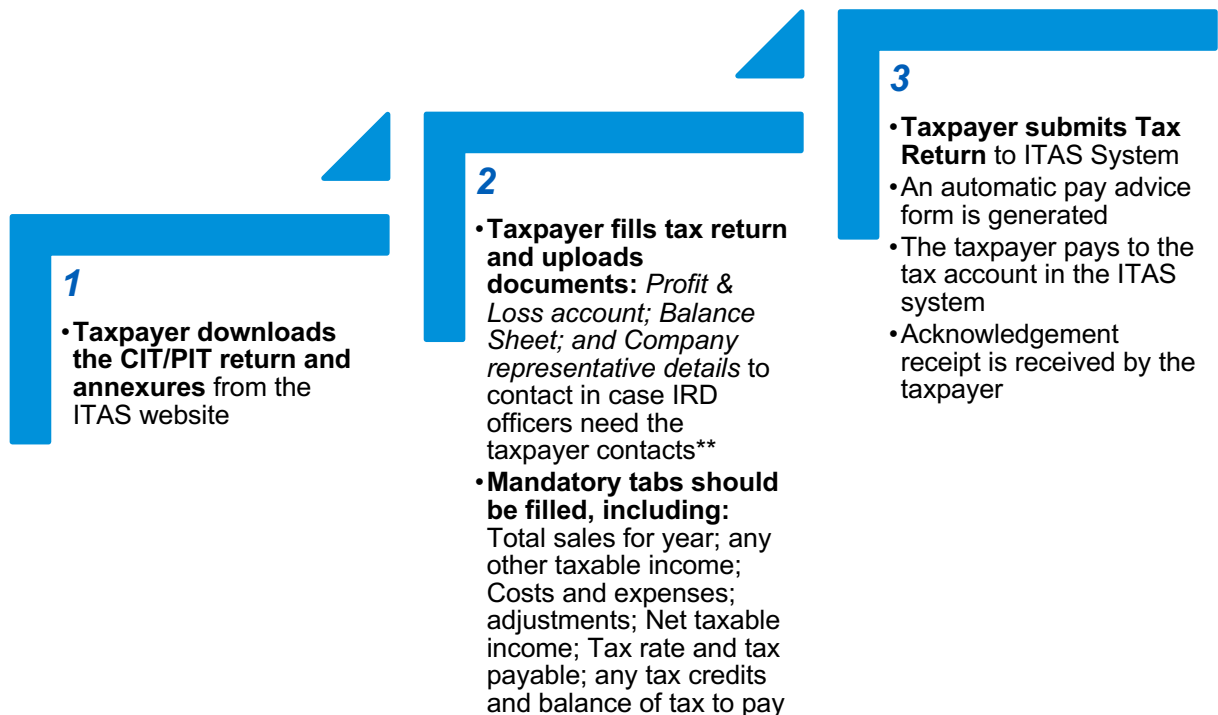


Figure 3 - Process of declaring CIT and PIT in the ITAS system

The tax return in the ITAS system should have tabs to fill.

*\*\* The taxpayer must nominate at least one individual to represent the company. The nominated individual(s) should be available for contact and be able to represent the company in any correspondence or tax matters. The nominated individual(s) can be the owner, shareholder or employee within the company, or even external to the company, such as private tax advisors. Taxpayers are encouraged to provide more than one company representative to ensure that any important communication between IRD and the taxpayer can be quickly transmitted.*

## 4.7 Key Considerations in Filing Income Tax Return

- 1 During the tax declaration process using an ITAS system, the taxpayer must choose the relevant CIT/PIT annexure from ITAS system.
- 2 In addition to the annexures, three additional documents are required to be submitted (large taxpayers may be required to submit audited accounts). These are:
  - Profit and Loss Account
  - Balance Sheet
  - Company Representative
- 3 All tabs on the form should be filled, a tax return cannot be submitted if they are not filled
- 4 **Depreciation Table:** refers to the depreciation that can be deducted from taxable profits. Buildings, equipment, heavy machinery and intangible assets that have been purchased from a third party must be listed and depreciated in individual rows.
- 5 Computers and accessories, information and communication systems, software products and data equipment can be pooled and entered as a single row and depreciated in a pool. All other depreciable business assets (that have not otherwise been mentioned) can be pooled and entered as a single row.
- 6 The tax administration should agree on classes of assets and their depreciation rates that can be entered into ITAS system, for example, commercial building can be depreciated at 5%, computers and software 30%, motor vehicles at 25% and so on. Tax depreciation may differ from accounting depreciation which may be arrived at using International Financial Reporting Standards (IFRS)
- 7 Only allowable expenses should be included in the ITAS system, if personal expenses were included in the financial statements, adjustment should be made during tax computation
- 8 If there is withholding tax credits, these should be automatically offset from the tax payable as tax credits. However, IRD may review these tax credits in subsequent reviews
- 9 Government/IRD may opt to exempt some categories of taxpayers from withholding taxes, these should be profiled as compliant taxpayers with no record of tax evasion
- 10 Tax penalties should be configured in ITAS for late payment of tax
- 11 Operational tax losses should be carried forward in ITAS for 3 years
- 12 ITAS should allow desk audit of the tax returns

## 4.8 Income Tax Audit process

When a return is submitted by the taxpayer, IRD may decide to conduct a desk review of the return or conduct a field audit. Cases that may trigger an audit include: absence of the return, late filing of the return, applying incorrect return, not declaring all sales and income, claiming tax credits, charging disallowable expenses to income among others.

The process is captured in the section below.

#### 4.8.1 Key Steps in conducting CIT audit

- Tax officers select the taxpayer to audit on a sample basis. A tax audit procedure manual should be developed/updated frequently
- Tax office communicates to the taxpayer if it is field audit (audit notification). For desk audit, there is no need to notify the taxpayer
- IRD sends officers to the taxpayer premises. Officers should at maximum spend 30 days at the taxpayer premises if all documents and information to audit is available
- Audit is conducted on documents such as BS, P&L, Ledgers, Import declarations, expenses, among others
- A rectification note of any tax discovered by the tax auditors is given to the taxpayer showing balance of tax and penalties to pay or a refund claimable if the taxpayer overpaid taxes
- Taxpayer is given time to respond to the rectification note with additional evidence if he/she does not agree with the findings, normally in 30 days
- Audit Case is closed or appeal processes to the DG continues by the taxpayer. Appeals can also be done in 30 days from the date a rectification note is received by the taxpayer.
- Taxpayer should be given a chance to go to court if he/she is not satisfied with the assessment and DG decision.

Please note that:

- In case of an investigation, a taxpayer may not be informed ahead of time. All fraud cases should be investigated.
- A taxpayer can be allowed to pay in instalments for taxes discovered during audit
- Waiver of taxes to be only given by the cabinet upon advice by the DG and Minister of Finance
- A refund can be used to offset against future tax liabilities

#### 4.8.2 Sample ITAS tax declaration design

A sample ITAS tax declaration design is shared in Figure 4 below.

Code	Description	Amount
1-45	Gross income	0
50	Total Income (Sum of Line 1 through 45)	0
55	Employment Deductions	0
60	Investment Expenses	0
65	Transport Expenses	0
70	Non-Operating and Extra Ordinary Expenses	0
75	Training and Research Expenses	0
80	Investment Allowance	0
85	Bad Debts	0
90	Total Deductions (Sum of Line 55 through 88)	0
95	Net Income (Subtract Line 90 from Line 50)	0
100	Reintegration of Non-Deductible Expenses	0
105	Depreciation Adjustments (+-)	0
110	Loss Carried Forward from previous five tax periods	0
115	Taxable Income (Add Line 95 and Line 100 and +/-Line 105) Minus Line 110	0
120	Personal Income Tax	0
125	Tax Discounts from Employment	0
130	Tax Discounts from Exports	0
135	Tax Discounts from Free Trade Zone	0
140	Foreign Tax Credits	0
145	CIT/PIT Payable (Line 120-(Line 125+130+135+140)	0
150	Quarterly prepayment	0
155	Withholding on Imports	0
160	Withholding on Public Supplies	0
165	Withholding on Other Payments (Other/Withholding Credit Amount 0)	0
170	Withholding on Payments (PAYE)	0
175	Total Credits (Sum Line 150 through 170)	0
180	Over payment from Previous Periods	0
185	Net Tax Due/Credit (Subtract Line 175 and Line 180 from Line 145_	0
190	Refund Claimed	0
195	Balance due	0
		Save
	Continued with Upload Annexures>	<Back to Documents

Figure 4 - Sample ITAS Tax declaration Form

Note<sup>3</sup> This is a leading practice Income Tax Filing by the COMESA Countries.

## 5 Employment Tax - “To-Be” State

### 5.1 Description

PAYE is tax on employment income. PAYE is an efficient way of collecting taxes on income earned by employees. PAYE is required to be withheld by employers on behalf of their employees. This is to save employees having to each declare their own income. Instead, the employers must declare and pay PAYE on behalf of their employees

In Somalia, CHAPTER VII- Law No 5 of 1966 governs the taxation of Income from Employment. Employment tax, known as Pay as You Earn (PAYE) is withheld by the Government as an employer as well as private companies on remuneration to their employees. Employment income is taxable at graduated rates from 6% up to 18% as shown in Table 2 below:

Table 2 - Income Tax Brackets

Monthly Income bracket (in US\$)	Tax Rate (%)	Assessment Formula
0-200	0%	Exempt
201 – 800	6%	Income above US \$200 and up to US \$800
801 – 1500	12%	Income above US \$800 and up to \$1,500
1501 – over	18%	Income above US \$1501

### 5.2 Who should register for Employment Income Tax

Article 31 of the legislative decree number 5 of 1966 states that income tax chargeable upon the income from employment shall be paid by the physical or juridical persons, whether public or private, who employ the persons receiving such income. The employers shall recover the amount of the tax from the persons employed by them.

However, the gap noted in FGS is that TIN numbers are only issued to companies and currently there are no individual TIN numbers. The lack of individual TIN poses the following challenges:

- IRD cannot verify if the amounts withheld by the employer have been submitted to IRD or may be undeclared by the employer
- Amounts paid as salaries to consultants may not be declared since the company may consider this as expense and hence no PAYE is paid

As part of the “To-Be” state, IRD may consider the considerations in Table 3 below:

Table 3 - Registration for Employment Income Tax

Action	Process	Value to FGS
Issue personal TIN numbers	<ol style="list-style-type: none"> <li>1 All employers, consultants and other individuals receiving taxable employment income as indicated in the law should be issued with individual TIN numbers</li> <li>2 Employers are required to provide each employee with a statement for each tax period showing:               <ul style="list-style-type: none"> <li>— The employee's name.</li> <li>— The amount and type(s) of income received.</li> <li>— The amount of PAYE and Social security contributions that have been withheld and paid on their behalf</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>— Employees can report on amounts withheld from them and not remitted to IRD.</li> <li>— Creates transparency and buy-in from the general public and especially from the employees.</li> </ul>
Withholding percentage of income from consultant fees	<ul style="list-style-type: none"> <li>— Employers should withhold a particular percentage from consultants to be remitted to IRD for fees paid as emoluments/ work done for the organisation. A withholding tax can be, say, 3% as an example.</li> <li>— The balance of tax received by the consultant should be accounted as personal income and should be filed as a return separately by the consultant after deducting the 3% withheld at source</li> </ul>	Ensures that fees paid to consultants are accounted for in full as income by the individuals receiving such income

### 5.3 Taxable Employment Income

CHAPTER VII- Law No 5 of 1966 does not define the types of income that is subject to employment tax. As part of the FSD, the IRD should consider including the descriptions of Employment Tax as noted in Table 4 below:

Table 4 - Considerations for descriptions of Employment Tax

Action	Proposed classification of income from employment	Value
Expand proposal on what is to be considered as employment income	<ol style="list-style-type: none"> <li>1 Wages, salary, leave pay, sick pay and medical allowance, payment in lieu of leave, fees, commissions, bonuses, gratuity and incentives.</li> <li>2 Allowances including any cost of living, subsistence, entertainment, accommodation, rent, or travel allowance.</li> <li>3 Payments to the employee for their acceptance to work in any conditions of employment.</li> <li>4 Payments for redundancy, loss or termination of employment.</li> <li>5 Other payments made in respect of current, previous or future employment</li> <li>6 Taxation of benefits in kind such as availability of a house or a motor vehicle</li> </ol>	Results in expanding the tax base and hence translates to more taxes being collected.

