

**Gaming woes** Bitter shareholding fallout has seen ouster of Kenyan tycoon from board

# Inside Sportpesa's Sh95bn tax gamble as KRA digs in

Taxman is demanding amount, up from Sh15 billion, in arrears and penalties. And the figure could climb even higher as detectives look into the company's books

BY JOHN KAMAU

As businessman Paul Ndung'u is shown his way out of the boardroom of troubled gaming firm SportPesa, the shareholders' woes are set to deepen further as Kenya Revenue Authority moves in to demand Sh95 billion in tax arrears and penalties.

For months, the troubled betting firm, linked to Bulgarian buccaniers, has been under the taxman's scrutiny with a team carefully picked to look at the company's ledgers, agreements, financial statements and invoices.

And now, it is emerging that the tax underpayments by Pevans East Africa Limited, SportPesa's parent company, were a bad bet and KRA's demand for Sh95 billion covering three years since 2017 might sink the company.

For a firm that had hooked young Kenyans into betting, its workings had been camouflaged by the billions of shillings it spent to promote its SportPesa brand, both locally and abroad,

20%

Percentage of withholding tax that has been slapped on winnings, up from 7.5 per cent

Sportpesa chief executive Ronald Karauri

## THE NUMBERS

TAX HEAD	PRINCIPAL TAX	PENALTY	INTEREST	TOTAL
Currency	Kes	Kes	Kes	Kes
Corporation Tax	34,346,229,651	6,869,245,930	5,096,210,57	46,311,686,157
Withholding tax on winnings	4,667,772,242	933,554,448	560,132,669	6,161,459,359
Withholding tax	2,802,687,564	560,537,513	706,971,119	4,070,196,196
VAT (Reverse VAT)	3,142,220,630	628,444,126	1,117,922,529	4,888,587,285
PAYE	9,813,059	1,962,612	3,403,17	15,178,844
Betting Tax	21,759,568,865	4,351,913,773	7,498,229,609	33,609,712,247

cial who was involved in auditing the SportPesa accounts.

It is intriguing how the company, for four straight years, managed to cook its figures even as it transacted in billions of shillings and with layers of companies.

For instance, Pevans is noted to have entered into a software provision agreement dated April 17, 2017 where it was to pay 2.4 per cent of the turnover to SPS SportSoft Ltd (UK), a service provider which owned the SportPesa gaming platform. But as it turned out, this offshore company, registered in the Isle of Man, was also linked to the shareholders and as such, the company was transferring payments from its left to its right pocket.

Records indicate that SPS is owned by SportPesa Global Holdings Ltd, al-

could still rise to a new high.

While the company has been paying the betting tax as required under Betting Lotteries and Gaming Act, SportPesa was listing the amount as an "expense" in its Financial Statements since 2017, an illegality in taxation laws.

An expense is only allowed in law if it is incurred to produce income – and thus KRA has now disallowed the computation, amounting to Sh7.8 billion since the betting tax is counted as a levy.

Known for using colossal amounts of money to sponsor sports activities, the new audit found that some of the items listed by SportPesa as under marketing expenses were not allowable for tax purposes – and had not been approved by the Cabinet Secre-

Sports. The disallowed amount totals Sh7.8 billion. It has now emerged that SportPesa included school fees for employees' children, chartered flight for Everton's visit to Kenya, business trip air tickets and licences incurred for other entities as part of marketing.

And since betting advertisement is prohibited under the law, any expenditure it incurred for radio and TV is now being treated as an illegality, unless it was approved by the Betting Board. As a result, a total of Sh2.6 billion has now been added back into the accounts for taxation purposes.

Discrepancies have also emerged on the amount of money posted on the company's ledgers and financial statement.

For instance, there are disparities on the Sh11 billion legal fees paid and

Northern Rangelands Trust with support from the Swedish government in Isiolo and Samburu under the Integrated Management of Natural Resources for Resilience in ASAL counties programme consortium.

"Peace offers an enabling environment for attracting tourists and investors, but war and violence makes people insecure and never brings forth anything good," the envoy said at Kalama Community Wildlife Conservancy in Samburu.

