



# Tax implications of Fiscal Budget FY 18/19

Presentation by:

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# Agenda

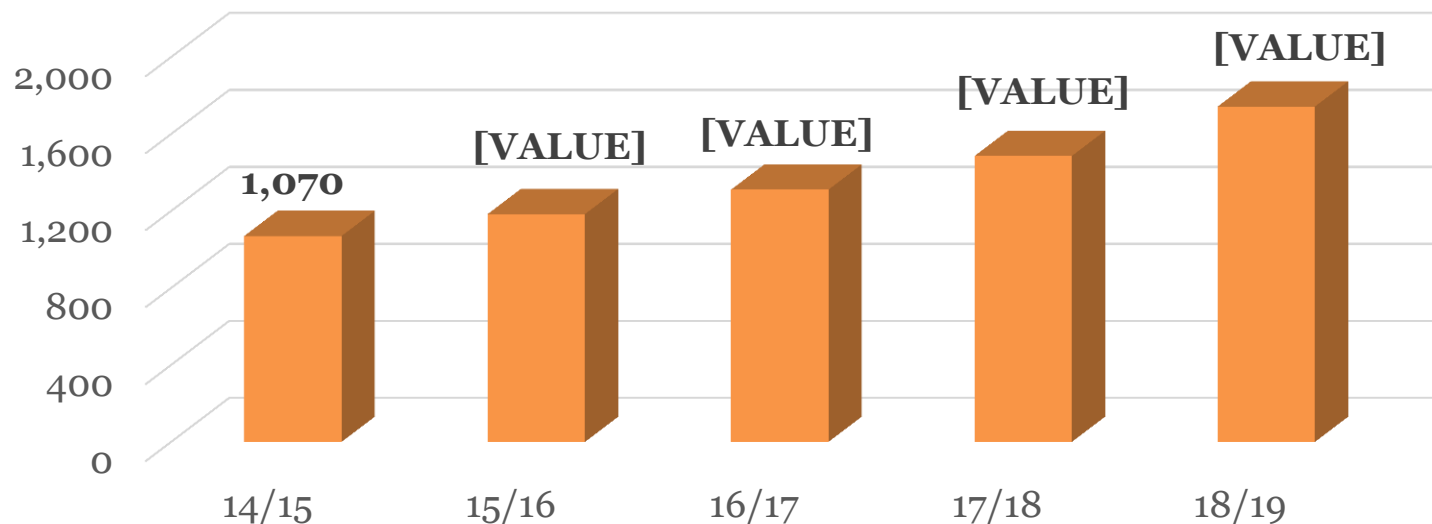


1. Overview of tax collection
2. Tax measures on the Big Four Agenda
3. Income Tax
  - ✓ Finance Bill
  - ✓ Draft Income Tax Bill, 2018
4. Value Added Tax
5. Excise Duty Tax
6. Tax Procedures Act



# 1. Overview of tax collection

# Tax contribution to the Exchequer



Details	14/15	15/16	16/17	17/18	18/19
Percentage growth on prior year		11%	11%	13%	17%

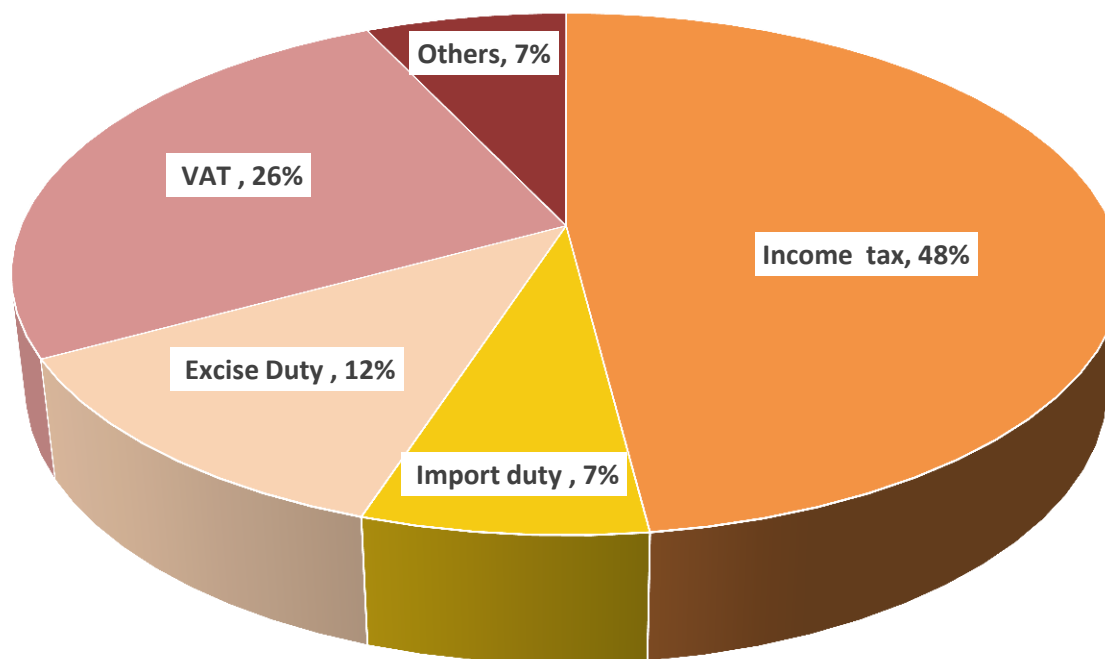
Source: Draft 2018 Budget Policy Statement and the 2017 Budget Policy Statement

