

**CENTRAL-RIFT BRANCH**

# **BUDGET REVIEW AND EMERGING TAXES FY 2017/2018**

*Expenditures & Revenue Priorities in an Election Year  
2017/18*

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WEDNESDAY, APRIL 6<sup>TH</sup> 2017 @MERICA HOTEL, NAKURU COUNTY

# OUTLINE



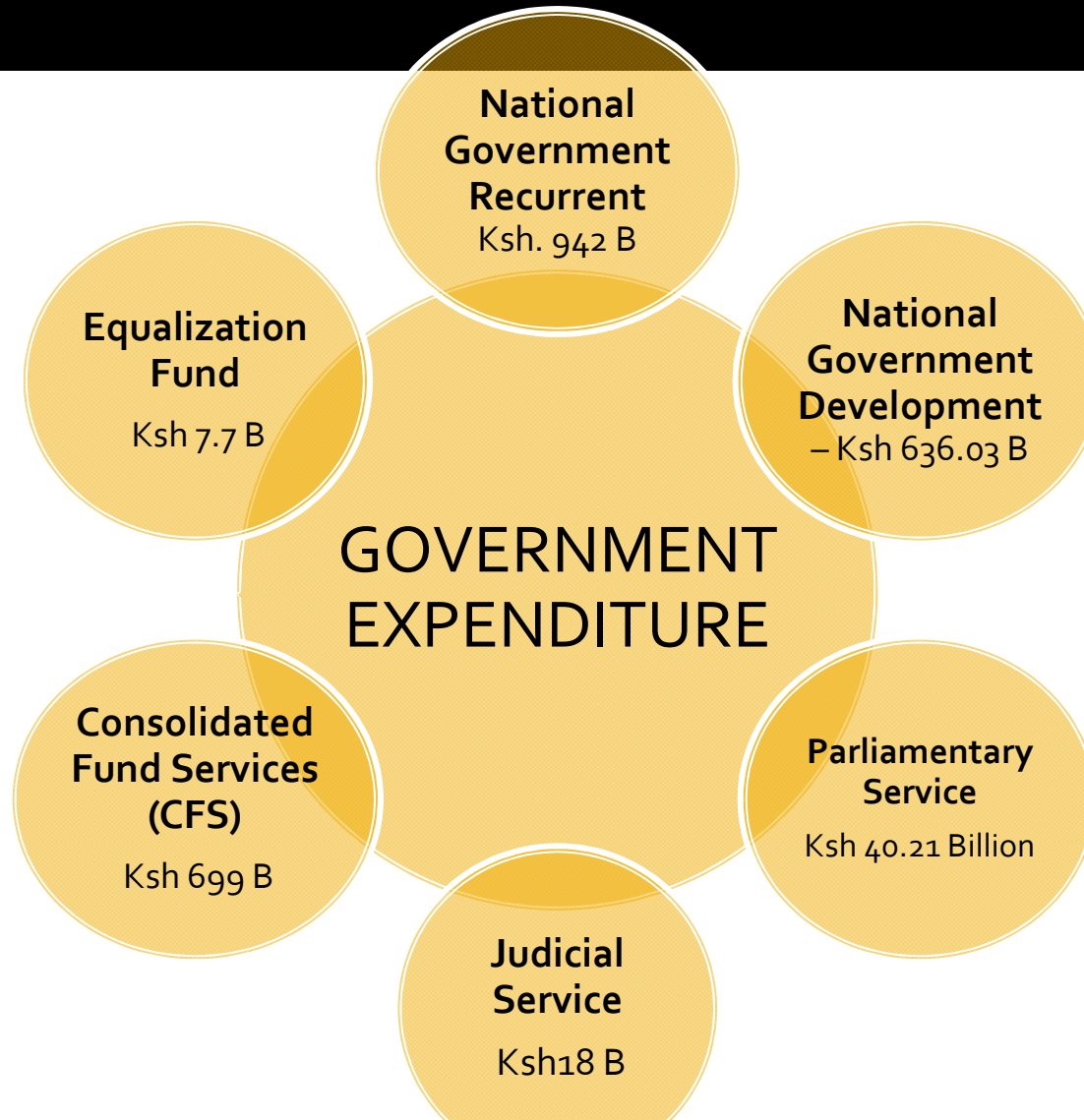
1. → OBJECTIVES
2. → HIGHLIGHT ON EXPENDITURE AND REVENUE PRIOTITIES
3. → BUDGET FINANCING MEASURES
4. → SUSTAINABILITY OF SELECTED MEASURES
5. → CONCLUSION