## 5.4 Obligation of Employers

As part of the “To-Be” state, the employer should provide the employee with a statement or payslip that shows the following:

- The employee’s name.
- The amount and type(s) of income received (gross pay).
- The amount of PAYE and Social security contributions that have been withheld and paid on their behalf to IRD

## 5.5 Types Employees

The legislative decree 5 of 1966 lacks clarity on the different types of employees. Table 5 below describes the types employees.

Table 5 - Employee descriptions

Type of employee	Description	Rates described in the Employment Act
Permanent employees	Employees are regarded as permanent employees unless they fulfil the criteria for casual labourers or employees with more than one employer	The employment tax currently describes salaries for employees who are permanent in nature.
Casual labourer	Is an employee who performs unskilled labour activities, who does not use machinery or equipment requiring special skills, and who is engaged by an employer for not longer than thirty days during a tax period	The act is currently not clear on how to tax casual employees.
Employee employed by more than one employer	Employee is employed by more than one employer, the employer who pays them the highest taxable income is referred to as the ‘first employer’	The tax does not define how employees with more employers are taxed.

## 5.6 PAYE Rates

There are different marginal tax rates for permanent employees depending upon their taxable employment income. The tax rates are detailed in Table 6 below:

Table 6 - Income Tax Brackets

Monthly Income bracket (in US\$)	Tax Rate (%)	Assessment Formula
0-200	0%	Exempt
201 – 800	6%	Income above US \$200 and up to US \$800
801 – 1500	12%	Income above US \$800 and up to \$1,500
1501 – over	18%	Income above US \$1501

## 5.7 Taxation of casual labourers

The current law does not have tax rates for casual labourers. The IRD can establish a withholding tax, say 5% on casual labourers.



## 5.8 Taxation of employees with more than one employer

The current law does not have taxable rates for employees with more than one employer. A rate for taxing employees with more than one employer should be determined. It should be the highest rate.

## 5.9 Taxation of benefits in kind

The legislative decree 5 of 1966 does not provide guidance on how to value and tax benefits in kind.

As part of the “To-Be” state, the Employment Tax may include valuation and taxation of the benefits in kind as shown in Table 7 below:

Table 7 - Valuation and taxation of benefits in kind

Action	Process	Value to FGS
Proposed method of taxing benefits in kind, not given in cash to employee	<ul style="list-style-type: none"> <li>— Providing an employee with access to and use of a motor vehicle during a tax period could be valued at 10% of the employment income, excluding benefits in kind.</li> <li>— Providing an employee with accommodation during a tax period could be valued at 20% of the employment income, excluding benefits in kind</li> <li>— All other benefits should be added to the gross and taxed</li> <li>— If benefits for a car and a motor vehicle is given in cash, the entire amount should be added to the gross pay and charged PAYE</li> </ul>	Taxation of benefit in kind generates more revenue for FGS.

## 5.10 Declaration and payment of employment tax

The declaration and payment process for PAYE is similar to other domestic taxes and should be done in ITAS. The taxpayer first downloads the PAYE Annexure from ITAS website.

The following information needs to be captured in the Form

- Employee TIN
- Employee TIN Number – (if available).
- Employee National ID – (if available).
- Employee Last Name – Enter the family name of the employee.
- Employee First Name – Enter the given name(s) of the employee.
- Enter the gender of the employee i.e. M – Male, F – Female
- Start Date (dd/mm/yyyy) – Enter the date that the employee started working.
- End Date (dd/mm/yyyy) – If the employee stopped working within this tax period, enter the date that the employee stopped working.
- Basic Salary – Enter the basic salary of the employee during the tax period.

- Benefit in Kind, Transport – If the employee benefits from access to and use of a motor vehicle provided by the employer during the tax period.
- Benefit in Kind House – If the employee benefits from accommodation provided by the employer during the tax period.
- Benefit in Kind Others – If the employee benefits from any benefits in kind from the employer other than transport or accommodation during the tax period.
- Cash Allowance Transport – If the employee benefited from a cash allowance for transport from the employer during the tax period, enter the allowance amount.
- Cash Allowance House – If the employee benefited from a cash allowance for accommodation from the employer during the tax period, enter the allowance amount.
- Cash Allowance Others – If the employee benefited from a cash allowance for purposes other than transport or accommodation from the employer during the tax period, enter allowance amount.
- Deduct the Social security contribution
- Deduct any personal relief/tax relief available.

## 5.11 Tax Return Template

The suggested tax return template is in Table 8 below with the details to be completed prior to submission of the return in ITAS.



Ministry of Finance - Federal Government of Somalia  
**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
June 2021

Table 8 - PAYE Tax Return template

Name of employee	Employee TIN number	Residential status	Basic salary	Housing allowance	Overtime allowance	Other allowance	Total pay (A)	Total non-cash benefit (B)	Total Gross pay C = (A+B)	Less social security contribution (D)	Taxable pay E= (C-D)	Tax payable (F) = According to scale	Less personal relief = (G)
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## 6 Excise Duty - “To-Be” State

### 6.1 Description

Excise Duty is a tax applied to specific products. The aim of Excise Duty is to discourage consumption of goods with negative social impact and raise revenue. This can reduce the costs of healthcare and policing, whilst raising significant revenues for further government spending. As Excise Duties are charged on the consumption of certain products, it is also referred to as a ‘consumption tax’.

In the Federal Government of Somalia, Excise Duty tax law is based on presidential decree No. 3 of 23 May 1985. According to article 2 of the decree, Excise duty is levied on a person for undertaking specific revenue generating activities. The tax is levied at the point of import prior to release of goods from the port or ex-factory price at the point products are released from factory for distribution to retail consumers.

### 6.2 Registration for excise duty

Article 5 of the excise duty presidential decree No. 3 of 23 May 1985 states that it is the responsibility for the Ministry of Industry or any other governmental unit responsible for approving or issuing licences for establishment of any industry to inform the IRD whenever an approval is given or licence is issued, about the name of the person to whom approval or license is given, his address, location of factory, type of product and expected date of production.

However, the process of registration of factories is very weak and IRD does not have detailed information on the registered industries. The weakness in registration has led to the following challenges in FGS.

- a) Taxpayers required to pay excise duty may not be registered and hence the government losing out on potential revenue
- b) Challenges in enforcement by IRD since the taxpayers may refuse to comply
- c) Lack of database of the companies who are registered for excise duty leads to weak planning of the expected future revenue by the government
- d) Those registered are difficult to monitor and no audits of their records

As good practice, a manufacturer of a product that is subject to Excise Duty is required to register for Excise Duty license, declare and pay Excise Duty. There is no threshold on company size for Excise Duty. A taxpayer who manufactures taxable products must declare and pay Excise Duty regardless of the size of the business.

As part of “To-Be” state, the FGS should undertake an exercise of registering all businesses that are subject to Excise Duty. The details should be captured in the ITAS and new licenses issued. The following licensing procedure for local manufacturers should be considered (importers will follow customs registration procedures):

- IRD to classify excisable goods such as goods manufactured in FGS, excisable services supplied within the jurisdiction of FGS or imported excisable goods

- IRD to development Excise Duty local registration form
- Manufacturers and producers shall only register for Excise Duty after Registration for TIN
- Excise Duty on imports are declared and paid at the port of entry (sea or land)
- The Manufacturer or importer should log to ITAS, declare and pay Excise Duty
- Books and records to be kept should be prescribed by IRD
- Filling frequencies should be designed

### 6.3 Accounting for Excise Duty

The tax is levied at the point of import prior to release of goods from the port or ex-factory price at the point products are released from factory for distribution to retail consumers. Production tax on locally produced goods is paid monthly within ten (10) days of the following month.

For local production, currently the IRD faces the following challenges in verifying the self-assessment return submitted by the taxpayer:

- 1 There is difficulty in verifying the production report submitted by the taxpayer since IRD does not have adequate information as to the production processes
- 2 The taxpayer only submits production reports but does not submit reconciliations of the production output and inventory
- 3 No stamps are used in Excise Duty to mark goods that have paid Excise Duty
- 4 Poor records by the taxpayer

As part of the “To-Be” state, IRD should require the taxpayer to submit the production process flow chart, detailed report of the month and records as indicated in Table 9 below:

Table 9 - Accounting for Excise Duty

Action	Process	Value for FGS
Description of production capacity	1 Taxpayers to provide a written description of their production business processes	Knowledge of the business production process by IRD staff assists in verifying the reports submitted
	2 Taxpayers to provide details of the installed production capacity of each production line	
Control of raw materials	1 Raw materials used for manufacture of excisable goods shall be entered into a secure room or storage facility and stored in a manner to allow taking of full account of the materials therein.	This allows for the reconciliation by the IRD of the reported production with the inputs hence accounting for discrepancies.
	2 A person shall not remove any raw materials for a purpose other than manufacture in the licensed premises without the approval of the IRD.	

## 6.4 Controlling of goods designated for Export

Taxable products are exempt from Excise Duty if they are exported outside FGS. However, proof is required that the products were exported. In terms of the declaration for FSD, exports should be included in the ‘Tax Due’ calculation but then refunded in the ‘Tax Payable’ calculation. This is an implied refund, on the presumption that proof of export will be provided.

