



Implication of the Finance Act, 2018 to the Economy and Tax Compliance in the Current Economic Outlook

Presentation by:

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Friday, 22 February 2019

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Implication of the Finance Act, 2018 to the Economy

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Presumptive Tax



- ☐ Applicable for businesses with a turnover of up to KES 5 Million
- ☐ Averages permit fees KES 15,000
- ☐ Presumptive fees KES 225
- ☐ is this significant compared to the turnover tax
- ☐ turnover tax was levied at 3% of turnover
- ☐ Is this a bait?
- ☐ County governments key stakeholders in this this, are they Cooperating?
- ☐ Effect on economy so far?

VAT on Petroleum products



- ☐ Chargeable to VAT at a reduced VAT rate of 8%
- ☐ Largely seen as a revenue raising measure
- ☐ Treasury expected to collect an additional KES 35 Billion in revenue from VAT
- ☐ What impact has this had so far in Kenya especially on:
 - Transportation and electricity generation costs;
 - Industrial products;
 - Farm inputs, Farm outputs;
 - Service industry;
- ☐ Who is most affected?
- ☐ Overall effect on the economy?

Compensating tax



- ☐ Companies longer required to maintain a dividend tax account
- ☐ Does this simplify tax regime and thereby increasing tax compliance?
- ☐ Applicable where a dividend is distributed out of untaxed profits.
- ☐ No definition for what constitutes untaxed profits
- ☐ Dividend from subsidiaries to holding company not affected
- ☐ Does this new provision claw back tax incentives? interest from infrastructure bonds, is it subject to tax upon dividend payment?
- ☐ Should taxpayers invest as individuals as opposed through companies?
- ☐ Is this likely to affect investment especially the uptake of IBs.
- ☐ Effect on economy?

Electricity rebates



- ☐ This measure is aligned to Government's Big Four
- ☐ Intended to increase the contribution of the manufacturing sector to the GDP to 15% by 2022.
- ☐ Electricity/ energy is one of the highest costs incurred in the manufacturing industry. Is this a welcome relief for manufacturers?
- ☐ Can this enhance the competitiveness of local manufacturers and encourage growth and investment in the sector?
- ☐ Are the Minister's conditions restrictive
- ☐ Is this enough in dealing with the cost of energy
- ☐ What impact has it had to the economy?

WHT on demurrage



- ☐ 15% WHT on demurrage payments to non residents
- ☐ Affected taxpayers may either pass on the impact of the tax by increasing the demurrage charge or increasing the original freight charges in lieu of the demurrages, to avoid the tax
- ☐ The importers will bear the burden if the ship owners take this approach
- ☐ Likely to have a negative effect on business and could make the country less competitive in terms of the shipping business.
- ☐ Vessel owners may consider nearby ports like Tanzania
- ☐ Overall impact on the economy?

Increase and introduction of Excise duty on some products



- ☐ Increase in excise duty on some goods and services
- ☐ Driven by Government's appetite for revenue to finance the budget deficit
- ☐ Prices for affected products have soared due to the increase in excise duty and indirect increase in VAT;
- ☐ Could this reduce demand of the affected products?
- ☐ Does the Government risks losing revenue due to a possible reduced demand on the affected products?
- ☐ Part of the list of the affected products is Keresone which has had excise duty and VAT added to it
- ☐ How does this affect common mwananchi and general cost of living? Overall effect to the economy?

Zero rating of maize (corn) flour



- ☐ A move to zero rate these products obviously makes them more affordable.
- ☐ The move to zero rate these products is therefore welcome as *Ugali* is staple food for most Kenyans
- ☐ How does this affect the cost of living?
- ☐ Implication to the overall economy?

Tax Amnesty on foreign income extended



- ☐ The Government keen to encourage its uptake
- ☐ Uptake has been slow since it was first introduced
- ☐ Taxpayers taking advantage of the amnesty exempt from further investigations on possible crimes or scrutiny under other laws.
- ☐ Taxpayers required to repatriate the funds and assets into Kenya
- ☐ If taken up, would this increase investment in Kenya
- ☐ More taxes and therefore less budget deficits?
Overall impact to the economy?