# UNDERLYING OBJECTIVES



- The theme for this year's budget is,  
“Creating Jobs, Delivering a Better Life for All Kenyans”
- The budget for the FY 2017/18 is being prepared under a revised Budget Calendar that has taken into account the preparation for the 2017 General Election.
- The economic policy of the government in the FY 2017/18 budget and the medium term is to consolidate the economic gains of the Transformation Agenda that was started four years ago.
- The Agenda is poised to achieve **higher and sustainable growth**, **generate employment** and **reduce poverty and inequality** enabling Kenya realize faster the aspirations under Vision 2030

# OVERALL EXPENDITURE



# HIGHLIGHT ON SECTORAL ALLOCATIONS



Food and Agriculture	<ul style="list-style-type: none"><li>• Ksh 7.3 Billion</li><li>• (5 B to inputs subsidy – fertilizer and seed and 1.6 B to title deeds)</li></ul>
Infrastructure, Transport and Logistics	<ul style="list-style-type: none"><li>• 279 Billion</li><li>• Roads: Ksh. 107 Billion</li><li>• Rail (SGR) 64 Billion,</li></ul>
Energy	<ul style="list-style-type: none"><li>• 16 Billion (Geothermal)</li><li>• 9.7 Billion (Last Mile Connectivity),</li><li>• 7.3 Billion (Electrification of Public Facilities)</li></ul>
Industrialization and Extractives	<ul style="list-style-type: none"><li>• Ksh 2.5 Billion</li></ul>
Environment, Flood Control & Water Harvesting	<ul style="list-style-type: none"><li>• 46.6 B</li><li>• (25.4 B – Water and sewage infrastructure)</li></ul>

# HIGHLIGHT ON SECTORAL ALLOCATIONS



**Security of Investment Growth and employment**

- **57.7 Billion**
- (Military Modernization – 15.6 Billion; Police Modernization 10 Billion; Enhancing security – 14 Billion)

**Education, e-Teaching and e Learning**

- **169.8 Billion**
- 33 Billion for free day secondary Education, 83 Billion for University Education, 13.4 Billion for Laptops

**Healthcare**

- **37 Billion**
- (KNH – 9 Billion; Free Maternal – 4.3 Billion; medical equip lease – 4.5 Billion)

**Poverty Reduction**

- **63.1 Billion** (CDF – 30.9 B)

**Women & Youth**

- **11.9 Billion** (Youth empowerment programs – 9.8 Billion)

# BUDGET IMPLEMENTATION - PREVIOUS YEARS



		FY 2015/16	FY 2014/15	FY 2013/14
Total exchequer issues released to MDAs and the County Governments		1,793.74	1,594.5	1,279.6
Cumulative expenditure by the MDAs		1,633.9	1,373.6	1,139
Absorption Rate for MDAs	Recurrent	706.50 (87.1)	623.2 (84.6%)	587.1 (87.3%)
	Development	451.83 (66.3)	318.7 (45.8%)	241.1 (52.0%)
	Consolidated Fund Services expenditure	475.54 (96.1%)	431.7 (98.8%)	310.8 (117%)

# BUDGET FINANCING FRAMEWORK



Tax & Non  
Tax  
Revenue  
(74.5%)



Grants  
(2.6 %)



Borrowing  
(Domestic  
+External)  
22.9%



FY 2017/18  
BUDGET

Ksh. 1,704.5 Billion

# SUSTAINABILITY OF REVENUE RAISING MEASURES



## REVENUE PROJECTIONS

- The total revenue projection for FY 2017/2018 amounts to Ksh. 1,704.5 Billion. The projections are supported by ongoing reforms in tax policy and automation through interagency collaboration.
- Income tax is therefore expected to be the primary driver of revenue growth for FY 2017/2018.