There is currently a very weak enforcement in controlling goods manufactured locally for export. As part of the “To-Be” state, IRD can consider implementing the processes shown in Table 10 for exports:

Table 10 - Suggested processes for Exports

Action	Process	Value for FGS
Marking of products, containers and packages	<ul style="list-style-type: none"> <li>— All packages of excisable goods including those meant for duty free, exports and other excisable goods shall bear distinct markings to enable the goods to be track-able and traceable</li> <li>— Each package or container and material wrapping the package for wholesale purposes shall be marked</li> <li>— In the case of exports, the country of destination should be indicated</li> <li>— In the case of excisable goods for consumption in FGS, “FOR USE IN FGS” mark should be put</li> <li>— In the case of excisable goods for sale to duty free shops, or Diplomatic shops, “DUTY FREE” mark should be put</li> </ul>	Allows for better enforcement by IRD and law enforcement officers since there is clear demarcation of goods for local and for export purposes
Excisable goods for export, exemption etc.	<ul style="list-style-type: none"> <li>— A licensee shall be liable for the payment of excise duty in respect of excisable goods manufactured for export which are diverted into or offered for sale in FGS and used inconsistent with conditions of exemption, remission or refund under the excise duty and production tax Act.</li> <li>— A licensed person shall be responsible for declaration and transportation of excisable goods destined for export or under remission, exemption or refund.</li> </ul>	<ul style="list-style-type: none"> <li>— This ensures that excise duty is paid for all locally consumed goods that may have been designated for export.</li> <li>— The persons licensed for Excise Duty is responsible even if the default was done by a person not licensed for Excise Duty but bought the goods from the licensed trader.</li> </ul>

## 6.5 Valuation methods for excise duty

Applicable Excise tax rates for different products are shown in Table 11 below.

Table 11 - Excise Tax Rates for different products

Description	Rate (percent)
Confectionery such as candy, chocolate, chewing gum, marmalade/jam	15%

Description	Rate (percent)
Soft drinks	12%
Fresh fruit and a fruit sweetener	10%
Cakes, biscuits and similar items	5%
Other imported items with sugar except medicine	10%
Matches	80%
Cigarettes and tobacco	100%
Shampoo & hair oil	20%
locally produced sugar (imported sugar is exempt)	60%
Mineral waters	10%
Wine	80%
Pure alcohol	100%
Cosmetics	15%
Tomato & vinegar	10%
Skin care products	15%
Perfume	20%
Sponges	15%
Utensils	10%
Clothes	5%
Milk and milk products	5%
Plastic bags and similar items	5%
Furniture and office equipment	5%
Maintenance equipment	5%
Other unspecified locally produced goods except meat, fish, pasta and oil	5%

As good practice, FGS might want to consider implementing a mix of advalorem and specific rates based on the understanding of the operating environment and the product. IRD may consider the following:

- An ad valorem Excise Duty charges a percentage of the taxable value of the product. For example, Excise Duty is charged on alcohol at 60% of the taxable value.
- A mixed Excise Duty charges both a certain amount of tax per unit and as a percentage of the taxable value of the product. For example, Excise Duty is charged on cigarettes at a rate of 30% of the retail price in addition to USD 0.1 per pack of 20 individual cigarettes

## 6.6 Declaration and payment of Excise duty

The declaration process for Excise Duty is similar to other domestic taxes and should be done in ITAS. The taxpayer first downloads the Excise Duty Annexures from ITAS/IRD website. The following information needs to be developed and maintained by the producer in a specific format:



Ministry of Finance - Federal Government of Somalia

**Consultancy Services for Development of Somalia Integrated Tax Administration System**

June 2021

- Raw materials details-a form should be designed capturing all the details and usage of raw materials
- Excise duty calculation details-a form should be designed for this purpose
- Excise duty declaration. An ITAS format should be developed to declare and pay Excise duty.





## 6.7 Sample Excise Duty Declaration Form

Below is a sample Excise Duty declaration form (ITAS) based on the information requirement in Figure 5 below:

Local Consumption Tax Declaration Form					
TIN:	10000xxxxx	Business Name	XY SA Limited	DOCNO	42711405
Tax Period:	01-August-2016 to 31 August 2016	Due Date	15-Sep-16	Month	August
5. Calculation of Tax Due					
5- Total Units Out of Factory					
10-Total Adjustments of Units	0				
15-Total Exports of Units	0				
20-Total Taxable Units (Line 5- 10)	0				
20-Total Taxable Value					
30-Local Consumption Tax Rate					
35-Total Consumption Tax Due					
			Telephones 8%, Water 10%, Wines 70%		
40-Tax Refunded on Exports	000	Multiply Line 25 by the rate on line 30			
45-Tax Due (Line 35-Line 40)	00				
2. STATISTICAL INFORMATION					
50-Number of Taxable Products	1,000.00				
55-Total Volume of Exportation	250	Cigarettes in sticks, juices in litres			
60-Total Volume of Local Consumption	750	Cigarettes in sticks, juices in litres			
65-Total Volume of Production	1000	Cigarettes in sticks, juices in litres			
		Continue with Upload Annexures>	<Back to Documents		

Figure 5 - Sample Excise Duty Declaration Form

## 6.8 Records to be maintained by Manufacturers

To ensure that IRD can be able to verify and if need be audit the tax payer in regards to Excise Duty, the following information/records needs to be maintained as per the “To-Be” state:

- Keep a register of inventory of the taxable products manufactured. The inventory register shall indicate the quantity exported, sold for domestic consumption, and destroyed, discarded or burnt, so that at any time, the quantities within the factory can be established and verified.
- Keep a register of the sales of all taxable products manufactured. The sales register shall indicate the price and quantity sold to every customer as well as the customer’s name and address.
- Keep a register of raw materials to be used in manufacturing of taxable products.
- Keep a register of the activities of the manufacturer. The activities register shall indicate the date and time of starting and ending work, the type names and the nature of the equipment used, the type and quantity of the raw materials used and the batch number of production, the quantity of the goods produced.
- Notify IRD of any changes to business premises
- Use stamps to mark imported/manufactured goods to avoid fraud where goods may enter FGS without paying duty and compete locally manufactured goods

## 7 Sales Tax - “To-Be” State

### 7.1 Description

Sales Tax law No. 2 of 7th January 1984 was introduced by the President of Somali Democratic Republic to increase government revenue in order to fulfil its duties towards economic growth, security, defence, social and political activities. Sales Tax is levied on imports, wholesale business, invoices on hospitalities and local production.

Scope and details of Sales Tax are explained in the Articles between 1 and 22 of sales tax law. Sales Tax rate of 5% is levied on total value of imported commodities, total sales value or invoice value of hospitality businesses.

### 7.2 Registration for Sales Tax

Established businesses or professions intending to make taxable supplies or services are required to register for Sales Tax.

As part of the “To-Be” state, the ITAS system should be used to register businesses for sales tax. This should be linked to the other taxes the business registers for such as corporate tax. Turnover for sales that are charged sales tax should be equal to the turnover for Corporate Income Tax.

### 7.3 Accounting for Sales Tax

The weakness noted in sales tax in FGS is that it is currently an estimate which is not based on the sales receipts of the businesses. It could therefore result in an underpayment or overpayment of tax depending on the level of sales transactions being made by a business.

As part of the “To-Be” state, the IRD should introduce the electronic tax invoicing or receipting system to be kept and used at the point of sale for the respective businesses. The Electronic Tax Register (ETR) shall ensure that the IRD can have access to all sales records undertaken by the taxpayer before filing tax returns which makes verification of sales easy.

### 7.4 Declaring Sales Tax

Declaration and payment of Sales Tax is similar to other domestic taxes and should be done in ITAS. The taxpayer should log into the ITAS to complete the following:

- The sales data can be entered manually, or can be copied from the Electronic Billing Machine (EBM) Back Office and pasted into the Sales tab.
- Buyer TIN – For sales to other businesses, enter the Taxpayer Identification Number (TIN) of the buyer.
- Buyer Name - As above, for sales to other businesses, enter the name of the buyer.
- Nature of Goods - Enter a brief description of the goods or services sold.
- Invoice Number – Enter the unique invoice number of the transaction.

- Invoice Date (dd/mm/yyyy) – Enter the date of the transaction in the format of dd/mm/yyyy such that 10th February 2021 is entered as 10/02/2021.
- Total Amount of Sales (Sales tax inclusive)

Figure 6 and Figure 7 below show the process and sample Sales Tax return form.

### Step 1: Log in to ITAS

<b>TIN</b>	-----Please Enter Here
Return period FROM date	... Select Drop Down DDMMYY
Return period TO	... Select Drop Down DDMMYY

Figure 6 - Sample Sales Tax Return Form (1)

### Step 2: Complete the Sales Tax Upload Template

<b>A: Filing Category</b>	
Is your return original or amended return?	== SELECT here Y/N
Return Date	Please enter RETURN DATE of the return on which you want to amend in dd/mm/yyyy
<b>B: Currency</b>	== SELECT= USD
<b>C: Sales type</b>	

- Standard sales
- Zero rated
- Exempt

D: Complete upload template (in Excel or CSV File)			
Invoice Date	Invoice Number	Description of goods or services	Amount
1-Jun-21	INV111	Materials	300.00
2-Jun-21	INV222	Paints	100.00
3-Jun-21	INV333	Glue	50.00
4-Jun-21	INV444	Water	200.00
5-Jun-21	INV555	Food	40.00
6-Jun-21	INV666	Beverages	35.00
7-Jun-21	INV777	2mm tape measure	100.00
8-Jun-21	INV888	Timber locks	240.00
9-Jun-21	INV999	Napkin soft	800.00
10-Jun-21	INV1110	Soap	500.00
Total sales			2,365.00
Sales tax rate: 5%			
Sales tax charged- system calculated			118.25

- Payment- online
  - Select your bank
  - Bank branch (optional)
  - Account Number
- Payment- physical payment
  - Print the tax invoice
  - Deposit to IRD Account
  - Hand in the deposit to IRD
  - IRD posts payment to tax payer account

Figure 7 - Sample Sales Tax Return Form (2)

## **7.5 Weaknesses in the Current Sales Tax Law**

- Lack of clarity on if or how to account for input sales tax (purchases)
- Failure to report purchases may not allow for the verification of any under-reporting of sales tax
- Inability to offset the input sales tax makes the goods and services expensive since the output tax cannot be offset by input tax.
- Lack of electronic invoicing

## **7.6 Consideration for the introduction of Value Added Tax (VAT) as an option to improve the Sales Tax Law**

IRD may consider introduction of Value Added Tax (VAT) as is the good practice used in the region and globally. VAT is an improvement and excellent innovation from the Current Sales Tax.

VAT is a tax on consumption of goods and services. It is paid by the final consumer of the goods or service.

VAT is applied to a wide a range of products and services to ensure fairness across business sectors. However, there are some goods and services that may be exempt or zero-rated for VAT. This is usually because tax on these goods and services may be unfairly burdensome on the poor or because those goods and services have benefits to efficiency across the rest of the economy.

VAT registered taxpayers are required to have at least one Electronic Tax Register (ETR) at each of their sales locations and use these to provide ETR invoices for all sales transactions.

## 8 Telecommunication Tax “To-Be” State

### 8.1 “As-Is” Assessment

From 1 January 2017 all Telecommunication companies operating in Mogadishu are required to pay Sales Tax at the rate shown in the table below on all sales in accordance with Law No. 2 of January 7, 1984.

Table 12 - Telecommunication Sales Tax rate

Category	Sales Tax Rate
Telecommunication	15%
Internet and TV Service Providers	5%

Telecommunication services include but not limited to, any of the following services:

- Data services
- Fibre equipment and infrastructure
- Websites and webhosting
- Software
- Image, text and information
- Telecommunication services by corporation
- Databases
- Telecommunication remittances and signals

The payment is due each calendar month and paid into the Treasury Single Account of the Federal Government of Somalia at the Central Bank, Mogadishu within 10-days after the end of each calendar month.

### 8.2 “To-Be” State

Filing and declaration of telecommunication tax are proposed for automation in ITAS.

