



Budget 2019 Analysis

Presentation by:

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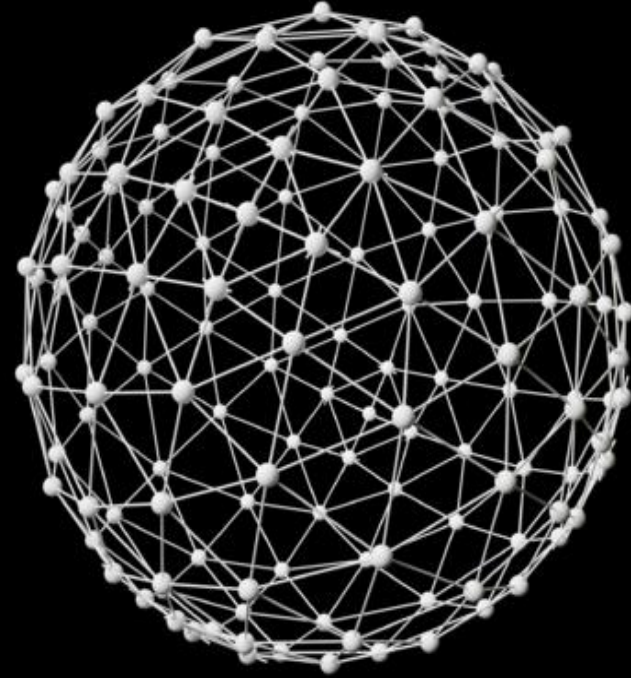
June 2019

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Economic Outlook 2019

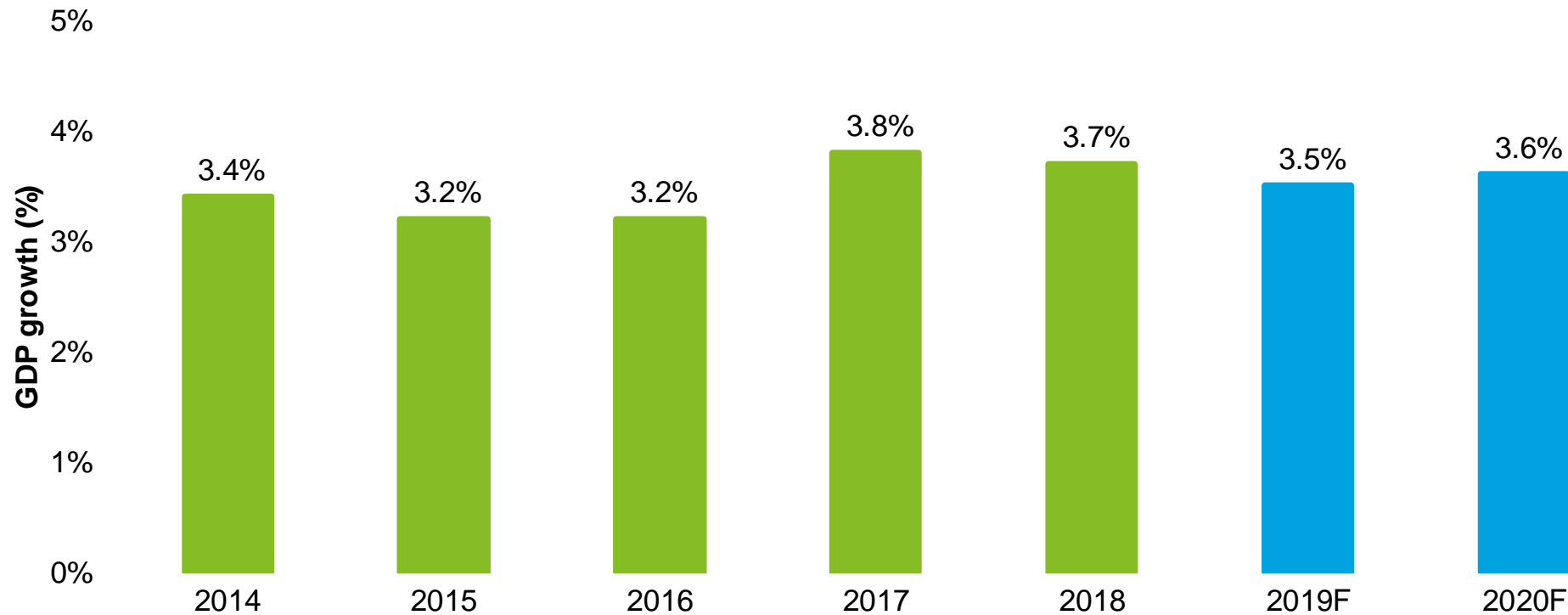


Global Outlook



GDP is expected to slow down as a result of increase in trade tensions between China and the United States and weakened consumer and business confidence in the euro area economy.