Is the 17% projected growth in tax collections realistic?

# Tax contribution to the Exchequer



FY 17/18



Source: Draft 2018 Budget Policy Statement and the 2017 Budget Policy Statement



## 2. Tax measures on the Big 4

# Tax measures on the Big Four Agenda



## Food & Nutrition Security

- ✓ VAT exemption of **equipment** to be used in the **construction** of **grain storage facilities**
- ✓ VAT exemption of **raw materials** for **animal feed**

## Manufacturing

- ✓ 130% tax deduction on **electricity** bills
- ✓ Special tax incentives for projects under **special operating framework** (CIT, VAT & Excise Duty)

## Affordable Housing

- ✓ National Housing Development Fund
- ✓ Introduction of affordable **housing relief** – 15% of gross emoluments upto KES 108K.
- ✓ **Stamp duty** relief for first time home owners

## Universal Healthcare

- ✓ Pharmaceutical products
- ✓ VAT exemption on **construction** of specialised hospitals

### BIG 4 AGENDA



## 3. Income Tax Act



# Income Tax changes in the Finance Bill



- ✓ Presumptive tax;
- ✓ WHT on demurrage charges;
- ✓ WHT on insurance premiums paid to non residents.



# Income Tax changes in the Finance Bill



Dividends have been defined to include the following:

- ✓ **Cash/asset distributions** for the benefit of shareholders;
- ✓ **Discharge of obligation** to company owed by shareholder or a person related to the shareholder;
- ✓ Amounts used for the **benefit** of the shareholder or person related to the shareholder; and,
- ✓ **Transfer pricing** adjustments.



# Income Tax changes in the Draft Income Bill, 2018



Item	Current Rate	Proposed Rate	Comments / Impact
Corporate Tax Rate	30%	35%	The average corporate tax rate in Africa is 28.5%, while the global average is 22.5%.
Tax rate for branches	37.5%	30%	It is not expected that the effective tax rate of branches / permanent establishments will vary significantly.
Repatriated profits by branches	0%	10%	
Export Processing Zones (“EPZ”)	First ten years – 0% Next ten years – 20%	First ten years – 10% Next ten years – 15%	Aligning the corporate tax rate to the SEZ.

# Income Tax changes in the Draft Income Bill, 2018



Item	Current Rate	Proposed Rate	Comments / Impact
Thin capitalisation	Ratio of 3:1	Ratio of 2:1	Encouraging use of equity rather than debt.
Investment Deduction	150%	100%	Harmonizing with the East Africa countries.
Wear and Tear	Reducing balance	Straight line	Aligning tax and accounting depreciation
Loss carry forward period	10 years plus indefinite extension	10 years plus maximum of 2 years.	Increase tax payments to the Exchequer.



## 4. VAT

# VAT changes



## *VAT exemptions*

- ✓ Parts imported or purchased for assembly of computers
- ✓ Postal services – postage services, rental boxes
- ✓ Transfer of assets into a real estate investment trust and asset backed securities



## 5. Excise Duty

# 5. Excise Duty changes



- ✓ *Robin hood tax* – 0.05% on transfer of funds in excess of KES 500k
- ✓ 12% excise duty on fees charged for money transfer services by *cellular phone service* providers





## 6. Tax Procedures Act

# 6. Tax Procedures Act changes



- ✓ Increase in *interest* from *1% to 2%* for late payments
- ✓ Penalty for late filing of *individual returns* reduced from *KES 20k* to *KES 2k*
- ✓ Application for late submission of return should be *at least 15 days* before the due date for monthly returns and 30 days for annual returns

# Contact



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# Interactive session