Tax Compliance



Tax Compliance



❑ Tax departments are already under pressure from:



- Annual and monthly reporting requirements;
- Aggressive tax enforcement;
- Heightened demands for transparency;
- Increasing tax audits;
- FATCA reporting;
- CFC reporting;

Tax Compliance



- Common Reporting Standards;
- The international tax landscape has introduced additional reporting under Base Erosion and Profit Shifting (BEPS) requirements; and
- Ad hoc reporting.

❑ BEPS amendments have introduced global requirements for:

Tax Compliance



- Transfer pricing master files and local files;
- Country-by-country reporting;
- Exchange of information requirements; and
- Revenue authority mutual assistance procedures.



They require increased compliance, harmonization and integration of tax considerations



Managing Global Tax Compliance

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Managing Global Tax Compliance



- ❑ Global tax compliance is more than computing tax accounting balances, it includes:
 - Reporting on tax compliance;
 - Managing tax planning outcomes; and
 - Maintaining tax audit obligations
- ❑ Tax is becoming a critical component of strategic approaches to achieving desired business goals

Managing Global Tax Compliance



- ❑ Given the increased regulation of tax, companies should consider how the tax function is:
 - Organized;
 - Staffed; and
 - Integrated into the broader business.

Managing Global Tax Compliance



- ❑ Reactive approaches to tax lead to:
 - Lost opportunities;
 - Reduced cash flows;
 - Operating inefficiencies;
 - Unwarranted risk; and
 - Higher tax liability.

Managing Global Tax Compliance



□ Key questions to ask:

- What is the most visible way to deal with your tax concerns;
- Is the tax function well positioned to meet company goals and objectives?
- What type of taxes does the tax function manage?
- Is the tax function geographically limited and resourced or does it have global reach?



Tax and Strategy

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Incorporating Tax into Strategy



- ❑ Tax strategy helps prioritize activities and utilize resources and budgets efficiently
- ❑ Define a strategy for each obligation:
 - Tax accounting;
 - Tax reporting;
 - Tax planning;
 - Tax compliance; and
 - Tax audit

Incorporating Tax into Strategy



- ☐ The strategy should outline the objectives and daily activities to be carried out
- ☐ The specific person responsible for each function
- ☐ The tax control available and tax risk management strategies
- ☐ The organization's tax risk appetite? E.g. Conservative or low risk
- ☐ Align the structure of the tax function to resources, technology, process and controls accordingly

Incorporating Tax into Strategy



- ❑ All elements of tax should be considered to ensure they are best placed to:
 - Identify existing and potential tax risks;
 - Educate tax personnel and management to appreciate the importance of tax planning; and
 - Reduce tax exposure and limit legal liability





Strategic Tax Planning

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Strategic Tax Planning



- ❑ Traditionally view on tax - compliance function
- ❑ When tax forces its way onto the agenda of the CEO or Board it is often bad news
- ❑ Tax is capable of ensuring comprehensive accounting of the entire business
- ❑ Tax function gathers all necessary information for regulators – what kind of information does the company want out there?

Strategic Tax Planning



- ❑ What then should be done:
 - Use tax data as an integral part of the business decision making;
 - Integrate tax data with operations;
 - Engage the tax functions with external stakeholders; and
 - Elevate the tax function to the role of strategic contributor.



How to Increase Tax Compliance

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Tax Health Checks



- ☐ What are tax health checks?
- ☐ How often should they be carried out?
- ☐ To what extent can they unearth tax non compliance?
- ☐ Cost benefit analysis;
- ☐ Take aways from health checks;
- ☐ Implemenation of the recommendations



Internal Tax Controls

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Internal Tax Controls



- ☐ How are the tax functions split amongst the tax personnel?
- ☐ How many stages of review of tax data are in place?
- ☐ How well and how often is the tax team capacitated?
- ☐ What reporting lines exist and to what level?
- ☐ How often are the internal tax controls reviewed?



Q & A



Contact details



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