



To:

Allan Orwa & Michael J Calnan
South Coast Kenya
orwaallan@gmail.com
mike@tiwibeach.com

28/10/18

Proposal for a more effective tax collection method from private revenue derived from the online accommodation portal Airbnb et al.

In line with

"To facilitate Kenya's transformation through Innovative, Professional and Customer-Focused Tax Administration"

ABSTRACT

A major way for the Kenya Revenue Authority (KRA) to leverage technological and efficient collection of more taxes would be to incorporate its rental income base system to the Airbnb et al system.

The online accommodation portal Airbnb has over 8,000 private accommodation listings in Kenya. Local listings in the country have earned \$3.9 million in the past year (2017) and the taxation from this income is not being efficiently collected. Most people world over try and minimize/avoid or look for loopholes in taxation. Reason one being the amount they are being taxed. Reason two being the difficulty, time, and expense of accounting practices. This proposal examines how to simplify the current system and therefore increase the revenue from this mainly overlooked and growing source. This can be done by voluntarily partnering with Airbnb through the treasury, to directly submit to the KRA, through Central Bank of Kenya (CBK), a percentage from the income being sent to the property owner by Airbnb.

The net revenue collected by KRA is also directly proportional to the expenses occurred in its collection. Therefore an efficient method of collection is most important to all players in the industry. A Taxation regime which is expensive to administer can only increase the cost of the end product and therefore have a detrimental effect on the market position of Kenyan accommodation on a very competitive world stage. The trickle down effect would also be of huge benefit to our main tourist attractions.

If taxation proves to be simple and fair, the public in general will embrace the simplicity of a system over and above a small monetary loss, and the Government of Kenya will be the chief beneficiary along with a grateful and supportive public.

CONTENT

- 1) KRA
 - 2) Airbnb
 - 3) Proposal
 - 4) Benefits
 - 5) Conclusion
-

1/ KRA

- i. The current rate of taxation from landlords offering short term rentals, is on an annual basis and is charged at 30% of the net revenue.
 - ii. This is in contrast to the system of the 10% option that can be paid monthly on gross revenue by a landlord who is offering long term lets.
 - iii. The short term landlord will collect say \$10,000 p/a in rentals and be asked to pay 30% in tax. Such landlord is not offered the option of (ii).
 - iv. The landlord will claim his staff, maintenance, security, water, electricity, accounting etc. cost him \$5,000. Therefore his stated income will be \$5,000.
 - v. If the landlord is still paying off the building his payments will also be deductible making his contribution arguably less.
 - vi. The 30% tax on the \$5,000 remaining will amount to \$1,500
 - vii. It was recently published that it costs KRA \$5 to collect \$10.
 - viii. Therefore KRA has collected a net \$750 from the landlord for the year.
i.e.7.5%
-

2/ AIRBNB

- i. The current Airbnb method of payment is that they charge the client in full for the accommodation offered upon booking.
- ii. They retain this money till the guest arrives at the rental property. Airbnb then gives the client 24 hours to ask for a refund should the property be fraudulent or not as described. If the client is satisfied that the rental property is as stated, Airbnb then pays the landlord into his bank account.
- iii. Airbnb payout preferences offer a multi banking system whereas you have the choice of putting a certain percentage of said revenue into one bank and the balance in another. This ostensibly is for shared revenue between different shareholders in the same property.
- iv. The software to do this is already in situ on the Airbnb servers and lends itself perfectly to this proposal.

3/ PROPOSAL

- i. To liaise with Airbnb to submit to KRA a compulsory 7.5% of any payout from any Kenya listed property direct to the KRA account at CBK?
- ii. The above is the long term wish as it will take time and legal matters to be implemented between the Government Of Kenya (GOK) and Airbnb.
- iii. Meanwhile using the in situ software at Airbnb a trial base of say 50 voluntary landlords sign up to the proposed system for a period of one year.
- iv. It should be considered offering participating landlords a tax indemnity.
- v. It should also consider incorporating the Tourism Regulatory Authority (TRA) charge of 2% by increasing the Airbnb percent deduction of the gross to 10%.
- vi. Ask Airbnb to allow the landlord to insert a KRA tax compliance badge on their listing. This would also be more attractive to the potential client to know the listing is conforming to KRA tax standards.

4/ BENEFITS

- I. This proposal would eliminate the need for KRA to physically locate and collect the rental income taxes from the owners running these facilities. An enormous saving in manpower and materials for both KRA & TRA.
- II. The element of trust between KRA and the “loophole seeking” landlord would be eliminated with a non biased third party international company, Airbnb paying direct to the CBK/TRA account.
- III. The money would be in the KRA/TRA account within 24 hours of the client being in Kenya.
- IV. The money would be paid direct from Airbnb to KRA/TRA therefore bypassing multiple stages where graft could possibly exist.
- V. The 7.5% deposited on behalf of KRA would be the same amount they would expect to collect in 12 months from a “argumentative loophole riddled” return a landlord may or may not file.
- VI. TRA would no longer have to file through thousands of monthly statements.
- VII. It would effectively have Airbnb doing accounts for both KRA/TRA and landlord at the same time at a fixed percentage to the landlord for free.
- VIII. This proposal if adopted would negate the need for all property owners to file annual returns should the said rental be their sole income.
- IX. The majority of landlords would welcome a system that they pay 10% with no further book keeping. It’s done for them.
- X. The time and money saved by such an efficient system would be advantageous to all parties.

5/ CONCLUSION

Just as the KRA & GOK is leveraging on technology to improve its mandate of customer-based tax administration, it can tap into this online market among other online platforms such as Booking.com, Trip Advisor, Home & Away, Flip Key etc. and expand its existing tax base. If this system incorporated the 2% currently being paid monthly to the TRA it would be beneficial to all parties and eliminate many possibilities of corruption. The proposal of a tax amnesty would undoubtedly garner the support of all concerned. To test the system, KRA could ask willing landlords to voluntarily join from day one. Day one could even mean tomorrow as everything to make this work has already been tested in the international arena.

The writers are willing to demonstrate this to the KRA/TRA personally.

Allan Orwa (KE)

+254 (0)725369868

orwaallan@gmail.com

Michael J Calnan (KE)

+254 (0)724663366

mike@tiwibeach.com