### Remain united

Accompanied by NRT Director of Programmes Elizabeth Pantoren, Ms Vicini appreciated conservancies' role in promoting peace among communities in Northern Kenya and particularly involvement of women in peace efforts.

The envoy lauded women from Samburu and Isiolo for their involvement in peace initiatives and asked them to ensure young people remain united before and after the forthcoming 2022 polls.

"We must come up with measures to ensure there is peace before, during and after the coming elections. We must ensure our young people are not lured with handouts to cause tension and violence during the polls," she told Amani Women Group members, who are involved in bead work.

NRT is implementing nine programmes supported by the Embassy of Sweden or SIDA in Isiolo and Samburu counties. Other implementing partners are World Vision Kenya and Stockholm Environment Institute.

shillings spent to promote its SportPesa brand, both locally and abroad, where it was a shirt sponsor for Everton, an English Premier League team, and for Formula 1.

But deep inside its financial reports, some KRA sources who have been studying them confide the company was the king of tax avoidance and cooking the books.

The initial demand for Sh15 billion, which led to the freezing of its licence in Kenya, is now a shadow of what KRA wants Pevans to pay.

SportPesa was set up by Bulgarian operators in 2014 with the support of former Nairobi Mayor Dick Wathika, businessman Ronald Karauri and billionaire Paul Ndung'u — who was to provide initial capital.

Besides the tax woes which are going to face the company, a bitter shareholder fallout over allegations of transfer of \$278 million (Sh29.1 billion) from the company's coffers to overseas accounts and sale of shares in the firm's holding company, has caused a huge internal rift that has led to the ouster of Mr Ndung'u.

An attempt to circumvent the Betting Control bureaucracy by registering a new firm, Milestone, also came a cropper recently after it sought to use the Sportpesa platform and access to a database of more than 12 million customers. At the moment, Sportpesa has shifted its base to Tanzania while its place has been taken by vernacular radio stations, which have entered the betting craze. "We are watching them and like Sportpesa, we shall be on their case too," says a KRA offi-

Ronald Karauri during an interview at the betting firm's offices in Nairobi on August 19, 2016. FILE | NATION

its left to its right pocket. Records indicate that SPS is owned by SportPesa Global Holdings Ltd, also registered in the Isle of Man, and its role is to collect all the profits recorded in the UK.

But by using the payments sent to SPS Sportsoft Ltd, as representing 2.4 per cent of the turnover, KRA found that Pevans had under-declared its revenue by Sh88 billion between 2017 and 2019 even though it could not trace who was paid some royalties in 2015 and 2016.

That means that the demanded tax

able for tax purposes — and had not been approved by the Cabinet Secretary in charge of Sports.

What that means is that the Sh7.8 billion that SportPesa used for both local and international sponsorships between 2016 and 2019 has been disallowed as an expense in its books.

KRA sources told the *Nation* that before January 2017, donations and payments made to football clubs were not an allowable expenditure under the income tax and one had to seek permission from the CS in charge of

For instance, there are disparities on the Sh11 billion legal fees paid and the audit has now disallowed that expenditure arguing that Pevans had not shown that this was used "wholly and exclusively" in the production of income.

While the company was supposed to file returns to the Betting Control and Licensing Board and declare revenue, payouts and gross gaming revenue, an analysis of the withholding tax on winnings as per the data filed with the board shows lower figures than those reflected on the financial statements.

Thus, it now appears that some payouts were not subjected to taxation.

In 2014, a withholding tax of 20 per cent had been slapped on winnings before it was reduced to 7.5 per cent in 2016 and revised again to 20 per cent in 2018.

From the computation, KRA will be seeking Sh21.7 billion as outstanding betting tax and Sh10 billion as withholding tax on winnings.

Also, Pevan paid for services that attracted withholding tax both locally and internationally and it has now been established that it did not withhold tax on all the expenses, leaving it with unremitted Sh2.8 billion.

Sources say that KRA is also watching activities on the vernacular stations — which have become the new casinos even as it pursues SportPesa, the biggest trophy in the betting paradise.