# SUSTAINABILITY OF REVENUE RAISING MEASURES



## UNDERLYING CONDITIONS THAT COULD CURTAIL REVENUE PROJECTIONS

### 1) The drought

- Rise in food stuffs and other related items:- High inflation rate
- Increased spending on drought mitigation activities  
Have we invested in agriculture outside of subsidies to guarantee our food security?
- Tax exemptions on food stuffs, and related items
- Reduced prices in the agriculture sector (maize) and loss of income

The tax exemptions and reduced production combined could lead to less tax collection but as has been the case, the rains will finally come and the positive impacts will be in 2018.

# SUSTAINABILITY OF REVENUE RAISING MEASURES



## 2) The 2018 Elections

- The electioneering mood may dampen investments as Investors adopt a wait and see attitude for the first half of the year
- Loss of Jobs as a few investors reduce their capital injections into the industries

This coupled with the interest capping could lead to lower than anticipated growth in manufacturing hence may have negative impact on the revenue collection in FY 2017/18.

# SUSTAINABILITY OF REVENUE RAISING MEASURES



## 3) Income Tax Projections

- Income tax has been the major driver of revenue growth in the recent past and it will continue in FY 2017/18
- PAYE will slightly be boosted by the adjustment of wages of civil servants
- However corporate tax and capital gains may just remain subdued due to the investor confidence

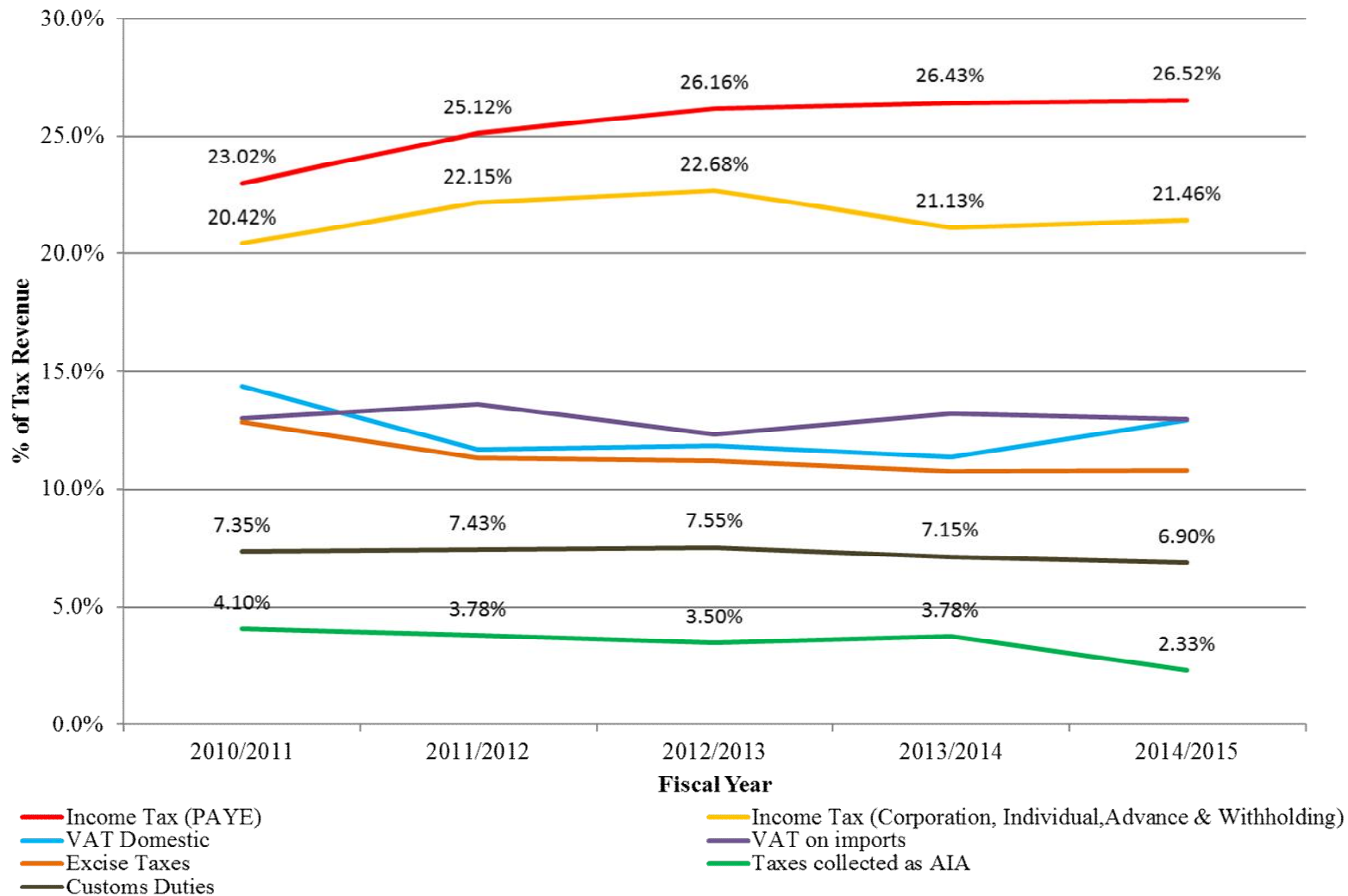
Does the new tax bands and personal relief given lead to lower than expected PAYE??

