

VAT: setting up, recording and returning

Kenya tax and compliance

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Charge 16% VAT correctly, claim input VAT and prepare the monthly return.

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Overview

VAT is charged on taxable sales (**output VAT**) and can be claimed back on business purchases (**input VAT**). You pay KRA the difference each month. The standard rate is **16%**. Some supplies are **zero-rated** (0%, with input VAT claimable) or **exempt** (no VAT, no input claim).

> Registration is required once your taxable supplies reach the threshold (**KES 5 million** a year at the time of writing). Confirm the current rules and the treatment of your products with KRA.

Prerequisites

- Your company is VAT registered, with a **KRA PIN** and VAT number entered. See Creating and configuring your company.
- Accounts for VAT in your chart of accounts: **VAT Output (Payable)** and **VAT Input (Receivable)**, or one control account. See The chart of accounts.

Steps

Set up VAT templates

1. Search for **Sales Taxes and Charges Template** and click **Add**.
2. Name it *VAT 16%*. In the **Taxes** table, choose the type **On Net Total**, the **Account Head** (VAT Output), and the **Rate** 16.
3. Save. Create a *Zero Rated* template with rate 0, and an *Exempt* template with rate 0, so reports can separate them.
4. Do the same under **Purchase Taxes and Charges Template**, with the VAT Input account, for purchases.

Prices with VAT

If your prices already include VAT, tick **Included in Print Rate** on the tax row, so the net amount is calculated back.

Record sales and purchases

1. On each **Sales Invoice**, choose the correct **Taxes and Charges** template. See Creating a sales invoice.

2. On each **Purchase Invoice**, choose the purchase template, and enter the **supplier's PIN and invoice number**. Only claim input VAT on valid tax invoices that are in your business's name. See Recording supplier bills.
3. Set the default tax on items under **Item Tax Template**, so staff do not choose wrongly.

Prepare the return

1. Open the **VAT Audit Report** (or **Sales Register** and **Purchase Register**) for the month.
2. Compare the totals of taxable, zero-rated and exempt sales, and the input VAT, with the **VAT Output** and **VAT Input** account balances in the **Trial Balance**. They should agree.
3. Calculate the VAT payable: output minus input. If input is larger, the difference may be refundable or carried forward.
4. File the return on iTax and pay by the due date (normally the **20th** of the next month).
5. Record the payment with a **Payment Entry** or a **Journal Entry** from the bank to the VAT account, so the liability clears.

Practical example

In October, Mwangaza Hardware sells KES 5,800,000 plus VAT (KES 928,000) and buys KES 3,200,000 plus VAT (KES 512,000). The VAT payable is 928,000 − 512,000 = KES 416,000. It is paid and recorded by 20 November.

Important notes

- VAT may only appear on an invoice for a **taxable** supply. Do not charge VAT on exempt goods.
- Fees for digital payment services (card and gateway fees) are not VAT-exempt under the 2026 changes. Ask your accountant how to treat them.
- Keep supplier invoices and credit notes. Reverse input VAT on goods returned. See Purchase returns and debit notes.
- Bad debt VAT claims have a time limit, which the 2026 Act extended to three years.

Common mistakes

- Claiming input VAT without a valid supplier invoice.
- Mixing VAT-inclusive and exclusive prices.
- Not posting the VAT payment, so the account keeps growing.

Next steps

Read Electronic tax invoices and eTIMS.

Related documentation

- Sales taxes and VAT
- Electronic tax invoices and eTIMS
- Kenya tax overview and compliance calendar
- Creating a sales invoice
- Recording supplier bills