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VAT refunds trigger tax audits

Generally, BURS conducts tax audits from time to time to clamp down revenue leakage or to verify the actual tax due against what they actually receive from taxpayers. In some cases, the tax audits conducted by the taxman are based on random selection and in some instances tax audits are triggered by leads such as unusual financial information, false declarations or unethical transactions. However, for VAT registered business operators, a tax audit can be triggered by a mere request for a VAT refund.

A VAT refund technically arises when the total amount of input tax claimable exceeds the output tax that is attributable to a specific period. Input tax is basically VAT claimed on purchases or asset acquisitions whereas output tax is VAT charged on sales. Essentially, a taxpayer makes a request for a refund the moment a return reporting an excess of input tax over output tax is submitted to BURS. Therefore, it is common practice for BURS to verify the authenticity of any VAT refund claims. Consequently, such a verification process takes the form of a tax audit as it includes inspection of the impacted taxpayer's financial records. Such VAT refunds verification process may at times spill into other tax-heads such as Corporate Tax, PAYE or Withholding tax.

In the case where the refund has been ascertained to be bona fide, BURS may apply the amount towards any other outstanding taxes, where applicable. Thereafter any excess remaining will be refunded to the taxpayer. We urge you to ensure that you ascertain the correctness of VAT refunds, lest you get audited and penalised for undue VAT refunds. The VAT Act also allows you to defer VAT claims to subsequent periods, in case you need to avoid VAT refunds.

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