Taxpayers will follow the procedures below:

- 1 Telecommunication tax should be filed by all the telecom firms operating within the jurisdiction of the Federal Government by logging in and upload the services report on a monthly basis. The upload template could be in the form of CSV file or a Microsoft Excel sheet
- 2 Payment should be done by 10th of the subsequent month
- 3 IRD to provide tariff and services catalogue to telecommunications service providers for ease of reference

**Suggested definitions of the Telecommunication Tax brackets:**

- A person who owns or controls the supply of telecommunication services
- A person/individual or corporate who pays for the services
- Enters into telecommunication contract and earns a revenue
- An individual or a body corporate to which an invoice is sent to by the telecommunication supplier

When it is impossible to determine and identify the location of the individual or body corporate providing the services, the supply or consumption of the telecommunication services should be treated where the physical residence or business address of the consumer of the telecommunication services.

Sample login and filing for Telecommunication Tax are presented in Figure 8 and Figure 9 below.

**TIN** -----**Please Enter Here**  
 Return period FROM date ... Select Drop Down DDMMYY  
 Return period TO ... Select Drop Down DDMMYY  
 Figure 8 - Sample Login for Telecommunication Tax filing

**A: Filing Category**  
 Is your return original or amended return? --- SELECT here Y/N  
 Return Date Please enter RETURN DATE of the return on which you want to amend in dd/mm/yyyy

**B: Currency** =====Select= USD

**C: Select the telecommunication Service Type**  
**Select Drop Down:**  
**Telecommunication 15%** xxxxxxxx  
**TV and Internet Services** xxxxxxxx  
**Excluding Telecom Services 5%**

**D: Complete upload template (in Excel or CSV File)**

Telecommunication services	Invoice Number	Description of goods or services	Amount
Software	INV111	Details of the telecom services	00.00
Databases	INV222	Details of the telecom services	00.00
Mobile money transactions	INV333	Details of the telecom services	00.00
Category 4	INV444	Details of the telecom services	00.00
Category 5	INV555	Details of the telecom services	00.00
Category 6	INV666	Details of the telecom services	00.00
Category 7	INV777	Details of the telecom services	00.00
Category 8	INV888	Details of the telecom services	00.00
Category 9	INV999	Details of the telecom services	00.00
Category 10	INV1110	Details of the telecom services	00.00

Figure 9 - Sample for Telecommunication Tax filing

## 9 Rental Tax - “To-Be” State

### 9.1 “As-Is” Assessment

Rental Income Tax is declared and paid on a self-assessment basis. The building owner submits the tax declaration of rental income to the District Inland Revenue Office. The IRD office assesses the revenue to be paid whether it is accurate and prepares an invoice for the owner to pay the tax to the bank. Where necessary, the IRD Officers’ conduct the desk and field audits to find out whether owners of the building are registered and paying taxes as per the tax law. Table 13 shows the Rental Income tax brackets.

Table 13 - Rental Income Tax Brackets

Rental income amount	Rate
\$500- \$20,000	15.00%
\$20,010 and above	22.50%

### 9.2 Gaps and Issues identified with Rental Income Tax

The main challenge in collecting rental income are:

- Low taxpayer awareness among the tax paying community.
- Poor tax compliance among the building owners. It is difficult for the tax officers to move door to door registering and collecting rental income tax
- Income generated from rent is still low due to the difficulty of its enforcement
- Old tax laws dating back to 1960s and 1980s despite the economic and development dynamics

### 9.3 Proposed “To-Be” State - Rental Income Tax

Rental income tax should be easy to declare, file and pay. It should be clear to the taxpayers that income derived from buildings, leasing income and other property structures are chargeable to tax under the rate prescribed by law.

Table 14 below shows the suggested tax filing procedures of rental income tax and the value it should add to FGS in making the process more effective and efficient, overall contributing to seamless revenue administration.

Table 14 - Proposed “To-Be” state- Rental Income Tax

Action	Process	Value to FGS
Automate the rental income tax filing	In ITAS, taxpayers should log in from their premises and declare rental income tax by  — Key in return information such as TIN, return type, Return Amount.	<ul style="list-style-type: none"> <li>— Ease of rental income tax administration</li> <li>— Trust and Accountability</li> <li>— Simplification of processes and saves valuable time</li> <li>— Increases the recruitment of property owners and</li> </ul>



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**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
 June 2021

Action	Process	Value to FGS
	<ul style="list-style-type: none"> <li>— The Taxpayer uses Rental Tax Upload or manually keys in the return details</li> <li>— Lodged return is retrieved by the IRD Officer in ITAS</li> <li>— IRD Validates and processes the return</li> <li>— Post the accurate assessed tax to the taxpayer account and generates an invoice</li> <li>— Taxpayer pays the income tax through the bank and obtain deposit slip or uses the application of direct bank transfer virtually</li> </ul>	landlords to increase the tax base
Lack of awareness and understanding of the rental income tax by the business community	<p>Provide simplified and easy to understand rental income tax brochures to the taxpayers.</p> <p>Rental income is amount of rent derived by a person for the year of income from the lease of immovable property (land and or buildings) in the jurisdiction of the Federal Government of Somalia with the deduction of any expenditure incurred in respect of the property.</p>	Increases the understanding and awareness of the rental income tax by the business community in Somalia in defining what rental income tax is and the tax point and how it is paid
Develop tax awareness campaigns	<p>Carry out quarterly rental income awareness campaign including the Regional Revenue Offices.</p> <p>Define Landlord for purposes of rental income tax as follows: -</p> <p>Landlord or Landlady is any person who lets out immovable property to another person (the Tenant) for a consideration. A person (landlord or landlady) may be:</p> <ul style="list-style-type: none"> <li>— An individual e.g. Maxamed Cumar</li> <li>— A corporate body e.g. Burujj Company Limited</li> <li>— Government e.g. Hodan District Administration</li> <li>— An institution e.g. Somali National University</li> </ul>	More property owners and landlords declaring their property ownership and the related income tax due
Define the rental income chargeable to tax for ease of simplification through brochures or circulars	<ul style="list-style-type: none"> <li>— Rent derived by the person should not include the gross income of the person which is subject to tax under another category of income tax filing such as employment</li> <li>— Expenditure and losses incurred in the production of rent income shall be allowed as a deduction</li> </ul>	Creates understand ability and compliance among the taxpayers

## 9.4 Proposed Procedures for filing Rental Income Tax

Suggested proposals for procedures for Rental Income Tax filing are outlined below for Individuals (Table 15), Partnerships (Table 16) and Companies (Table 15).

### 1 For individuals

Table 15 - Proposed Procedures for filing Rental Income Tax for Individuals

Step	Explanation
Step I	Determine the total annual gross rents from all sources of the individual say R= \$1,000
Step II	No rental income tax charge up to \$499 of rental income
Step III	If the rental income of the taxpayer is greater than \$500, proceed to the next steps
Step IV	Deduct 20 percent allowance for costs i.e. R – 20%, therefore R = 80%R
Step V	Establish threshold (or zero-rated amount) for FGS it is \$499 (as the rental income scale starts from \$500)
Step VI	For instance, rental income of USD 1,000 from property owner based in FGS jurisdiction is above the threshold of \$500, hence taxable
Step VII	Deduct threshold the 20% allowance (20%* \$1,000) i.e. \$1,000 less \$200= \$800
Step VIII	Determine income tax at 15% i.e. 15% of \$800 = \$ 120

### 2 For Partnerships

Table 16 - Proposed Procedures for filing Rental Income Tax for Partnerships

Step	Explanation
Step I	Determine the total annual gross rents of individual (Assessed on individual partners according to their respective sharing rates) partners
Step II	Deduct 20 percent allowance for costs i.e. R – 20%,
Step III	Tax payable each partner in proportion to their partnership stake in the business/company

### 3 For Companies

Companies are legal entities and are treated same as individuals for rental income tax purposes.

## 9.5 Taxpayers obligations

- Taxpayers are obliged to complete a return of Rental Income for a year of income with supporting agreements where available or rental receipts issued to tenants(s) during the year
- Declare all sources of rental income in full for a given year of income. The year of income is from 01 January to 31 December
- Submit (furnish) the return, annually to IRD three months after the end of the relevant year of income
- Pay the rental income tax by the appropriate due date.

## 9.6 Entitlement to Tax Credit

The taxpayer is entitled to a tax credit in respect of any rental tax paid provisionally or in advance during the year of Income.

## 9.7 Sample Automated Rental Income Tax Returns

A sample login page is suggested in Figure 10 below:

<p><b>TIN</b>                  Return period FROM date                  Return period TO                  Proceed to log in  <a href="#">Figure 10 - ITAS login page</a></p>	<p>-----<b>Please Enter Here</b>                  ... Select Drop Down DDMMYY                  ... Select Drop Down DDMMYY                  Click OK</p>
--	--

A sample Rental Tax Filing with CSV/ Excel file upload/ download is suggested in Figure 11 below.

Upload file- Rental Income					
Do you want to upload this schedule in CSV file or in Excel?					
TIN of Tenant (if available)	Name of Tenant	Physical Location of Premises	Period of occupancy during the year FROM	Period of occupancy during the year TO	Gross rental income received or receivable
Please Enter TIN of Tenant if available (use TIN ONLY)	Please Enter Name of the Tenant. It should be alphanumeric only	Please Enter the physical Location of Premises. It should be alphanumeric only	Please Enter Period of Occupancy during the year. It Should be DDMMYY	Please Period to. It should be DDMMYY	Please Enter Gross Rental Income Received or Receivable. It should be numeric only
1. Gross Rental Income other than from Partnership					System Calculated
2. Gross Rental Income from Partnership					System Calculated
3. Gross Rental Income before adjusted for 20% allowance					System Calculated
4. Deduction of 20% allowance as per the Income Tax Act, 1965					System Calculated
5. Chargeable Rental Income Tax (Note <sup>3</sup> - Note <sup>4</sup> )					

Figure 11 - Sample for Rental Income Tax Filing - CSV/Excel file

Note<sup>1</sup> Current practice used in the COMESA Countries.

## 10 Stamp Tax - “To-Be” State

### 10.1 “As-Is” Assessment

Stamp tax is charged on any such act issued in connection with transfer of ownership or possession of goods, sums of money, securities, stocks, or in connection with the transfer of goods and securities in Somalia. The tax rate is 2% of the value of the transaction. It is collected by the MoF, IRD. It is also charged on Civil Acts, Administrative Acts, Judicial Acts, Acts and documents of foreign origin, ship’s Manifests and Registers and day books.

The tax is collected by the relevant government agency. The main challenge facing administration of stamp duty tax is lack of awareness among taxpayers as well as the lack of capacity among the staff to implement the tax.

Apart from Government transactions, there are no exemptions of stamp tax.

