



Grant Thornton

An instinct for growth™

IFRS Developments & Effect on Tax

Mbiki Kamanjiri



Upcoming changes



IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue recognition	1 January 2018
IFRS 16	Leasing agreements	1 January 2019

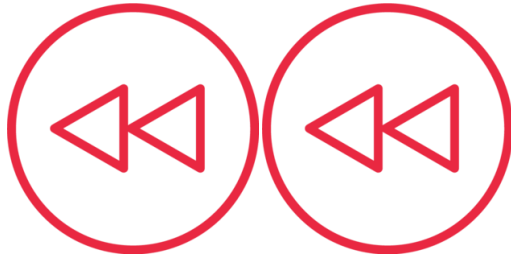


IFRS 9 Financial Instruments

1. Impairment requirements

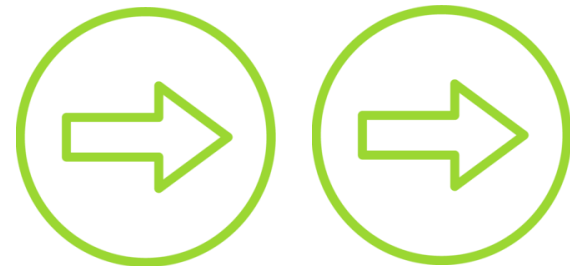
Previously we would recognize impairment towards the end of an asset

Over 90 days,
Death,
Bankruptcy etc



Going forward recognize impairment on expectation of default

Shorter period for default,
Economic
Macro-economic indicators



New provisions will lead to more accounting losses

IFRS 9 Financial Instruments



Normal business

Steinhoff poundland ceo quits shares drop
60%

Debtors within 90days provide for 10%

On basis of performance + Justification

View that 6 months is too long

Reversal on payment



Commissioner's Guidelines



Effect on tax



Before a debt or provision can be allowed one must demonstrate to have taken these steps

Creditor loses contractual right



No security or collateral



Proceeds of security do not cover full debt



Insolvent or bankrupt



Costs of recovery exceed debt



Efforts abandoned for another reasonable cause



Commissioner's Guidelines

15TH April, 2011

LEGAL NOTICE NO. 37

THE INCOME TAX ACT
(Cap. 470)

GUIDELINES ON ALLOWABILITY OF BAD DEBTS

PURSUANT to section 15 (2) (a) of the Income Tax Act, the Commissioner-General issues the guidelines set out in the Schedule hereto on ~~allowability~~ of bad debts for tax purposes.

SCHEDULE

1. A debt shall be considered to have become bad if it is proved to the satisfaction of the Commissioner to have become uncollectible after all reasonable steps have been taken to collect it.
2. A debt shall be deemed to have become uncollectable under paragraph (1) where—
 - (a) the creditor loses the contractual right that comprises the debt through a court order;
 - (b) no form of security or collateral is ~~realisable~~ whether partially or in full;
 - (c) the securities or collateral have been realized but the proceeds fail to cover the entire debt;
 - (d) the debtor is adjudged insolvent or bankrupt by a court of law;
 - (e) the costs of recovering the debt exceeds the debt itself; or
 - (f) efforts to collect the debt are abandoned for another reasonable cause.
3. A bad debt shall be a deductible expense only if it is wholly and exclusively incurred in the normal course of business.
4. For the purposes of these guidelines, a bad debt which is of a capital nature shall not be an allowable expense.

M. G. WAWERU,
Commissioner-General,
Kenya Revenue Authority.



IFRS 9 Financial Instruments



1. Classification of financial assets

Fair value revaluations through P&L

Held to maturity vs Held for sale

Bias towards fair value gains

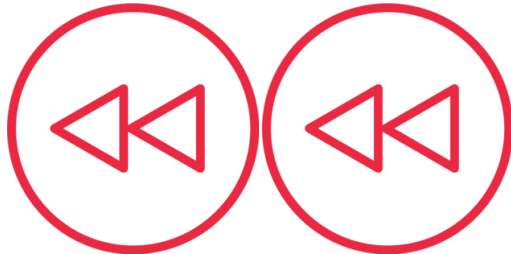


IFRS 15 Revenue recognition

When do you recognize revenue

Previously we
would
recognize
revenue on
signing
contract

Prepayments,
Houses,
Engineering
Holiday
bookings



Going forward
recognize
impairment on
revenue as
obligation is
satisfied

Looking at
timing



IFRS 15 Revenue recognition



Effect on tax

New regulations are more in line with the Income Tax Act

Subject to, and in accordance with, this Act, a tax to be known as income tax shall be charged for each year of income upon all the income of a person, whether resident or non resident, which accrued in or was derived from Kenya