Global real GDP growth rates

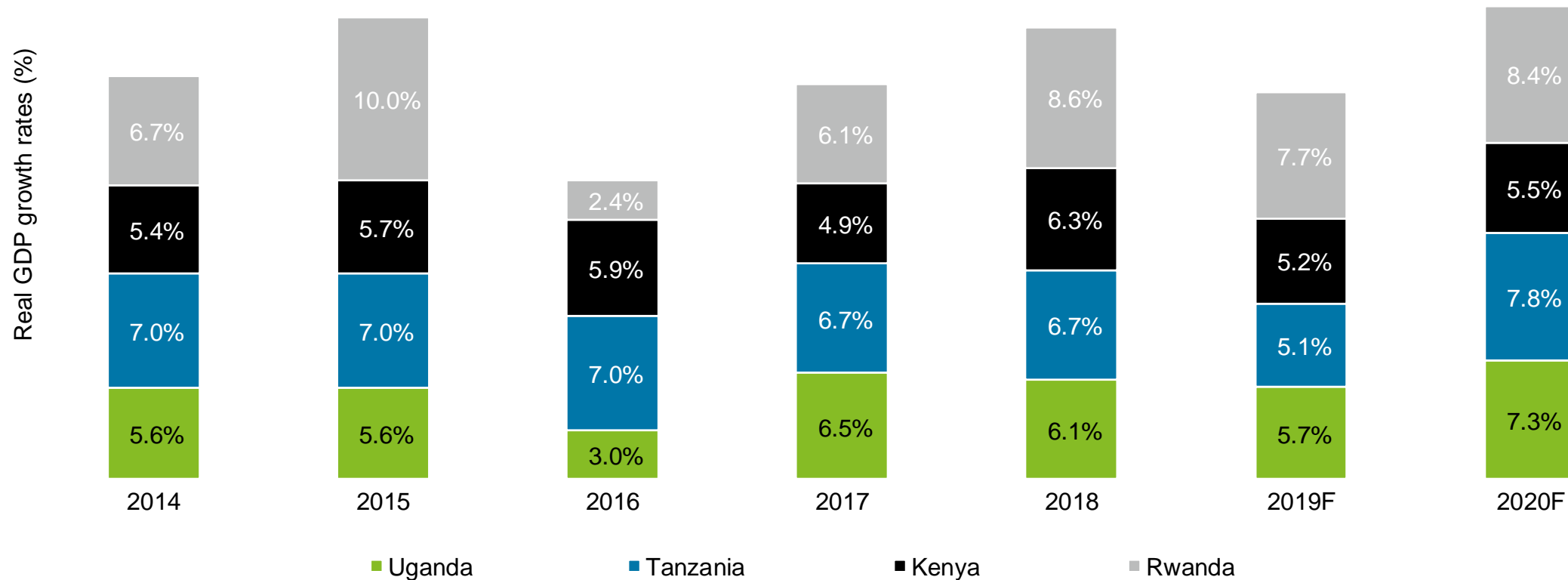


Source: World Economic Outlook

East Africa Outlook

In 2018, real GDP in East Africa grew by 6.9 percent, slightly higher than the recorded 6.1 percent in 2017; it was the highest among African regions

East Africa real GDP growth rates

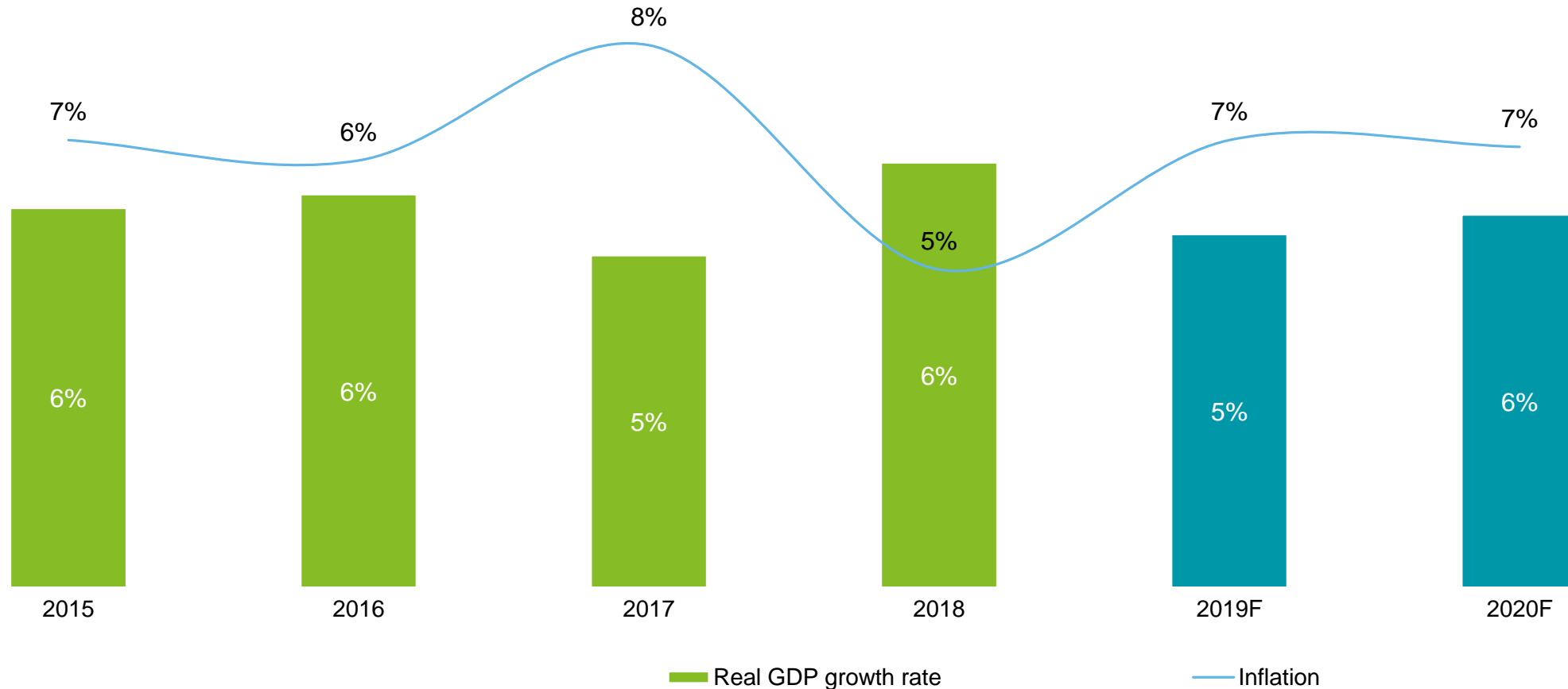


Source: Economic Intelligence Unit, Business Monitor International

Kenya | Economy

Real GDP growth is expected to slow down in 2019 compared to 2018 mainly as a result of the delayed long rain season and continued subdued private sector investment due to slow credit growth