The current process flow is shown in Figure 12 below:

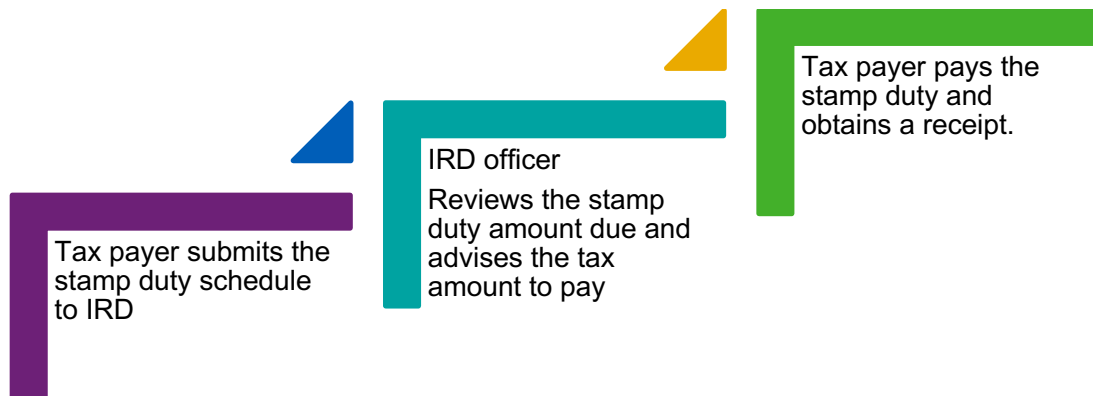


Figure 12 - Stamp Tax “As-Is” Assessment

### 10.2 Proposed “To-Be” State

The automated process for paying stamp duty will consist of the following steps:

- 1 Log on to the ITAS.
- 2 Under the payment menu, select “Payment of stamp tax”.
- 3 Select the tax head applicable as agency revenue, and the subhead as Stamp Duty.
- 4 Fill in the applicable details all the way to the end and submit after which you get the payment slip as shown in the Figure 14 below.
- 5 Thereafter, make the payment either through the bank or via mobile money

The form samples for this process are shown in Figure 13 and Figure 14 below.



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**Consultancy Services for Development of Somalia Integrated Tax Administration System**  
 June 2021

**TIN**

Return period FROM date

Return period TO

Proceed to log in

Note <sup>2</sup>- Current practice seen in the region

[Figure 13 - Sample login for Stamp Tax](#)

-----**Please Enter Here**

... Select Drop Down DDMMYY

... Select Drop Down DDMMYY

Click OK

**Click Payment**

Payment Registration

TIN	xxx	Taxpayer Name:-----
Taxpayer Address	City	
	Physical address	Email ID: Bahmed@gmail.com
	Postal Code	

Tax Head	#Select)	Tax Sub Head
	Stamp tax	{Select}
	Excise duty	Stamp
	Income Tax	Excise
	Sales Tax	Sales Tax- Production etc.

Complete OR Upload -----

Payment Type: "Select"  
 Cash  
 Bank transfer  
 Swift  
 Mobile money

Mode of payment  
 Swift  
 Real Time Transfer  
 Cheque deposit

Download Receipt

[Figure 14 - Sample for declaration and payment of Stamp Duty](#)

### 10.3 Process Flow Map

The process flow map for the Stamp Tax is shown in Figure 15 below.

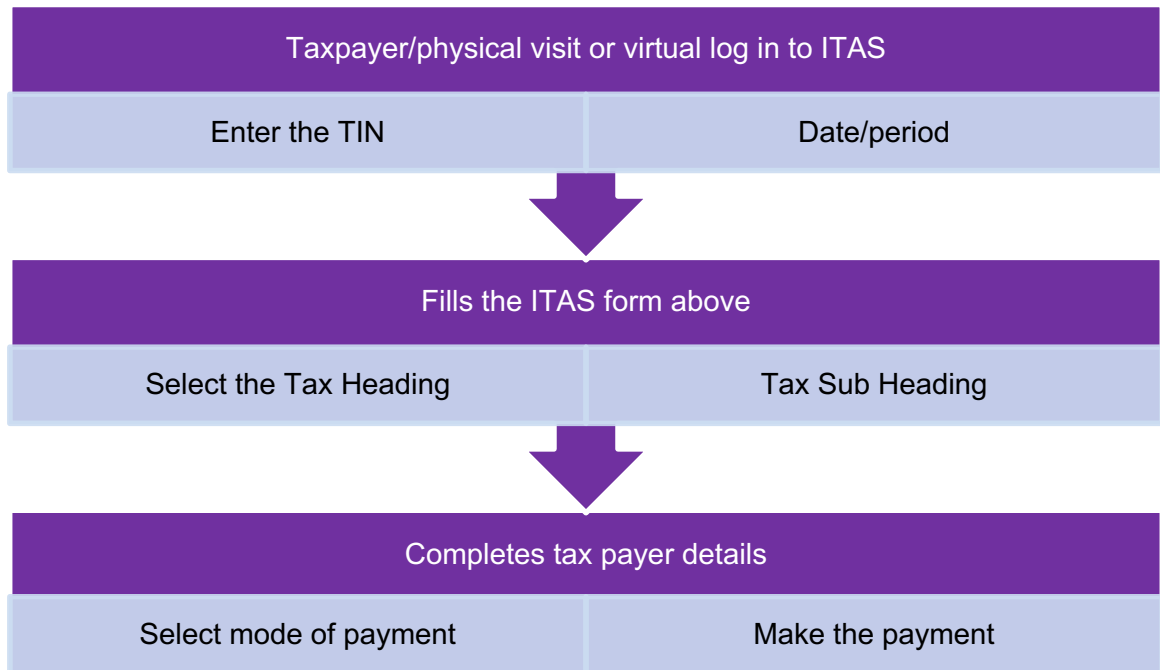


Figure 15 - Stamp Tax - proposed process

## 11 Road Tax- “To-Be” State

### 11.1 Description

Road tax is levied on people whose names appear on legal vehicle ownership documents and is based on the Horsepower (HP) of the vehicle. The amount of road tax paid is a fixed price determined by the Ministry of Finance as per the existing law.

### 11.2 Current Challenges

The challenges faced in the implementation of Road tax are:

- Tax process is manual hence high rate of avoidance
- Low awareness among taxpayers
- Operational efficiency depends on the road patrol and physical check points
- SFMIS has no specific road module
- Tax base- not clear if all vehicles are registered
- Imported cars pay road tax for 3 months, difficult to enforce the subsequent months once the vehicle is on the road

### 11.3 Proposed “To-Be” State

- a) **Fuel Road Tax** - The government should consider introducing Fuel Road Tax to be paid in customs by importers of fuel to compensate for road tax. For example, 2% can be charged on petroleum as road tax
- b) **Excise Duty** - Introduce Excise Duty Tax, say of 10% on imported motor vehicle and motorcycles and should be collected in customs.
- c) **Fixed amount to be paid at importation** - Importers should pay a one-off tax (fixed amount) tax at customs when the vehicle is imported depending on horsepower (HP) of the vehicle
- d) **Automation of the current Road Tax** through ITAS
- e) People whose business is for transport and hiring/renting of motor vehicles should pay profit tax on the income earned

## **12 Registration Fees- “To-Be” State**

### **12.1 “As-Is” Assessment**

- The Ministry of Commerce is responsible for registering both local and international businesses and taxpayers. Taxpayers pay registration fees before they are licensed. Entities are issued with annual business licenses that should be renewed annually.
- For entities to qualify for renewal, they must demonstrate that they have complied with taxes and are required to submit a tax compliance certificate. This measure was introduced to enforce compliance with the country’s tax laws and rules.
- Registration is nontax revenue services

### **12.2 Gaps identified**

- Manual registration at the Ministry of Commerce takes several days
- The process is manual is not connected to SFMIS
- SFMIS has no registration fees revenue heading that can track and report the amount of registration fees paid by registering entities

### **12.3 “To-Be” State**

- Establish online business and NGO registration services
- One Stop shop integration of business and organization registration with ITAS
- Develop a centralised data management system – FGS will collect companies, businesses, market data and payments, view key information such as number of businesses registered, regional spread, analyse shareholding and payments reporting
- Safety and security- in the current security challenges, logging in and registering business services will drastically reduce occurrence of security incidences by going through various check points and search
- Register the business/organization on-line- using identity card or passport
- Create a taxpayer account in ITAS using the TIN





## 14 Business Processes and Related Automation

This section presents the Inland Revenue “To-Be” business processes and the process flows for automation.

### 14.1 Taxpayer Registration Process

Taxpayer registration enables taxpayers to obtain the Taxpayer Identification Number (TIN). Taxpayer registration steps for all tax heads are outlined in Table 17 below.

Table 17 - Taxpayer registration process steps

Process- AS IS	To-Be
<ol style="list-style-type: none"> <li>Presenting the Business Registration Certificate to IRD to obtain the Taxpayer Identification Number (TIN). To obtain the TIN, IRD requires the following documents: -                             <ul style="list-style-type: none"> <li>Trading Licences</li> <li>Company Profile</li> <li>List of employees</li> </ul> </li> <li>Fill a registration Form</li> </ol>	<ol style="list-style-type: none"> <li>Log in to the IRD website</li> <li>The taxpayer or his agent Registers for TIN by selecting the appropriate heading: <i>Individual, Partnership or Corporate</i></li> <li>Fill in all the required information as per required by the taxpayer based on the nature of request.</li> <li>Upload the relevant documents</li> <li>Submit the application and obtain a system generated Tax Identification Number</li> </ol>

The process mapping for Taxpayer Registration is shown in Figure 17 below.

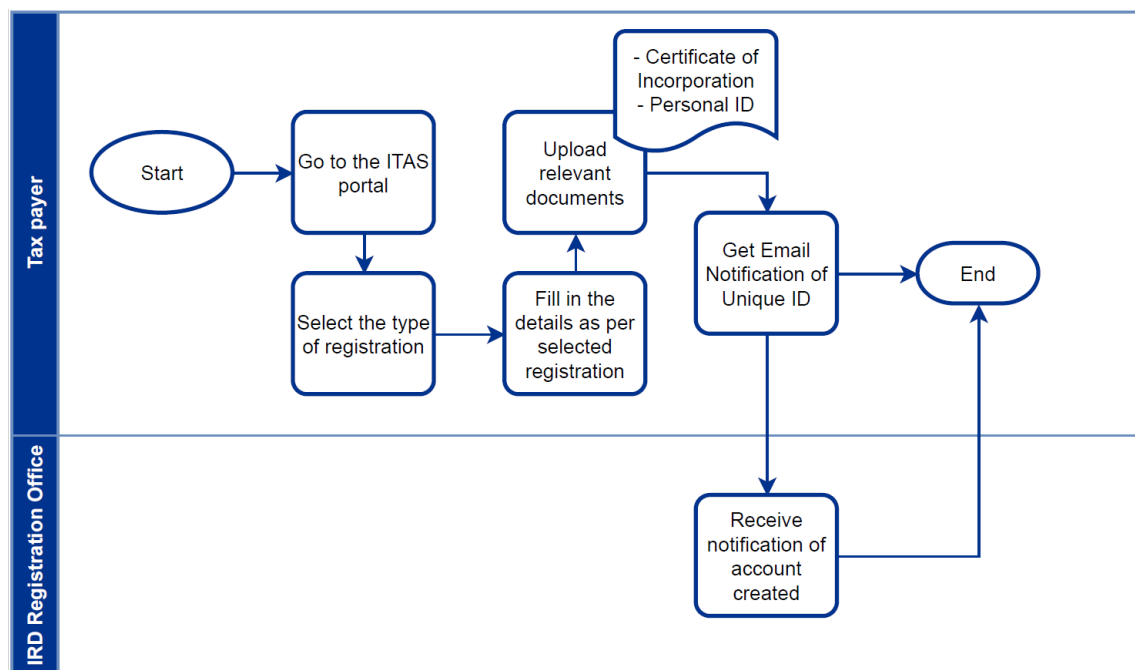


Figure 17 - Process map - Taxpayer Registration

## 14.2 Filing and Declaration Process

The process of filing and declaration for all tax instruments will follow the same workflow.

