BUDGET REVIEW AND EMERGING TAXES FY 2017/2018

Expenditures & Revenue Priorities in an Election Year 2017/18

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

Uphold Public Interest
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

- National Government Recurrent: Ksh 942 B
- National Government Development: Ksh 636.03 B
- Parliamentary Service: Ksh 40.21 Billion
- Judicial Service: Ksh 18 B
- Consolidated Fund Services (CFS): Ksh 699 B
- Equalization Fund: Ksh 7.7 B

GOVERNMENT EXPENDITURE

Uphold Public Interest
HIGHLIGHT ON SECTORAL ALLOCATIONS

Food and Agriculture
- Ksh 38.3 Billion
- Ongoing irrigation, input subsidy, SGRs
- 5 B to inputs subsidy – fertilizer and seed and 1.6 B to title deeds

Infrastructure, Transport and Logistics
- KShs 415.7 Billion
- Roads: Ksh. 107 Billion
- Rail (SGR) 64 Billion

County Governments
- KShs 295.3 Billion
- KShs 34 billion in conditional grants

Industrialization and Extractives
- KShs 2.5 Billion

Environment, Flood Control & Water Harvesting
- KShs 46.6 B
- (25.4 B – Water and sewage infrastructure)

NG CDF
- Ksh 30.96 Billion

Social Protection, Culture and Recreation
- Ksh 45.2 Billion
- KES 29.1 B Social safety nets for elderly, hunger safety nets, orphans and vulnerable children

Uphold Public Interest
<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation</th>
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<tr>
<td>Security of Investment Growth</td>
<td>• 57.7 Billion</td>
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<td>&amp; employment</td>
<td>(Military Modernization – 15.6 Billion; Police Modernization 10 Billion; Enhancing security – 14 Billion)</td>
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<td>Education, e-Teaching &amp; e-Learning</td>
<td>• 169.8 Billion</td>
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<td>33 Billion for free day secondary Education, 83 Billion for University Education, 13.4 Billion for Laptops</td>
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<td>Healthcare</td>
<td>• 37 Billion</td>
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<td>(KNH – 9 Billion; Free Maternal – 4.3 Billion; medical equip lease – 4.5 Billion)</td>
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<td>Poverty Reduction</td>
<td>• 63.1 Billion (CDF – 30.9 B)</td>
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<td>Women &amp; Youth</td>
<td>• 11.9 Billion (Youth empowerment programs – 9.8 Billion)</td>
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<td>FY 2015/16</td>
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<td>Total exchequer issues released</td>
<td>1,793.74</td>
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<td>to MDAs and the County Governments</td>
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<td>Cumulative expenditure by the MDAs</td>
<td>1,633.9</td>
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<td>Absorption Rate for MDAs</td>
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<td>Recurrent</td>
<td>706.50 (87.1)</td>
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<td>Development</td>
<td>451.83 (66.3)</td>
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<td>Consolidated Fund Services expenditure</td>
<td>475.54 (96.1%)</td>
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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.
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
- 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.
2) The 2018 Elections

- The electioneering mood may dumpen 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??
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
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.
A policy of redistribution of wealth is more effective using expenditure policy than tax policies.

The overestimation of revenue in 2016/17 means the baseline has a bearing on the projections of revenue in 2017/18.
Thank You!