Kenya real GDP growth vs inflation

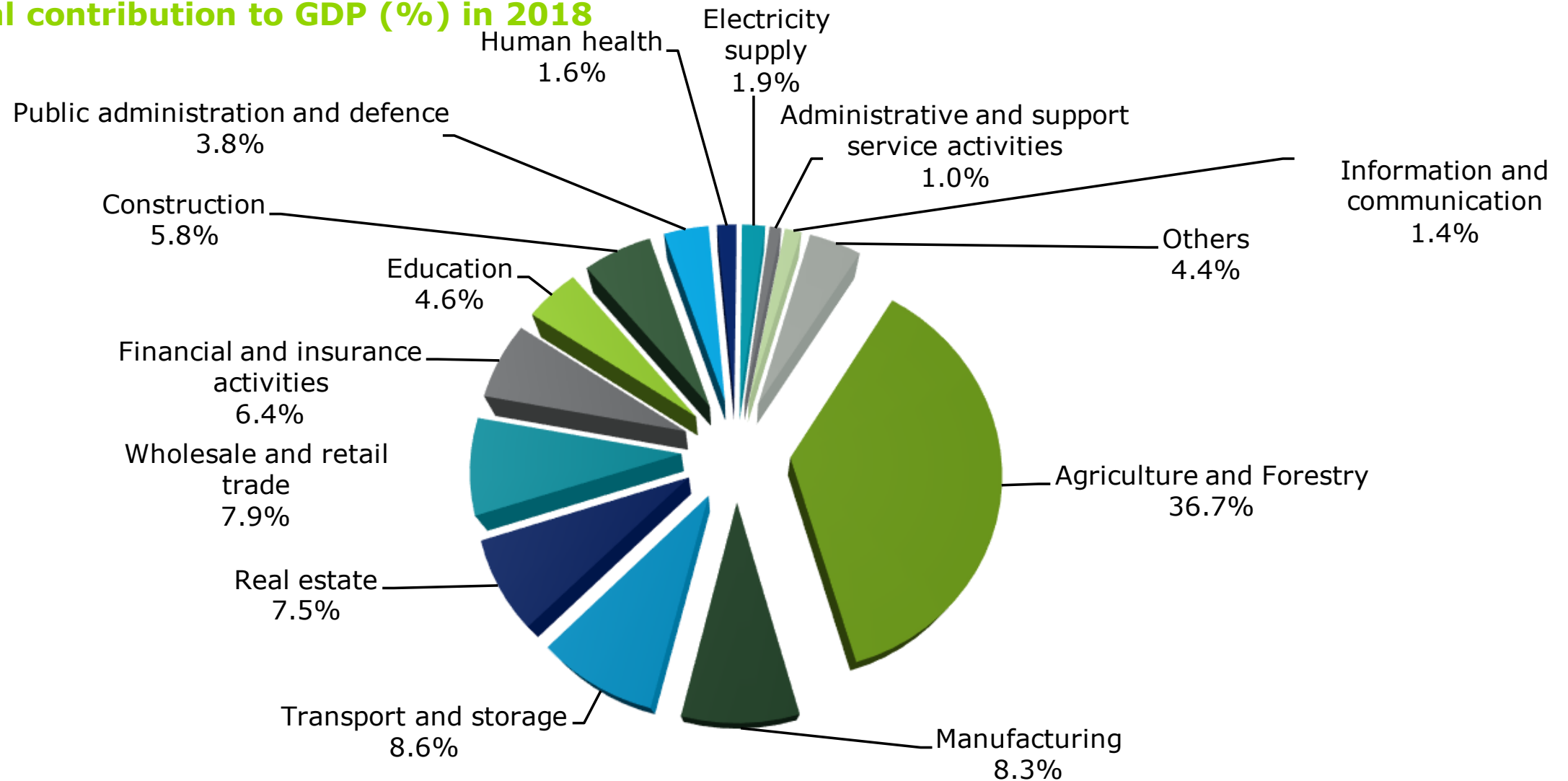


Source: Absa Research

Consideration	Implication
Political	 <ul style="list-style-type: none">• State visits by President Uhuru Kenyatta have seen the country secure several investments deals e.g. deals signed between Kenya and USA, financing deal for a light train rail system from the Central Business District (CBD) to the JKIA by the French government, lifting of bans on several Kenyan farm produce by the Mauritius government and the export of avocados to China.
Economic	 <ul style="list-style-type: none">• Kenya’s economy is projected to grow at 5.2% in 2019 (slower than 2018), mainly driven by strong investment focused on housing, infrastructure and growth in private consumption. GDP growth is projected to average 6% between 2019 and 2023 on the back of sustained consumer demand, regional integration, structural reforms and urbanisation.
Social	 <ul style="list-style-type: none">• Poverty and inequality remains a grave concern in Kenya with 0.1% of the population owning more wealth than the remaining 99.9% according to a recent study by Oxfam International. Some of the proposed budgetary allocations to reduce poverty and empower vulnerable members of the society include KES 41.7 billion for the Constituency Development Fund and KES 5.8 billion for the Equalisation Fund to finance programmes in marginalised areas. Question of effectiveness of these measures.

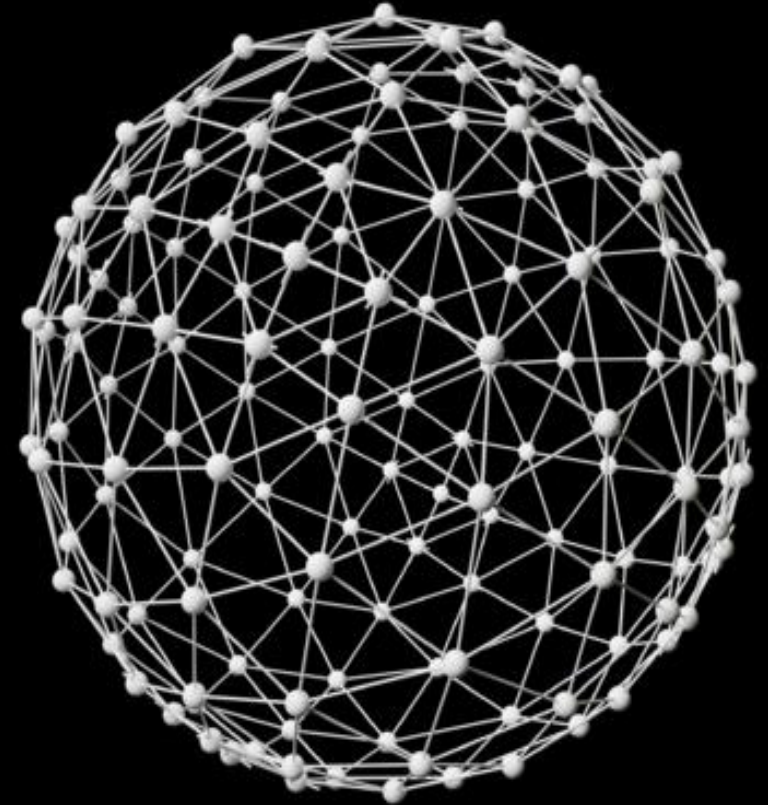
Kenya | Economy

Sectoral contribution to GDP (%) in 2018



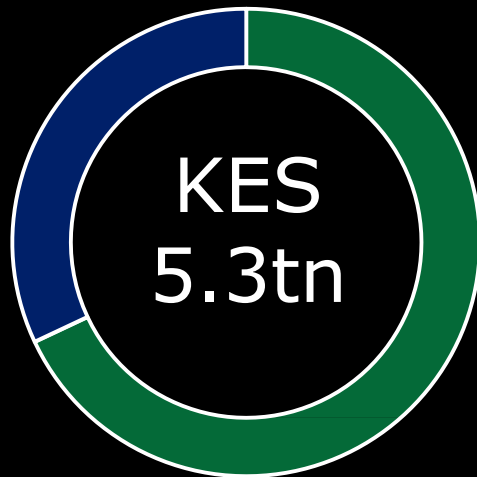
Source: Kenya National Bureau of Statistics