However, each tax instrument will have its own unique business rules as provided in the subsequent sections **0** through to **14.2.8**).

Table 18 - Filing and declaration process steps

To-Be
1. The taxpayer will have the option of filing their returns through either a manual or online submission.
2. For an online submission, the taxpayer uploads the relevant tax instrument file (excel or csv)* or keys in the details on the system.
3. On successful submission, a Tax Acknowledgment Receipt is generated.
4. The ITAS server then validates the file based on the tax instrument and processes the declarations.
5. If the validations are successful, the taxes are calculated as per configurations in the system and posted to the taxpayers account.
6. If the validations are not successful, the system saves the errors and creates a case of inspection.
7. The case is then sent to a case officer who investigates it and provides recommendation on the system.
8. The case is then updated on the system for appropriate action.
9. Once the entire process is completed, a Tax Process Notification Receipt is generated.

\* *Business rules for different Tax Instruments are contained in the tables below:*

- *Employment Tax (Payroll Tax) - Table 19*
- *Sales Tax - Table 20*
- *Corporate Tax - Table 21*
- *Production/Excise Tax - Table 22*
- *Rental Income Tax (RIT) - Table 23*
- *Road Tax (RT) - Table 24*
- *Court Fees - Table 25*
- *Stamp Duty - Table 26*

The process mapping for Filing and Declaration is shown in Figure 18 below.

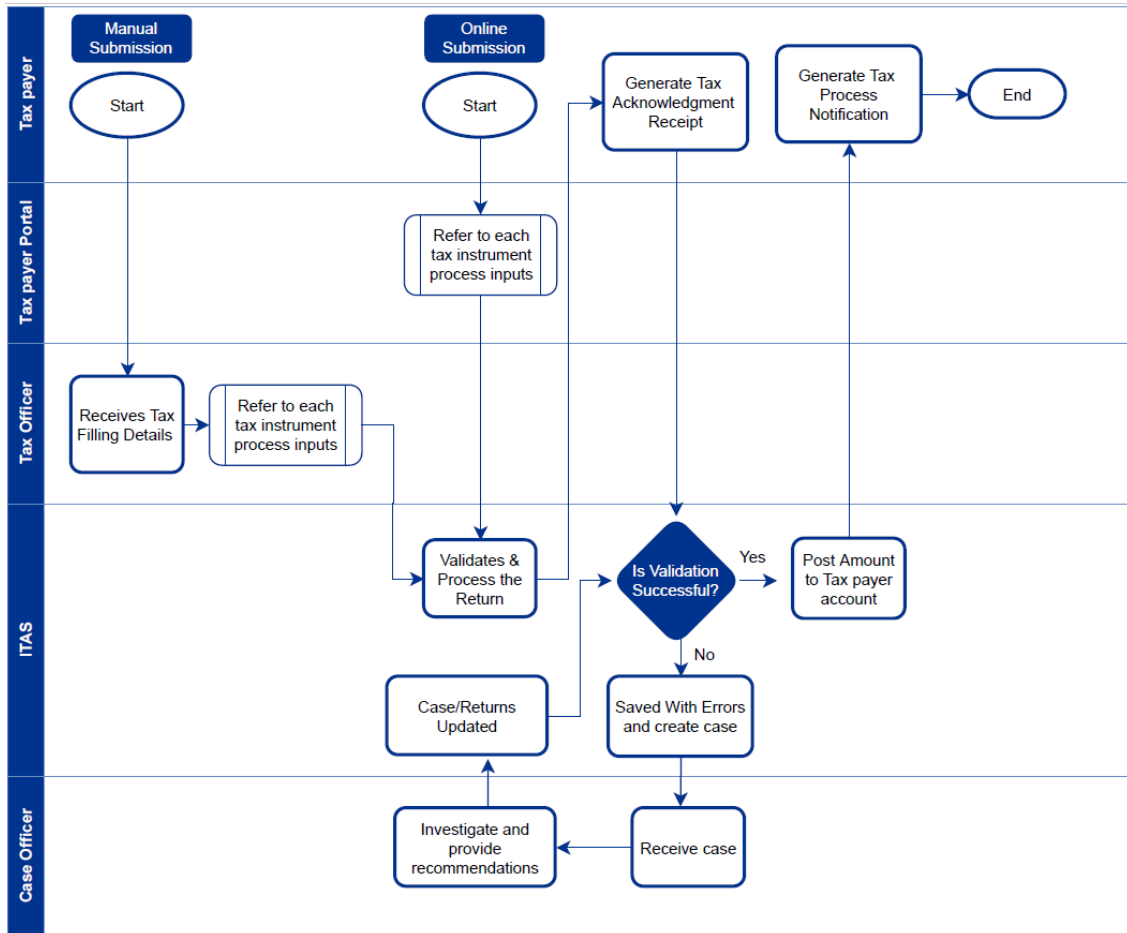


Figure 18 - Process map - Filing and Declaration

### 14.2.1 Business Rules - Employment Tax (Payroll Tax)

Table 19 shows the filing and declaration business rules for Employment Tax (Payroll Tax).

Table 19 - Filing and declaration business rules - Employment Tax

As-Is	Intermediate To-Be	Long term To-Be
<ul style="list-style-type: none"> <li>• <b>Employer</b> prepares the payroll tax due using the Excel template provided by IRD</li> <li>• Taxpayer brings the tax declaration to the regional IRD officer</li> <li>• <b>IRD Officer</b> reviews the excel file and recalculates the tax due (in excel)</li> <li>• Forwards the schedule to the IRD regional manager</li> <li>• <b>IRD Manager</b> reviews, if accurate, raises the tax invoice</li> <li>• Reject errors for resubmission back to the taxpayer</li> <li>• <b>Employer</b> pays the tax based on the tax invoice at the local bank account and returns deposit slips to IRD officer</li> <li>• Or goes back to amend the report and resubmits corrected tax return</li> </ul>	<ol style="list-style-type: none"> <li>1. Choose the Employment tax option from the various options</li> <li>2. Download a CSV or Microsoft Excel return employment tax filing form and update the following details: -               <ul style="list-style-type: none"> <li>• Employee payroll number</li> <li>• Employee names</li> <li>• Enter Tax Period</li> <li>• Enter basic pay</li> <li>• Enter benefits in kind</li> <li>• Automatic calculate gross pay using the tax rate, eg, 2,3,4 or 5%</li> <li>• Compute net pay</li> <li>• Subtract advances</li> </ul> </li> </ol>	<p>To include:</p> <ul style="list-style-type: none"> <li>• Charging social security contributions</li> <li>• Add taxation of casual laborers e.g. 2%</li> </ul>

## 14.2.2 Business Rules - Sales Tax

Table 20 shows the filing and declaration business rules for Sales Tax.

Table 20 - Filing and declaration business rules - Sales Tax

As-Is	Intermediate To-Be	Long term To-Be
<ul style="list-style-type: none"> <li>• <b>Taxpayer</b> - Company reports on the total sales realised in a month</li> <li>• Company computes the 5% sales tax on the total turnover</li> <li>• Prepares a sales report</li> <li>• Submits the total tax and copy of the sales report to the IRD monthly</li> <li>• <b>IRD Officer</b> examines the submission for accuracy and completeness</li> <li>• Computes 5% sales tax and compares with the taxpayer self-assessment.</li> <li>• If the self-assessment is accurate, IRD generates a tax invoice</li> <li>• If not accurate, documents returned to the taxpayer for amendments</li> <li>• <b>Taxpayer</b> presents the tax invoice and the amount to the CBSs bank accounts held the commercial banks</li> <li>• The taxpayer returns to the IRD to present deposit slip and obtain tax compliance certificate</li> </ul>	<ol style="list-style-type: none"> <li>1. Choose Sales tax from the various options</li> <li>2. Download a CSV or Microsoft Excel return sales tax form and update the following details:           <ul style="list-style-type: none"> <li>• The sales data for the period including invoice numbers.</li> <li>• Purchase (inputs) for the period using the supplier's TIN number.</li> <li>• Nature of Goods – Enter a brief description of the goods or services that have been sold.</li> <li>• Invoice Number – Enter the unique invoice number of the transaction.</li> </ul> </li> </ol>	<p>To include:</p> <ul style="list-style-type: none"> <li>• The sales data from the Electronic Billing Machine (EBM) Back Office and pasted into the Sales tab.</li> <li>• Link the EBM to the ITAS to allow for comparison during audit/reviews</li> <li>• Allow for offsetting of input sales tax.</li> </ul>

### 14.2.3 Business Rules - Corporate Tax

Table 21 shows the filing and declaration business rules for Corporate Tax.

Table 21 - Filing and declaration business rules - Corporate Tax

As-Is	Intermediate To-Be	Long term To-Be
<p><b>Taxpayer</b></p> <ul style="list-style-type: none"> <li>• Taxpayer walks to the Offices of IRD</li> </ul> <p><b>IRD Officer</b></p> <ul style="list-style-type: none"> <li>• IRD Officers receive the declaration documents.</li> <li>• IRD generates tax invoice and directs Taxpayer to make payment</li> </ul> <p><b>Taxpayer</b></p> <ul style="list-style-type: none"> <li>• The taxpayer presents the tax invoice and the amount to the CBSs bank accounts held the commercial banks</li> <li>• The taxpayer returns to the IRD to present deposit slip</li> </ul>	<ol style="list-style-type: none"> <li>1. Choose income tax (CIT/PIT) from the various options</li> <li>2. Download a CSV or Microsoft Excel return income tax (CIT/PIT) form and update the following details:           <ul style="list-style-type: none"> <li>• Income for the period.</li> <li>• And any other income</li> <li>• Remove cost of sells</li> <li>• Less administration expenses</li> <li>• Less allowable expenses as per the income tax law.</li> <li>• Less finance costs</li> <li>• Less or add wear and tear</li> <li>• Gross profit/loss</li> <li>• Make any deductions such as withholding taxes, advance payments etc</li> </ul> </li> </ol>	<p>To include:</p> <ul style="list-style-type: none"> <li>• Depreciation of assets, capital allowances</li> <li>• Requirement for audited financial statements be submitted during the income tax declaration.</li> <li>• Transfer Pricing adjustments</li> <li>• Introduce withholding tax and allow for the offsetting of withholding credits. WHT credits should be automatically offset from the tax payable as tax credits.</li> <li>• Introduction or consider introduction of a Minimum Alternative Tax (MAT) and these need to be paid even if the company declares losses</li> <li>• Introduction of the Instalment tax payment (Quarterly Prepayments (IQP)).</li> <li>• All IQP claimed back during annual Income Tax declarations</li> </ul>

#### 14.2.4 Business Rules - Production/Excise Tax

Table 22 shows the filing and declaration business rules for Production/Excise Tax.

