

How VAT on imports is calculated



Photo: Mr. Kairo Thuo; director with Viva Africa Consulting Limited.

There is a popular, and unfortunately slightly mistaken, belief that the value of goods for customs purposes is the value indicated in the purchase invoice, also referred to as the commercial invoice.

On this basis, many people expect that the customs department should take that value, load the IDF of 2.25 per cent and on the same value add the customs duty and finally, on the assumption that the imports are not subject to excise duty, take the total of the invoice value and the customs duty to calculate the VAT on importation.

The first error in this belief is that the value for import duty purposes (and consequently the VAT on importation) is actually the invoice value plus the insurance plus the freight charges (i.e. CIF) and not just the invoice value.

This method of valuation is actually one of seven listed valuation methods and the primary valuation method.

All customs authorities in countries which are signatories to the GATT 94 and hence the Agreement on Customs Valuation are expected, in the first instance, to use this valuation method (referred to as the transaction value).

However, the customs authorities do have leeway to reject or modify the transaction value and use any of the other pre-approved valuation methods (e.g. deductive method, price of similar goods, etc), naturally there has to be good reason to do so.

This is the case with second hand motor vehicle valuation in Kenya where the Kenyan Customs Department has rejected the transaction value and used a deductive value (argument being most importers were lying on the value).

Unlike in the past where second hand motor vehicle importers (whether individuals importing for personal use of second hand vehicle dealers) were subjected to arbitrariness by the customs department on valuation, we need to give credence to the revenue authority for creating transparency and predictability in the second hand vehicle valuation process.



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In the KRA website, today, one will find not only the current recent selling price (CRSP) list for pretty much most of the vehicle but also easy to use excel worksheets which provide the depreciation rates (based on the age of the car) and the applicable duties and VAT, based on the type of the vehicle.

Thus all an importer needs to do is check the vehicle type and the CRSP indicated, key in the value provided in the CRSP sheet onto the calculation excel sheet and indicate the age of the vehicle.

The sheet actually calculates the IDF, duty and VAT applicable.

It is also very unlikely that the assessing officers at the revenue authority will ask for amounts that differ much from the calculation results.

With the exception of second hand motor vehicles, Kenyan customs have not put in place many reservations to the utilisation of the transaction value for customs valuation purposes on many products.

It is therefore important to ensure that all appropriate documentation to support the transaction value is in place to avoid the customs officers being suspicious hence prompting them to use another valuation method.

As earlier pointed out, the customs duty will be based on the cost, insurance and freight (or cost, insurance and 50 per cent of freight in the case of air freights).

In effect, calculation of the applicable duties is not, or rather should not be, a complicated exercise.