Expenditure priorities and Revenue Sources



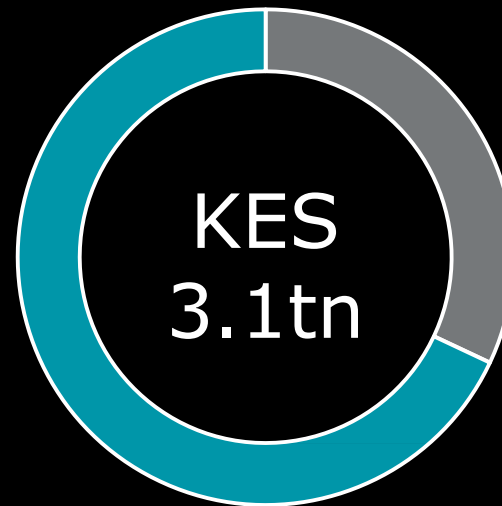
Key highlights

Total public debt as at
December 2018



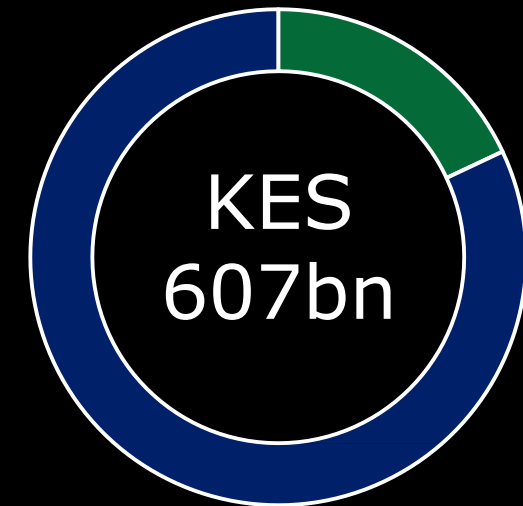
#DEBT

2019/20 National
Budget



#BUDGET

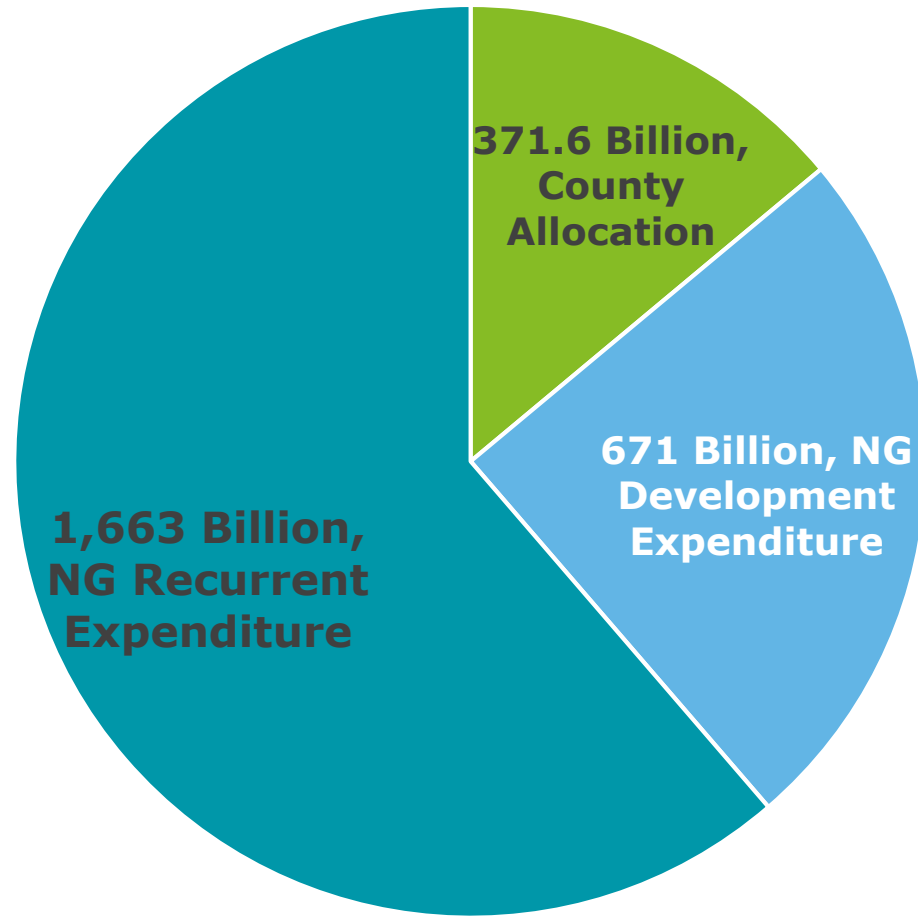
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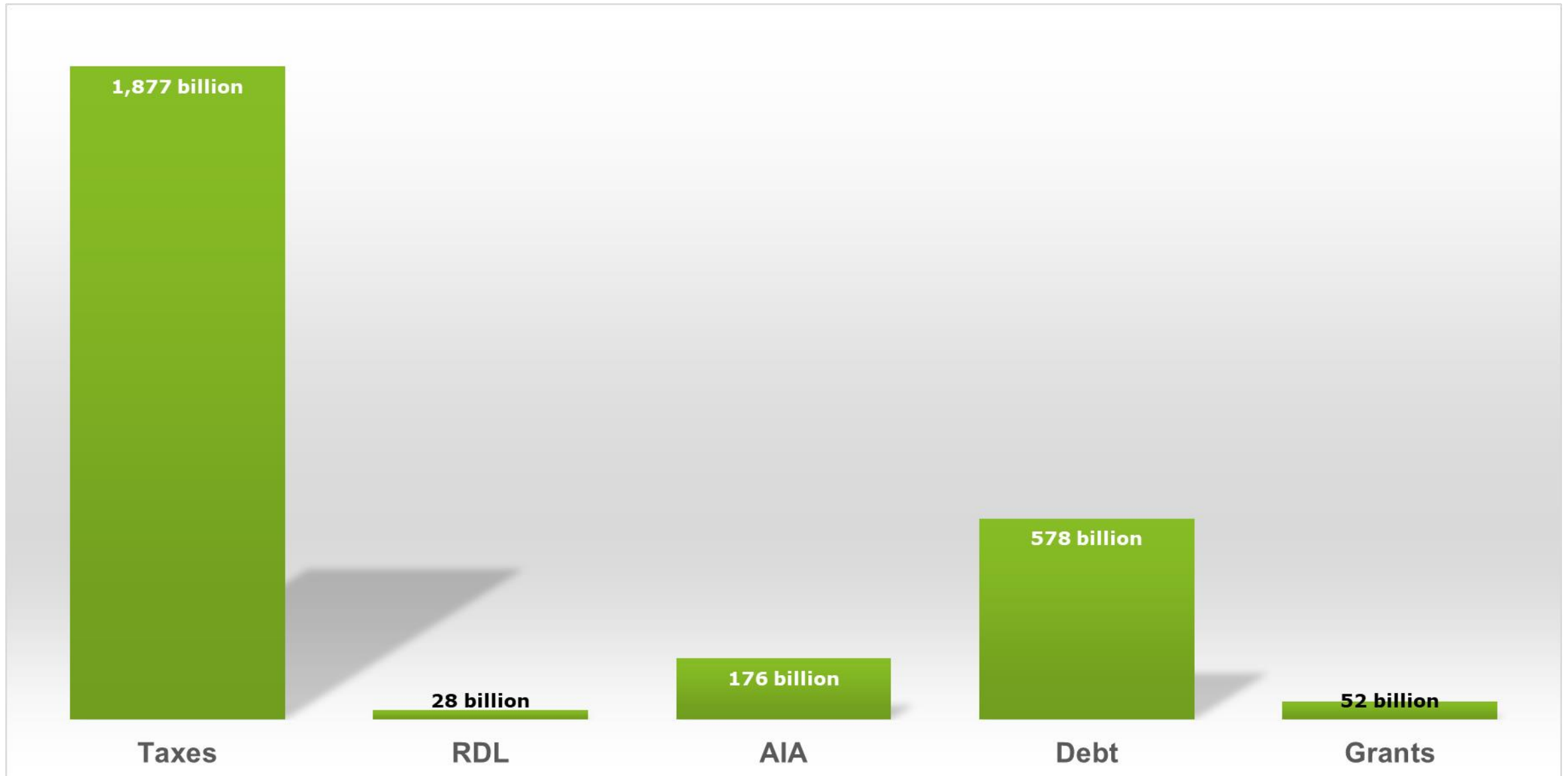
Source: National Treasury, Kenya Revenue Authority, Central Bank of Kenya,
Ministry of Transport, Infrastructure, Housing and Urban Development