Table 22 - Filing and declaration business rules - Production/ Excise Tax

As-Is	Intermediate To-Be	Long term To-Be
<p><b>Taxpayer</b></p> <ul style="list-style-type: none"> <li>• Taxpayer prepares their production report in excel, word or in hard copy at the IRD desk</li> <li>• <b>IRD Officer</b> Collates all the production report submitted by the taxpayers</li> <li>• Forwards the Excise duty reports to the IRD Manager</li> <li>• IRD Manager Reviews the production report and calculates the excise tax due (in excel)</li> <li>• Accepts or rejects the tax due submitted</li> <li>• IRD verbally communicates with the taxpayer on the excise duty</li> <li>• Taxpayer pays the excise tax due by either mobile banking, cheque or cash</li> <li>• Provide proof of payment to the IRD officer</li> </ul>	<ol style="list-style-type: none"> <li>1. Choose Production/ Excise tax from the various options</li> <li>2. Download a CSV or Microsoft Excel return for Production/ Excise tax form and update the following details:           <ul style="list-style-type: none"> <li>• The various product types</li> <li>• The production data for the period.</li> <li>• Raw materials purchases.</li> <li>• Opening and closing inventory</li> <li>• Total export units</li> <li>• Total value for local consumption</li> <li>• Total inventory movement (in and out) of the bonded warehouse</li> </ul> </li> </ol>	<p>To include:</p> <ul style="list-style-type: none"> <li>• Electronic invoices</li> <li>• In the case of excisable goods for consumption in FGS “FOR USE IN FGS” mark should be put on goods</li> <li>• In the case of excisable goods for sale to duty free shops, or Diplomatic shops, “DUTY FREE” mark should be put.</li> <li>• Use of stamps to mark goods</li> </ul>



### 14.2.5 Business Rules - Rental Income Tax (RIT)

Table 23 shows the filing and declaration business rules for Rental Income Tax (RIT).

Table 23 - Filing and declaration business rules - Rental Income Tax (RIT)

As-Is	Intermediate To-Be	Long term To-Be
<ul style="list-style-type: none"> <li>Filing and declaration of Rental Income Tax is manual</li> <li>Tax is declared and paid on a self-assessment basis</li> <li>The building owner submits the tax declaration of rental income to the District Inland Revenue Office</li> <li>The IRD office assesses the revenue to be paid whether it is accurate and prepares an invoice for the owner to pay the tax to the central Bank</li> </ul>	<ol style="list-style-type: none"> <li>Choose Rental Income Tax from the various options</li> <li>Download a CSV or Microsoft Excel Rental Income Tax form and update the following details:               <ul style="list-style-type: none"> <li>Selects the applicable rental tax rate from a drop down (for example 5%, 15%, 22.5%)</li> <li>System automatically calculates the 20% allowances, determines the final chargeable rental income at the bottom TOTAL</li> <li>Taxpayer Submits the RETURN</li> </ul> </li> </ol>	<p>To include:</p> <ul style="list-style-type: none"> <li>Interface details of the Tenant, Landlord with the corresponding TIN Numbers (automatic recognition)</li> <li>Online payment of tax through internet banking All IQP claimed back during annual Income Tax declarations</li> </ul>

### 14.2.6 Business Rules - Road Tax (RT)

Table 24 shows the filing and declaration business rules for Road Tax (RT).

Table 24 - Filing and declaration business rules - Road Tax

As-Is	Intermediate To-Be	Long term To-Be
At importation, the taxpayer pays road tax for 3 months. Subsequently, the taxpayers continue paying quarterly depending on HP of the vehicle	Taxes to be paid at the customs and no subsequent payments. It should be part of the customs duty.	Consider applying road tax on petroleum products or impose a road maintenance levy

## 14.2.7 Business Rules - Court Fees

Table 25 shows the filing and declaration business rules for Court Fees.

Table 25 - Filing and declaration business rules - Court Fees

As-Is	Intermediate To-Be	Long term To-Be
The court fees are determined by the nature of the case and are collected by the Clerk of the Court	<ul style="list-style-type: none"> <li>The proposed payment of court fees is a judicial automation module within the ITAS environment.</li> <li>All non-tax revenue to be automated.</li> <li>Choose Court Fees from the various options</li> <li>Selects the applicable Court Fees</li> <li>System automatically calculates by determining the final Court Fees payable</li> </ul>	<p><b>Consider developing a Citizen Services Portal</b></p> <ul style="list-style-type: none"> <li>Expand and create citizen services portal which interfaces with ITAS</li> <li>Online payment of the tax through internet banking</li> <li>All fees to be received by IRD</li> </ul>

## 14.2.8 Business Rules - Stamp Duty

Table 26 shows the filing and declaration business rules for Stamp Duty.

Table 26 - Filing and declaration business rules - Stamp Duty

As-Is	Intermediate To-Be	Long term To-Be
<ul style="list-style-type: none"> <li>The tax is collected by the relevant government agency</li> </ul>	<ol style="list-style-type: none"> <li>Choose Stamp Duty from the various options</li> <li>Selects the applicable stamp duty rate</li> <li>System automatically calculates by determining the final stamp duty payable</li> </ol>	<p><b>Consider developing a Citizen Services Portal</b></p> <ul style="list-style-type: none"> <li>Expand and create citizen services portal which interfaces with ITAS</li> <li>Online payment of the tax through internet banking</li> </ul>

### 14.3 Payment and Collection Process

The process of Payment and Collection follows the steps outlined in Table 27 below.

Table 27 - Payment and Collection process steps

To-Be	
1.	The taxpayer will have the option of making payment through their online or mobile banking platform or at the bank counter.
2.	For the self-payment option, the taxpayer logs into their ITAS portal. The ITAS server communicates with the SFMIS system that should be interfaced with its Bank and generate a Unique Reference Number for the initiated transaction.
3.	For the bank counter option, the bank teller will the option to view the tax arrears on the ITAS portal. The ITAS server communicates with the SFMIS system that should be interfaced with its Bank and generate a Unique Reference Number for the initiated transaction.
4.	The taxpayer will then be prompted to make payment based on the initiated transaction and transfer funds from his/her account to the SFMIS Revenue Department Account while the bank teller will transfer the funds presented at the counter to the SFMIS Revenue Department Account also.
5.	Once the SFMIS Account receives the funds, it generates an acknowledgement notification.
6.	The notification is received by the ITAS servers and the taxpayer accounted debited as required.
7.	Once the account has been debited, a receipt is generated for the taxpayer/bank teller for download and printing.

The process mapping for Payment and Collection is shown in Figure 19 below.

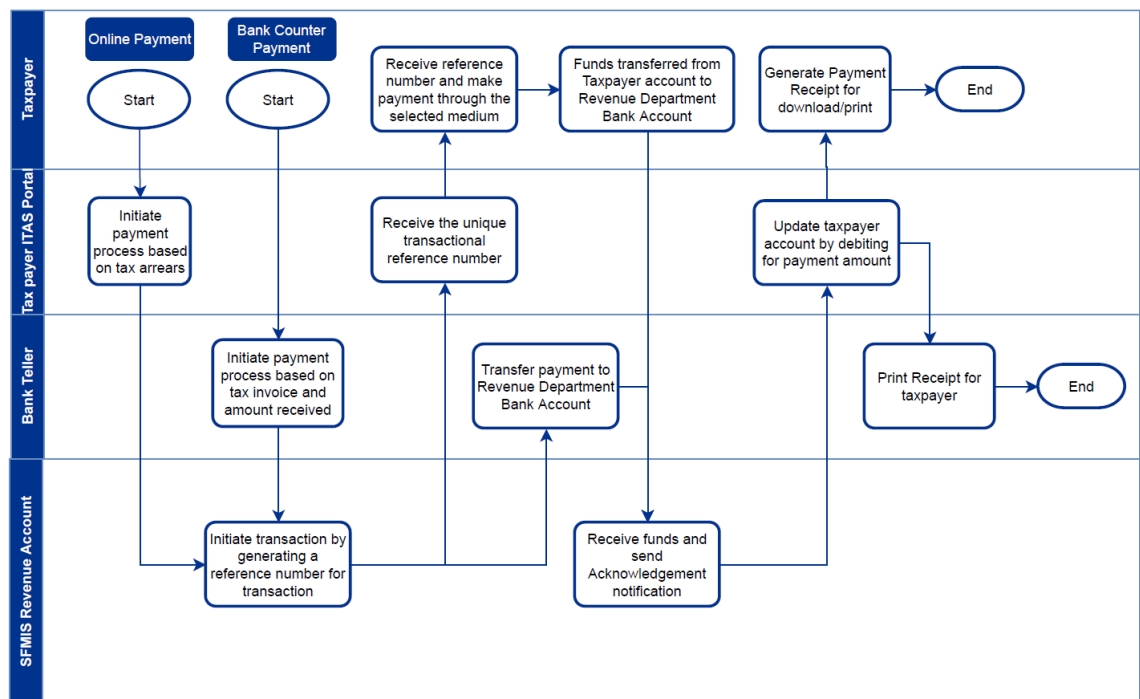


Figure 19 - Process map - Payment and Collection

## 14.4 Taxpayer Accounting Process

The process of Taxpayer Accounting follows the steps outlined in Table 28 below.

Table 28 - Taxpayer Accounting process steps

To-Be	
1.	The system generates taxpayer accounting case and assigns it randomly to a tax officer.
2.	The taxpayer receives the case and does review of the taxpayer account based on transaction history.
3.	If NO mismatches are obtained, the tax officer can still request for a field visit to be made on the case.
4.	If any mismatches are obtained during the review, the case is forwarded to a field officer.
5.	The field officer visits the taxpayer's premises and records all the required fields on the system based on the mismatches or suggestions as advised by the tax officer.
6.	The field officer makes notes and recommendations and pushes it back to the tax officer.
7.	The tax officer reviews the recommendations. If discrepancies are obtained, the tax officer updates the taxpayers account of the noted differences and send the notification to the taxpayer for the arrears.
8.	The taxpayer then makes a payment on the arrears.

The process mapping for Taxpayer Accounting is shown in Figure 20 below.

