



An Invitation for Innovative Solutions to improve the efficiency of the Refunds Process

December 2024

Background

The Revenue Services Lesotho (RSL) administers the Customs and Excise Act 1982 as amended, Value Tax Act 2001 as amended, and Income Tax Act 1993 as amended. Some of the functions performed by the RSL include the VAT and Income Tax refund processing. The VAT 2001 as amended depicts that taxpayers on a refund position are liable to apply for such VAT refunds as they fall due at the end of every quarter, i.e. Quarter ending 30 June, 30 September, 31 December and 31 March.

Taxpayers with recurring monthly VAT refunds apply to the Commissioner to grant them the monthly VAT refunds. Upon approval by the Commissioner, their VAT refunds are verified and refunded monthly.

The Refund Verification Tool was introduced to do the data matching on VAT refunds applications on input VAT and output VAT. The performance of VAT refund verification tool was such that 80% of the refund claims were referred for further audit verification and audit due to non-availability of relevant schedules in the VAT returns and non-payments by the suppliers hence low matching rate. Another reason highlighted by the audit findings was that some invoices were missing in the VAT declaration of the suppliers.

Refund claims that satisfy the matching criteria are referred to Refunds Processing and Payment. All refund claims with low match rate are referred to Audit for further verification.

The overall problem is delay in the processing of refunds, thereby resulting in the backlog of refunds due. The delays are caused by a myriad of factors including but not limited to the following: the application process, audit process (due to delays in submission of records by Taxpayers), the dishonesty of some segments of the Clients who submit tax returns with some incorrect information, thus resulting in under declarations of income and/or overstatement of business expenses.

Annexure 1 is an example of a Refunds Process.

Problem Statement/s

1. Refunds Application Process

Taxpayers apply for their VAT refunds in a form of an application letter as an artifact. They can also apply by indicating with a tick on a VAT Return submission monthly.

- **Problem**

Application letters tend to be misplaced, they experience delays to reach their destination, and some end up not located at all.

- **Cause of the problem**

The application process is manual and there are other related processes and offices involved in transmitting such letters for actioning. This situation has the inherent risk of document loss.

- **Impact to Taxpayers**

Processing of VAT refunds gets affected negatively. Their cash flows will negatively be impacted as the applications will end up accumulating as backlogs.

- **Improvement Needed**

There is a need for a solution that will address the application process of refunds under the modernisation process.

2. Refunds Applications tracking

Received VAT refunds are registered and logged in a Refunds Tracker Tool for tracking of their status at each process step. This is to ensure accountability to Taxpayers upon enquiry on their refund status.

- **Problem**

The problem is the Usability of the Tracker Tool, being external to the formal Tax System (PSRM). Commitment to updating of the system has been wanting, as well as the accuracy of Data.

- **Causes of the Problem**

Non-adherence to updating the Refunds Tracker Tool and the tracking tool being external to the main tax system.

- **Impact to Taxpayers**

Expected service standards are not met in terms of providing precise information about the status of refunds applications. This leads to undue frustrations by Taxpayers.

- **Improvement Needed**

There is a need for a solution that will address the tracking of refund application cases under the modernisation process, as part of the overall CRM System

3. Verification of Refunds Applications (Audit)

The RSL receives high volumes of VAT refunds from all Sectors monthly. Such refunds are to be subjected to verification audits in for validity and accuracy in line with tax laws.

- **Problem**

The problem is the RSL'S ability to complete audits on time due to high volumes of applications, and ability to complete them on time.

- **Causes of the Problem**

Auditors still use manual auditing techniques, resulting in lengthy audits.

- **Impact to Taxpayers**

Delays are experienced and backlogs are realised, causing a strain to Taxpayers' cashflows.

- **Improvement Needed**

There is a need for a modern solution to undertake audits, an example being the use of Computer Aided Auditing Tools (CAAT). This will ensure that audits and verifications are expedited, combined with accuracy.

4. Submission of Records for Audits

The RSL Audit process requires Taxpayers to submit records as supporting documents to substantiate their refund claims. These records are in the form of Invoices, import documents, bank statements and others.

- **Problem**

Delays or non-submission of the requested records by the Taxpayers upon requests made. Most of the time, records are not submitted, resulting in the closures of such cases to be re-opened upon submission of records requested at a later stage.

- **Causes of the Problem**

Negligence and sometimes prioritising other initiatives Of their business over the calls to substantiate refunds applications.

- **Impact**

Non-submission of required documents results in subsequent delays in auditing, processing and payment of such refunds. The other factor is the frustration of the audit process in running a “stop and go” audits, whereby audits are adjourned whilst awaiting documents. This situation negatively affects Taxpayers who submit their records on time. The turnaround times that the RSL has set up for completion of audits and processing and paying VAT refunds are also highly affected.

- **Improvement Needed**

There is need for a solution to ensure that Taxpayers’ applications only get transmitted to Audit once all required documents have been uploaded and properly labelled.

5. Accuracy of submitted Refunds Declaration Documents

Taxpayers that are on a VAT refund status and apply for their refunds are expected to be complaint and honest in their declarations of their refunds returns.

- **Problem**

Majority of Taxpayers, upon verification audits, are found to be non-compliant and dishonest on their declarations upon filing.

- **Causes of the Problem**

Negligence and tax evasion.

- **Impact to Taxpayers**

Delays are realised as any tax evasion results upon auditing call for intensive audits, which are time consuming.

- **Improvement Needed**

There is a need for a solution to ensure that Taxpayers who have applied for VAT refunds, Income Tax and Customs refunds, comply with Tax Laws and Regulations, and maintain the mutual trust and honesty. This can be done through a document check facility to ensure legitimacy, electronic rejection of unauthentic documents and others.

Annexure 1: Refunds Process

Figure 2: Inland Refund Process Diagram