Government Revenue Allocation

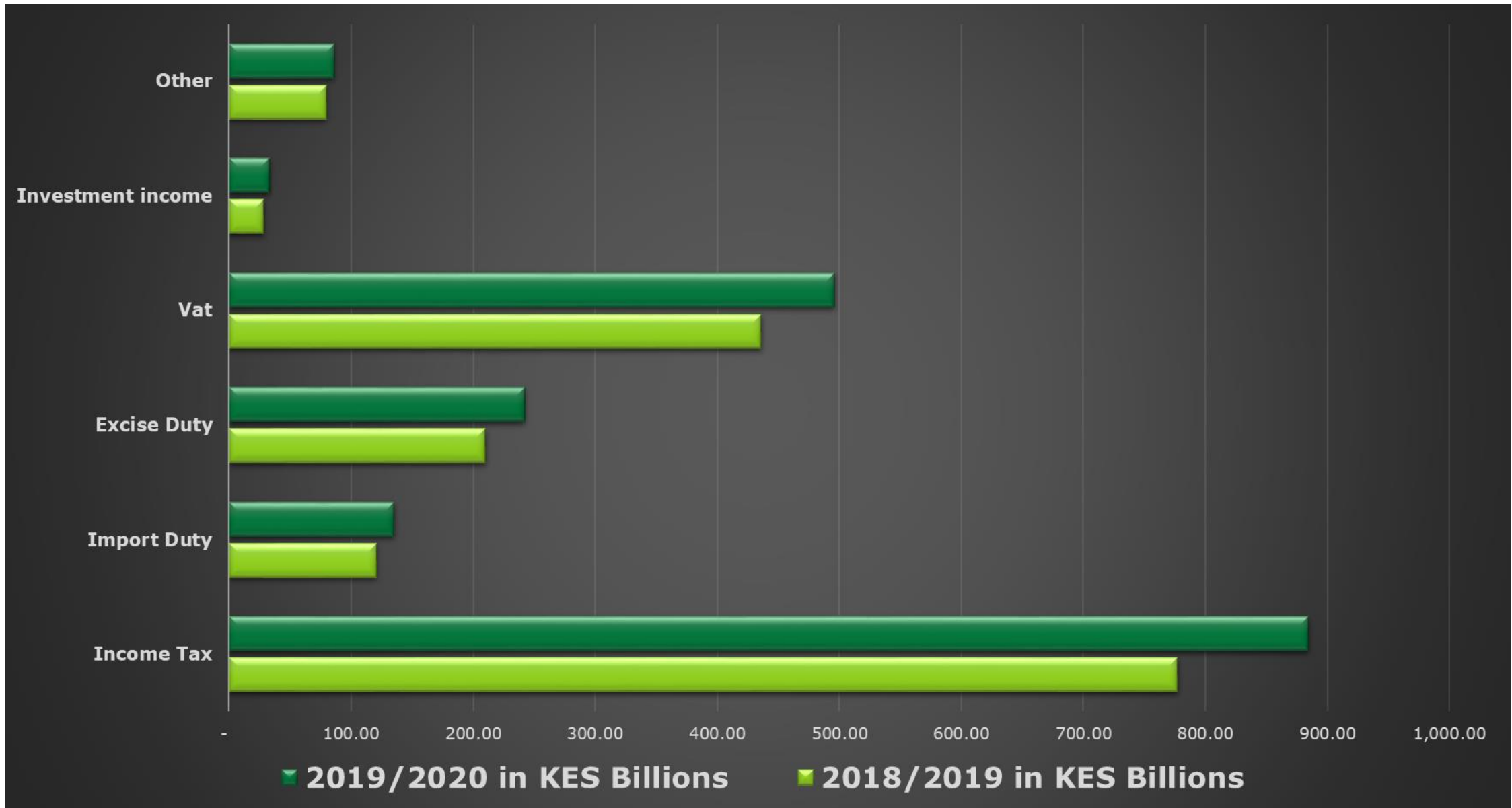


- NG recurrent expenditure
- NG development expenditure
- County allocation

Kenya Budget Financing



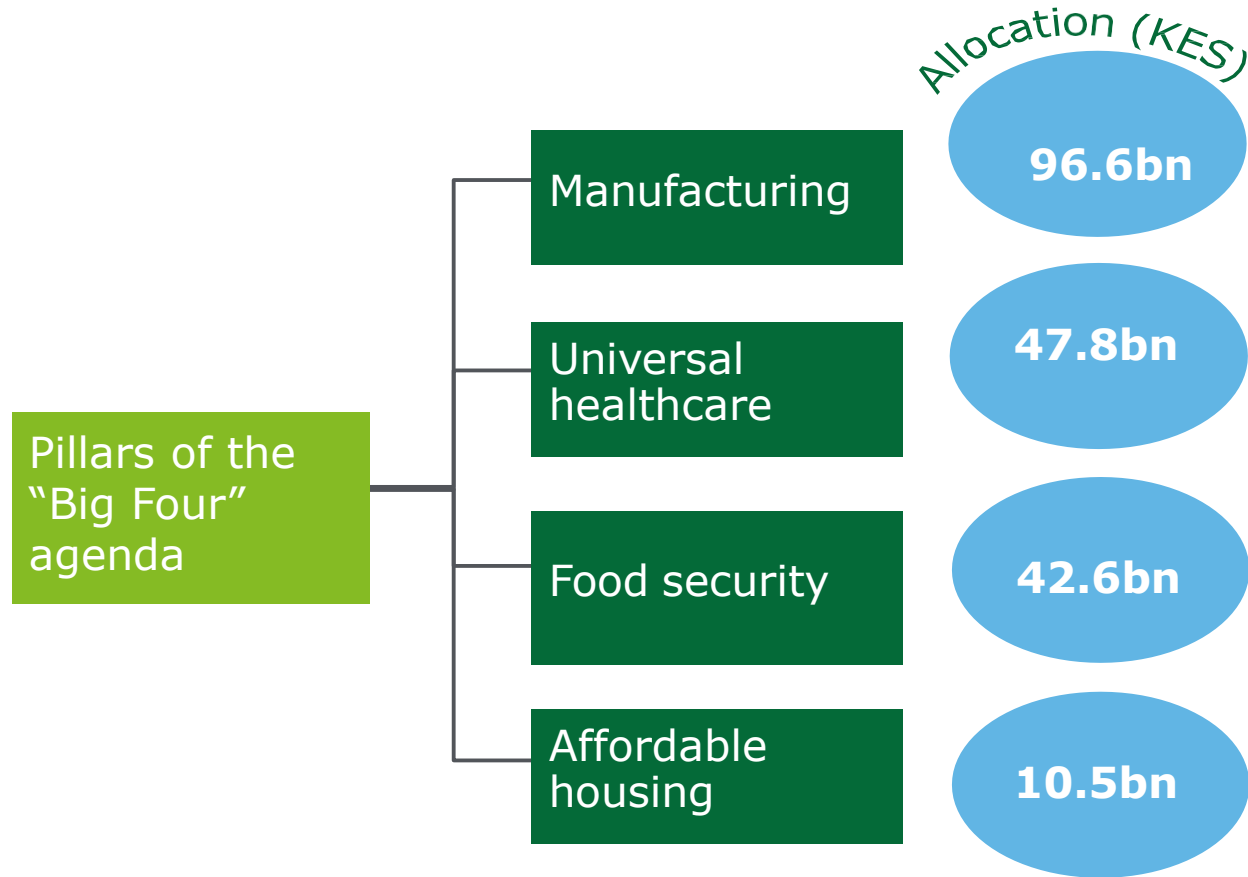
Kenya Budget Financing



The “Big Four” agenda – priority areas of focus



KES 450.9bn to fund the Big Four agenda - KES 50bn increase from the previous fiscal year



- The government’s goal is to increase the manufacturing sector’s contribution to GDP to 15% by 2022. Special focus will be on scaling up support to small and medium enterprises (SMEs), industrial research and construction of industrial parks.
- The government has prioritised the achievement of universal health coverage (UHC). The UHC pilot phase was launched in December 2018 in four counties; Kisumu, Isiolo, Machakos and Nyeri.
- The food and nutrition pillar will receive KES 42.6 billion, with irrigation programmes receiving KES 7.9 billion.
- Affordable housing will receive KES 11.4 billion, with KES 5 billion going towards the national housing development fund.

Key objective

Support value addition, create jobs and raise the manufacturing sector's contribution to GDP to 15% by 2022

Current situation

- Manufacturing sector's contribution to GDP averaged 9.4% between 2014 and 2018
- The sector grew by 4.2% in 2018 from 0.5% growth in 2017 driven by increase domestic consumption

Key initiatives aimed at bolstering the manufacturing sector

1

Completion of the phase 2A of the Standard Gauge Railway (SGR) between Nairobi and Naivasha

2

Credit advanced to the sector by financial institutions increased from KES 315.3bn in 2017 to KES 335.7bn in 2018

3

Kenya has gone up 19 places to 61 in the World Bank Ease of doing business ranking in 2019. The report ranks 190 country economies.

4

Launching of the Manufacturing Priority Agenda (MPA) which charts the action plan for Kenya's industrial growth in 2019