For the purpose of ascertaining, the total income of a person for a year of income there shall be deducted, all expenditure incurred in that year of income which is expenditure wholly and exclusively incurred by him in the production of that income, and where incurred by him in the production of that income, anywhere under section 27 any income of an accounting period ending on some day other than the last day of that year of Income is, for the purpose of ascertaining total Income for a year of income, taken to be income for a year then the expenditure incurred during that period shall be treated as having been incurred during that year of income

Operating Fair Value Gains	922,486	401,393
Operating Expenses	(211,888)	(210,001)
Impairment Loss	(134,524)	(71,657)
Employee Costs	(326,699)	(185,673)
Operating Profit	732,813	176,341
Finance Costs	(195,803)	(73,647)
Profit Before Tax	537,010	102,694
Tax Expense	(11,001)	(15,656)
Profit / (Loss) After Tax	526,009	87,038

Fair Value Gains grew by 130% for period ending 30th September 2017. With Investment Property generating Kshs. 581.2 mn and Quoted Investments Kshs. 341.2 mn. Revenue recognized as per IFRS 15 guidelines. Fair Value Gain as per IFRS 13 & Investment Property as per IAS 40

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Brian Muluvi

Your kiosk has made a loss in trading activity, however the land it stands on has appreciated tremendously because of rumours that end with "bypass" - therefore Kiosk has made a massive profit. - Njooro

IFRS 16 Leases

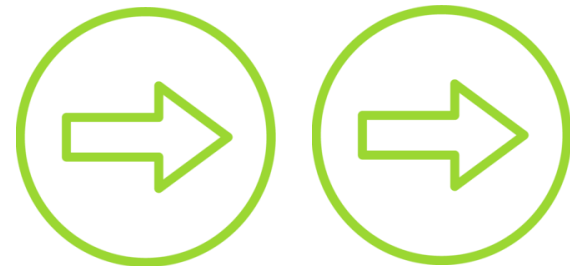
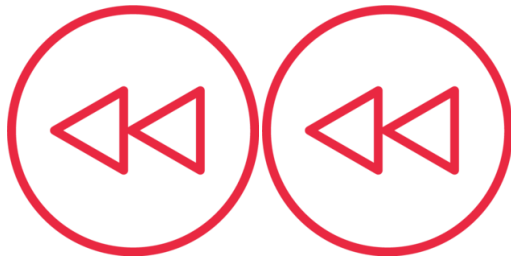
Lessee – operating lease

Previously not
recognized as
an asset in the
BS

Contractual
agreement
and not actual
ownership

Going forward
recognize new
asset in BS
Right of Use

Discount
future
payments to
present value



IFRS 16 Leases

Effect on tax

Depreciation is not an allowable expense

...for the purposes of ascertaining the total income of a person for a year of income, no deduction shall be allowed in respect of **Capital expenditure, or any loss, diminution or exhaustion of capital**



Excisable services (Other fees)

Prior to enactment of the Excise Duty Act, 2015

include any fees, charges or commissions charged by financial institutions, but does not include interest on loan or return on loan or an insurance premium.

Later amendments

includes any fees, charges or commissions charged by financial institutions relating to their licensed financial institutions, but does not include interest on loan or **return on loan** or an insurance premium or premium based or **related commissions**”



5th Floor,
Avocado Towers,
Muthithi Road, Westlands,
Nairobi
Kenya

T +254 20 3752830 | 3747681 | 2402975
F +254 20 3749839

www.grantthornton.co.ke

Mbiki Kamanjiri
Manager – Tax Consulting Services
Cell +254 721 449 468
E ; mbiki.kamanjiri@ke.gt.com

