Introduction

A tax audit is a review conducted by tax authorities to verify that an individual or business has accurately reported their income, expenses, and deductions on their tax returns. It's like a check-up to ensure taxpayers are observing the law and paying the correct amount of taxes.

It entails an examination of persons' business financial records to ensure that the taxpayer declared correct information in the tax return. An audit can be carried out on any of the tax types that the taxpayer maybe registered for with ZRA.

The principle objective of tax audits is to test the credibility of the declared or assessed tax.

Triggers of Tax Audit

Audits can be conducted at any time as a routine check by the Authority on selected taxpayers for compliance purposes. However, a tax audit can arise as a result of the failure to comply with tax obligations.

Several factors can trigger a tax audit. Here are some common ones:

1. Discrepancies or Errors: If there are inconsistencies or errors in your tax return, such as math mistakes or mismatches between reported income and what's on record.
2. Unusual Deductions or Credits: Claiming deductions or credits that are uncommon for your income level or industry might raise red flags.
3. Random Selection: In some cases, tax audits are chosen randomly by tax authorities as part of their routine enforcement efforts.
4. Previous Audits: If you've been audited in the past and discrepancies were found, you may be more likely to be audited again in the future.
5. Tax Refund Claims: Requesting a sizable tax refund, especially if it's significantly different from previous years or appears unusually high relative to your income, can prompt tax authorities to scrutinize your return more closely. They may want to ensure that the deductions and credits you've claimed are legitimate and supported by proper documentation.
6. Tax Return Amendments: Making amendments to your tax return, whether to correct errors or to claim additional deductions or credits after the initial filing, can also raise flags. While it's perfectly acceptable to amend a return to correct mistakes or claim overlooked deductions, frequent or substantial amendments might lead tax authorities to question the accuracy of your original filing and the reasons behind the changes.

It's essential to keep accurate records, report all income, and claim only legitimate deductions to minimize the risk of an audit.

Can a Taxpayer request for an audit?

Yes. A taxpayer can request for a Tax audit for any specific period. The request should be made through the taxpayer account on the ZRA website. They can also write to the Authority to make the request.

How often can one be audited?

There is no limit on how many times a taxpayer can be audited by ZRA.

Expectations of/from the Taxpayer Prior to an Audit

Before the commencement of a tax audit, taxpayers are typically expected to take certain steps to prepare themselves and their records. Here's what's commonly expected:

1. Gather Documentation: Taxpayers should gather all relevant documentation related to their tax return, including receipts, invoices, bank statements, investment statements, and any other records supporting income, deductions, credits, and exemptions claimed on their return.
2. Review the Tax Return: It's important for taxpayers to review their tax return to ensure accuracy and completeness. This involves double-checking all figures and ensuring that all income is reported and all deductions and credits are legitimate and properly supported.
3. Organize Records: Taxpayers should organize their records in a clear and systematic manner to facilitate the audit process. This may involve creating folders or files for different types of documents and arranging them chronologically or by category.
4. Understand Tax Laws: While taxpayers are not expected to be tax experts, having a basic understanding of relevant tax laws and regulations can be helpful. This includes knowing which deductions and credits they are eligible for and how certain types of income are taxed.
5. Respond to Communication: Tax authorities may contact taxpayers to notify them of an impending audit or request additional information or documentation. It's important for taxpayers to respond promptly to any communication from tax authorities and provide the requested information in a timely manner.
6. Seek Professional Advice if Necessary: If taxpayers are unsure about any aspect of their tax return or the audit process, they may choose to seek advice from a tax professional, such as an accountant or lawyer, who can provide guidance and assistance.

Overall, the key expectation is for taxpayers to cooperate with tax authorities and provide the necessary information and documentation to facilitate the audit process. By being organized, proactive, and responsive, taxpayers can help ensure a smoother and more efficient audit experience.

How many years back can you be audited?