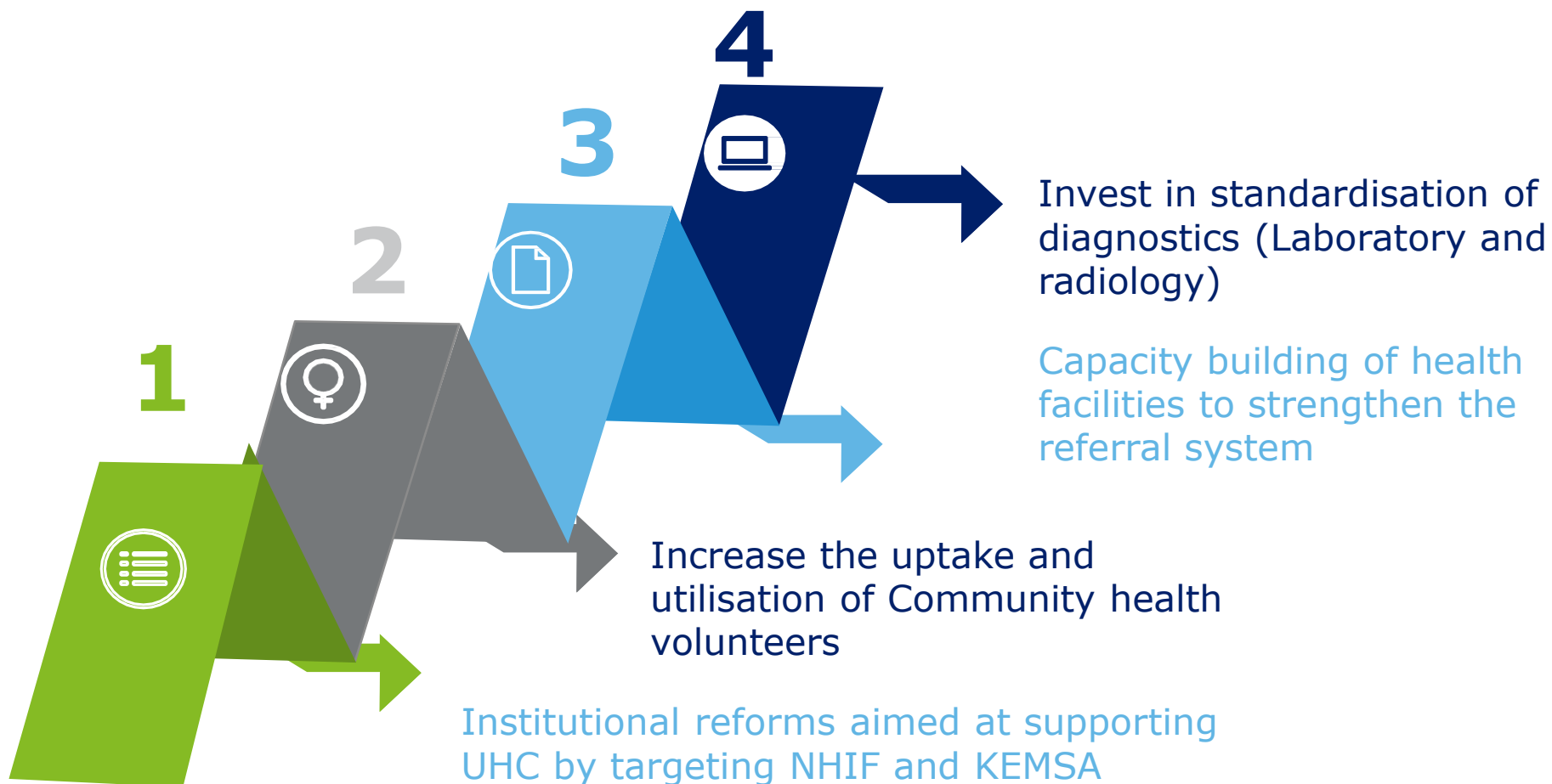
Key objective

Provide 100% universal health coverage ("UHC") to all Kenyans under National Hospital Insurance Fund ("NHIF") by 2022

Current situation

- UHC pilot programme launched in four counties including Isiolo, Kisumu, Machakos and Nyeri.
- 49% of Kenyans were covered under NHIF in 2018

Key initiatives aimed at increasing universal health coverage



Key objective

Provide food security and improve nutrition to all Kenyans

Current situation

- Agriculture contributed 34% of the GDP in 2018
- Recent drought and unpredictable weather patterns have contributed to food shortages

Key initiatives to ensure food security in Kenya

01

Enhanced access to agricultural financing

02

Increase the use of fertilizer

03

Establish structured commodities trading

04

Invest in irrigation

05

Support stronger farmers' organisations

Key objective

Provide at least 1 million affordable and decent houses to Kenyans by 2022

Current situation

- Delayed implementation of the 1.5% housing levy

Key initiatives to enable provision of affordable housing

The Nairobi County government launched a KES 7bn public residential apartments project in Ngara Estate.

World Bank approved KES 35 billion credit line (USD 350 million) injected into Kenya Mortgage Refinancing company (KMRC)

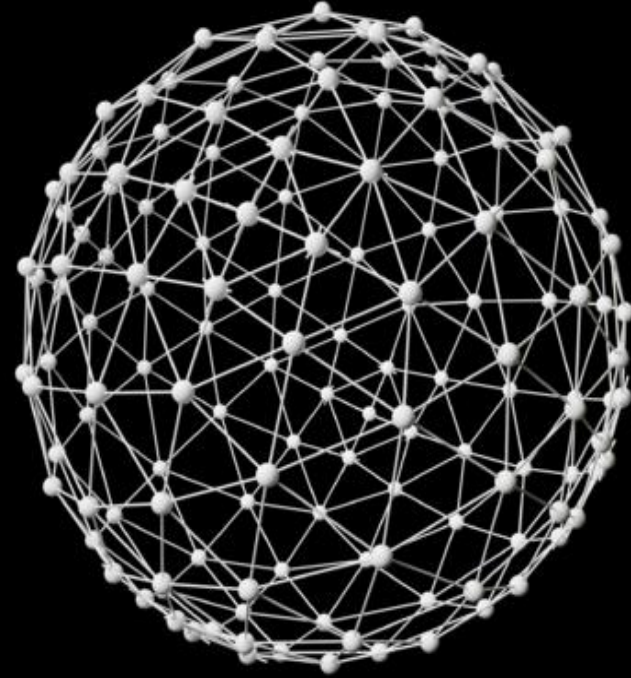
Kenya Mortgage Refinancing Company (KMRC) Kenya's first mortgage refinancing company launched in March 2019

The World Bank, National Treasury, Commercial Banks and SACCOS subscribed as shareholders of KMRC

Q & A



Direct Tax Measures



Capital Gains Tax



- Capital Gains Tax (CGT) to be increased from 5% to 12.5% **(Effective 1 October 2019)**.
- Property transferred as part of group restructuring to be automatically exempted from CGT where such reorganization does not involve transfer to a third party.
- Exemptions also available for transfers that arise due to legal or regulatory requirement or Government directive or compulsory acquisition by Government.
- Transfers deemed to be in the public interest may be exempted upon approval by CS National Treasury



- Renewed emphasis on the taxation of the digital economy.
- Income chargeable to tax defined to include income accruing through a digital marketplace **(Effective 1 Oct 2019)**.
- We expect further guidelines relating to taxation of digital transactions.
- “Compensating Tax”: clarification that a distribution of any income that is exempt under the Income Tax Act is exempt from compensating tax **(Effective 1 Oct 2019)**.
- Clarification that the taxable income of a non-resident owner of ship, which docks at any port in Kenya includes demurrage charges. The charges will be taxable through the self-assessment mechanism **(Effective 1 Oct 2019)**.
- The CS alluded that the framework on the implementation of the 30% rebate on total electricity costs by manufacturers that was introduced through the Finance Act 2018 has now been developed.