# ICPAK ANALYSIS IF TAX REVENUE TREND

## 2010 -2015



**Proportion of Tax Revenue Trend**



# SUSTAINABILITY OF REVENUE RAISING MEASURES



## 4) Tax increase in other goods and activities

- Beer and cigarettes: does this lead to less consumption or lower quality:- consumer choices: continuous policy reversals!!!
- Betting: a punitive tax to the uncontrolled but huge industry:- These resources need to be harnessed for supporting the economy

# SUSTAINABILITY OF REVENUE RAISING MEASURES



## 5) Tax waivers and reliefs

- The government has released a pro poor tax burden strategy i.e. Food stuffs:- maize and wheat flour---- but this may not be transferred to the poor
- Health Sector: Vat removed from on hospital equipment
- Tourism sector:- Locally assembled vehicles for tourism exempted from VAT
- Tax Amnesty to repatriation wealth from abroad but declare source of income
- Blue economy:- Investment deductions to reduce tax liability
- Tax relief: This is automatic - affects those in the payroll

# SUSTAINABILITY OF REVENUE RAISING MEASURES



## 6) Tax Administrative measures: Opportunities

- ❑ Digital age:- is KRA moving fast enough to catch up with technology?
- ❑ On line forex trading, online shopping and purchases, entertainment
- ❑ Transfer pricing:- Multinational and tax avoidance.

## 7) East Africa region: the case of Taxes under CET

- ❑ Measures not outlined means there are tax measures yet to be announced.
- ❑ Effectiveness of the measures: Do the measures become effective from now or in July I.
- ❑ Effect of legislature in review and enactment of the various revenue measures.

# DEBT REPAYMENT



- Debt Interest and redemption in 2017/2018 stands at Ksh 621.8 B, increasing from 466.5 B in 2016/2017. The increase has been occasioned by maturing loans such as the Standard Chartered Syndicated Loan.
- The government should manage the exchequer releases to ensure that there is adequate revenue to service the loans while ensuring smooth and timely implementation of the budget 2017/2018.

# DISCUSSION QUESTIONS



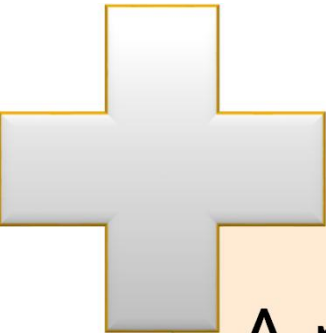
1. Did the budget reflect the priorities contained in the Jubilee governments manifesto? What is the interplay between politics, budgeting and planning?

# DISCUSSION QUESTIONS




Are the measures proposed in this years budget adequate to attract investors into manufacturing and industries?  
SEZ's - is this the way to go?

# CONCLUSION



A policy of redistribution of wealth is more effective using expenditure policy than tax policies



The over estimation of revenue in 2016/17 means the baseline has a bearing on the projections of revenue in 2017/18.

# Thank You!