ZRA has the legal authority to audit any type of individual or business return up to Six years from the end of the year to which the return relates. In the case of Transfer Pricing audits, the authority may audit up to ten years from the end of that year. If fraud is suspected, the duration is not restricted to the Six or ten years; it can go as far back as the period of commencement of the fraud which is longer than the stated periods.

Types of Audits

Audits can vary in their scope and the level of detail to which they are conducted.

a) Comprehensive audit (Integrated and Single Tax Type)
This is an Audit that is detailed and looks at broad categories of risk and may focus on one tax type or cut across tax types (integrated). This type of audit looks at the affairs of the taxpayer in totality covering a period of at least one charge year.

b) Issue audits
This is an audit that looks at a specific issue (area or item) in a specific period (one return period, that is; one month, one year, etc., as the case maybe). These audits are initiated through credibility parameters and can be added as recommended cases. PTT assessments and PAYE refunds are also considered as issue audits

c) Credibility check
This is an audit meant to check the credibility of specific returns which have failed some parameters.

d) Refund audit
This refers to audits generated as a result of refund claims.

e) De-registration audit
This refers to audits generated as a result of a taxpayer ending the business or de-registering from one tax type.

f) Educational audits
These are audits intended to provide information to the taxpayer on their obligations and rights, and to offer advice on specific issues.

How do field tax audits work?

An audit is initiated when a tax inspector/auditor sends a notice to the taxpayer requesting additional information about an item, or items, on a return, or to notify them of an error that needs to be adjusted. It is very important that a taxpayer always responds to these notices.

Before the field audit, an auditor will contact the taxpayer to arrange a convenient time to meet at a ZRA office or, if a business, at the business' location. Audits may also be arranged, by mutual consent, to take place at the accountant's or other representative's office.

Field audits are conducted during normal work hours. The auditor will describe the types of records that need to be provided, and will explain the planned audit method and procedures.

Advantages of a tax audit

- ✓ Facilitates the provision of tax education
- ✓ Builds reputation of the organization
- ✓ Detection of errors in the accounting procedures
- ✓ Suggestions for improvement in handling tax matters
- ✓ Identification of weaknesses in the accounting system
- ✓ An audit will enhance the credibility and reliability of the figures being submitted to prospective stakeholders

Responsibilities of a business owner

The responsibilities of the taxpayer during an audit include:

a) Cooperate with tax auditors all the time.
b) Maintain and preserve sufficient records.
c) Providing honest and accurate information to ZRA.
d) Not offering ZRA auditors any payments, other than those authorized by law.
e) Comply with all other tax obligations imposed by the tax Acts.

What happens in the case of poor record keeping or lost records?

ZRA may assess the tax due and any interest payable on any omitted income using available information or may raise an estimated assessment. Further, penalties may be charged on failure to comply with specific tax provisions or regulations as guided by the various tax acts.

What happens after the audit?

After the audit, the taxpayer will be notified of the findings. The auditor will explain any adjustment to the taxpayer or their representative before finalizing the audit.

Where the taxpayer has information that the auditor may not have considered or has reason to believe the auditor may have made mistakes, he/she should bring up all such items at the reconciliation stage of the audit.

After reconciliation, an audit agreement will then be signed by both the auditor and the taxpayer or his appointed agents clearly highlighting the areas that have been consented to or objected to by the taxpayer.
Upon conclusion of the audit, the auditor will proceed to produce an assessment of tax and the liability if any is payable within the stipulated period in the assessment notice.

The taxpayer has a right to start the objection process for the items not agreed to within 30 days and if still dissatisfied with the objection determination, the taxpayer has the right to appeal to the Tax Appeals Tribunal. If still not satisfied, the taxpayer has the right to appeal to the Supreme Court for the final determination.

Rights of the Taxpayer

The rights of the taxpayer during an audit include:

a) Right to accurate and timely tax information
b) Right to objections against tax assessment
c) Right to appeal
d) Right to courteous service
e) Right to confidentiality
f) Right to fair treatment.

For more information contact:

Call Centre: 4111
Email: advice@zra.org.zm
Website: www.zra.org.zm

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TAX AUDIT