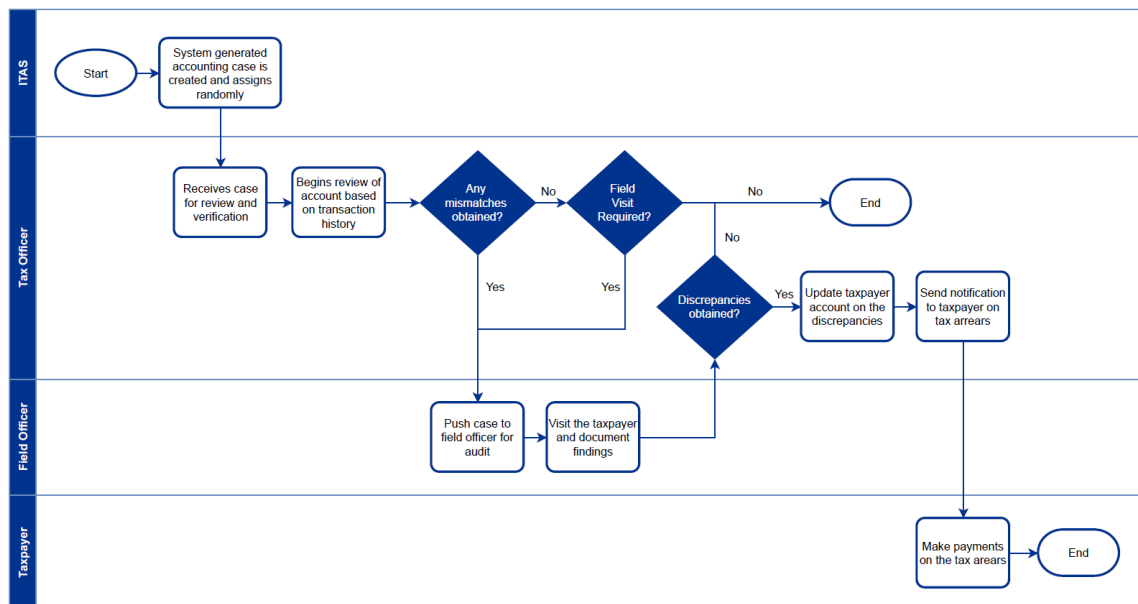


Figure 20 - Process map - Taxpayer Accounting

## 14.5 Arrears and Follow-up Process

The process of Arrears and Follow-up follows the steps outlined in Table 29 below.

Table 29 - Arrears and Follow-up process steps

To-Be	
1.	The system runs a scheduled process that searches the entire taxpayer database looking for non-compliance. This includes all notifications related to warnings and notices.
2.	Once a non-compliance case is identified, all arrears, penalties and applicable interest is posted to the taxpayers account.
3.	The taxpayer then receives a notification of the non-compliance and the applicable penalties.
4.	The case is also pushed to a field officer for follow-up and debt collection.
5.	The field officer visits the taxpayer with a demand notice for payment.
6.	Once the taxpayer clears the debt, the case is closed.
7.	The field officer can also arrange a payment plan with the taxpayer based on the financial situation of the taxpayer.
8.	The taxpayer will then make payment based on the plan until all arrears are cleared.
9.	If the debt still exists and no amicable payment plan is agreed, the field officer makes recommendations on the appropriate enforcement plan.

The process mapping for Arrears and Follow-up is shown in Figure 21 below.

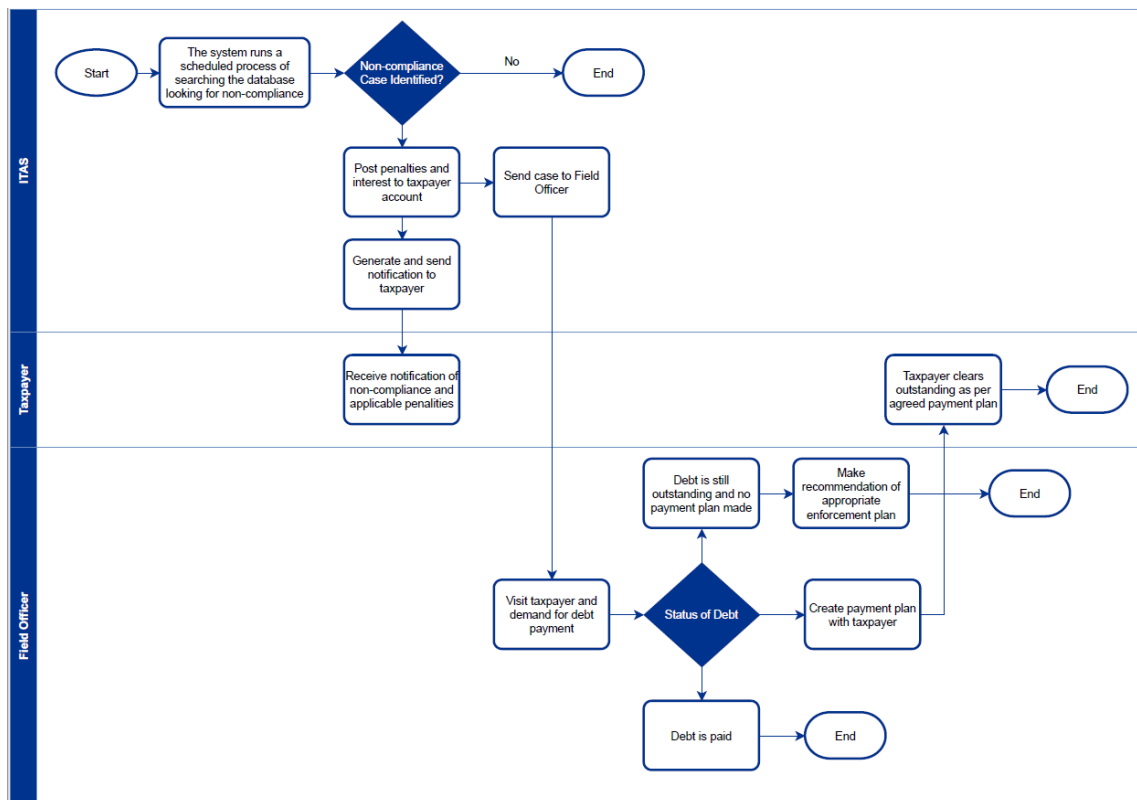


Figure 21 - Process map - Arrears and Follow-up

## 14.6 Revenue Accounting Interfaced with SFMIS

The process of Revenue Accounting Interfaced with SFMIS follows the steps outlined in Table 30 below.

Table 30 - Revenue Accounting interfacing with SFMIS

To-Be	
1.	The Interfacing of SFMIS and ITAS begins at taxpayer registration where all taxpayer details are captured within ITAS and key data transferred to SFMIS for TIN generation and management.
2.	During filling and declaration, the TIN details are validated against SFMIS.
3.	When the taxpayer makes payments for the filled taxes arrears, the ITAS obtains unique transactional details from SFMIS which would be interfaced with the Central Bank.
4.	The funds are received within the Revenue accounts with details captured in the SFMIS general ledgers.
5.	These details are then stored and archived for reporting on budgets vs actuals and any other reports as required.

The process mapping for Revenue Accounting Interfaced with SFMIS is shown in Figure 22 below.

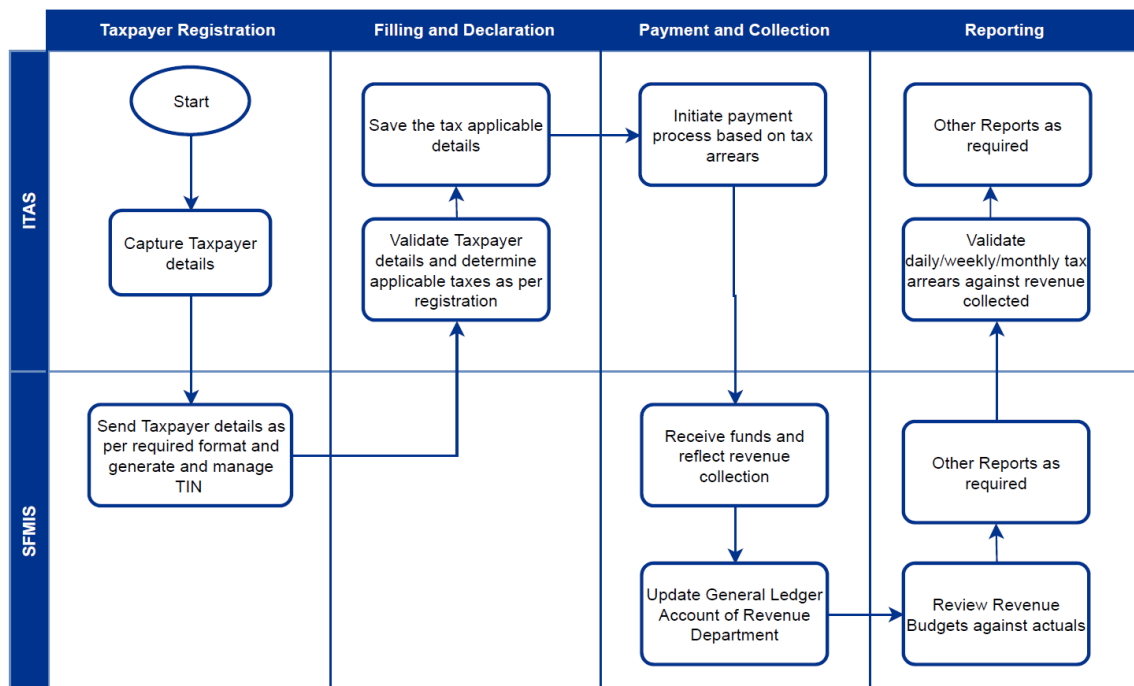


Figure 22 - Process map - Revenue Accounting Interfaced with SFMIS

## 15 Conclusion and Recommendations

The following are the key recommendations for the “To-Be” state for Revenue and Tax administration:

- Robust tax awareness and tax education roll out - systematically on a monthly basis to boost taxpayer awareness on all types of taxes. Road shows can also be organised and tax brochures design for taxpayers
- Building capacity among the IRD and Customs staff for skills and competence needed for effective revenue and tax administration. These include regular training, supply of the necessary office equipment and computers
- Automate TIN registration, declaration and payment of income taxes for all the instruments within the ITAS environment
- Consider introducing Value Added Tax (VAT) to replace Sales Tax. VAT registered taxpayers are required to have at least one Electronic Tax Register (ETR) at each of their sales locations and use these to provide ETR invoices for all sales transactions. This will improve compliance
- Corporate Income Taxes should be paid by all registered taxpayers. Introduce a quarterly instalment payment system whereby the taxpayers instead of annual lump sum payment at the end of the year, pay quarterly prepayments and claim them as tax credit when filing tax return.
- An ITAS system should be designed, CIT and PIT should be declared on a self-assessment basis by the taxpayers.
- Introduce Fuel Road Tax and Excise Duty on imported motor vehicles
- Introduce stamps on excisable goods to mark them for tax purposes.
- Enforce employment tax for private sector employers and consider taxation of Benefits in kind.
- Design declaration form in ITAS for all tax heads

Business Processes for ITAS automation have been documented for:

- Taxpayer Registration Process
- Filing and Declaration Process, including business rules for:
  - Employment Tax (Payroll Tax)
  - Sales Tax
  - Corporate Tax
  - Production/Excise Tax
  - Rental Income Tax (RIT)
  - Road Tax (RT)
  - Court Fees
  - Stamp Duty
- Payment and Collection Process
- Taxpayer Accounting Process
- Arrears and Follow-up Process
- Revenue Accounting Interfaced with SFMIS

# Error! Reference

## Contact us

### **Gerald Kasimu**

**Partner and Head of Advisory – KPMG East Africa**

T +254 (0) 709 576 676

E [gkasimu@kpmg.co.ke](mailto:gkasimu@kpmg.co.ke)

### **Jared Nyarumba**

**Associate Director, IT Advisory**

T +254 (0) 709 576 699

E [jnyarumba@kpmg.co.ke](mailto:jnyarumba@kpmg.co.ke)

### **Conrad Siteyi**

**Senior Manager, IT Advisory**

T +254 (0) 709 576 277

E [csiteyi@kpmg.co.ke](mailto:csiteyi@kpmg.co.ke)

[www.kpmg.com/eastafrica](http://www.kpmg.com/eastafrica)

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