- **Exemptions** - The Finance Bill proposes to exempt the following incomes from tax:
 - ✓ The income of Investee companies of Real Estates Investment Trusts (REITs) (**Effective 1 Oct 2019**).
 - ✓ The income of the National Housing Development Fund (**Effective 1 Jan 2020**)
- A company operating a plastics recycling plant to be liable to a reduced corporate tax rate of 15% for the first 5 years from the year of commencement (**Effective 1 Oct 2019**).
- Repeal of Section 72D of the Income Tax Act, which stipulated a 20% penalty where any tax remained unpaid after the due date. This clarifies that the 5% penalty introduced through the Finance Act 2018 to apply going forward (**Effective 1 Oct 2019**).
- **The Income Tax Bill status** – The CS indicated that the Bill is currently at advanced stages of legal drafting and will be tabled in Parliament soon.

Withholding Income Tax

- Scope of qualifying services subject to withholding tax set to be expanded to include:
 - ✓ Security services;
 - ✓ Cleaning and fumigation services;
 - ✓ Catering services offered outside hotel premises;
 - ✓ Transportation of goods excluding air transport services;
 - ✓ Sales promotion; and
 - ✓ Marketing and advertising services

(Effective 1 Oct 2019).



Withholding Income Tax



- Reinsurance premiums paid to non-resident persons to be liable to 5% withholding tax. This follows a similar move in 2018, which introduced w/tax on insurance premiums payable to non-residents **(Effective 1 Oct 2019)**.
- Demurrage charges paid to non-resident ship operators to no-longer be subject to withholding tax – to be taxed under self assessment **(Effective 1 Oct 2019)**.
- Management or professional fees, interest and royalties paid by a PE to its head-office to be liable to withholding tax to the extent that they are deductible for corporate tax purposes under a double taxation agreement (DTA) **(Effective 1 Oct 2019)**.

Personal Tax



- Turnover tax re-introduced for business income of resident person not exceeding KES 5 million p.a. **(Effective 1 Jan 2020)**.
- Rate of turnover tax is 3% payable monthly.
- Turnover tax not applicable to companies, rental income, management or professional fees and income subject to final withholding tax.
- Presumptive income tax (introduced through the Finance Act, 2018) will continue to apply to such income but will be an advance tax available for set-off against the turnover tax payable

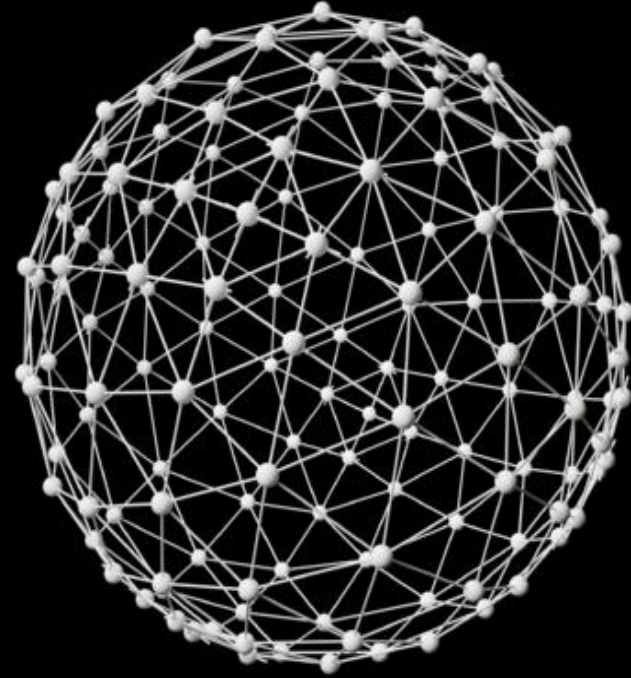


- Youths registered under the “Ajira Digital Program” will be required to pay a registration fee of KES 10,000 for the next three years and will be exempt from income tax during this period. **(Effective 1 Jan 2020)- Regulations to be issued.**
- The affordable housing relief to be computed at 15% of the employee’s contribution. The previous base of 15% of the employee’s gross emoluments has been repealed **(Effective 1 Oct 2019).**

Q & A



Tax administration and Changes to other legislations



Tax procedures Act



- A person can now apply to the Commissioner to be exempted from obtaining a PIN to undertake the transactions specified in the First Schedule of the Tax Procedures Act (including opening of a bank account) **(Effective 1 Oct 2019)**.
- For purposes of recovery and collection of tax, withholding tax will be considered to be a tax of the withholder – and the amount will be liable to penalties and interest **(Effective 1 Oct 2019)**.
- SMEs that list under the Growth and Enterprise Market Segment (GEMS) segment at the NSE to be granted amnesty penalties and interest covering the period preceding the date of listing. Payment of principal tax and full disclosure of assets, income and liabilities for preceding 2 years required **(Effective 1 Oct 2019 for 3 years)**.
- Commissioner allowed additional period to issue objection decision where further information is requested from a taxpayer after filing an objection. The 60 days to run from the date the additional information is received **(Effective 1 Oct 2019)**.



Tax procedures Act



- The base for computing late filing penalty to be reduced by any tax paid and withholding tax credits **(Effective 1 Oct 2019)**.
- Tax shortfall penalty to apply only where the shortfall is as a result of deliberate omission **(Effective 1 Oct 2019)**.
- It is now a requirement to have a PIN in order to qualify for the following registrations:
 - Registration and renewal of membership by professional bodies and other licensing agencies; and
 - Registration of mobile cellular pay bill and till numbers by telecommunication operators.**(Effective 1 Oct 2019)**.
- Travel prohibition orders may be issued against a tax representative where the Commissioner is of the view that a tax is or will become payable by a company for which he is a tax representative **(Effective 1 Oct 2019)**.



Proposed changes to other Legislations



- Definition of employee earnings under Employment Act to be amended by defining basic salary as an employee's gross salary excluding allowances and other benefits. This is aimed at clarifying the base earnings for computing the affordable housing levy.
- Proposal to repeal section 33B of the Banking Act in a bid to unlock credit to the private sector and in particular to the MSMEs and arresting the shrinking of the loan books of small banks. This is the second attempt after it was rejected by parliament last year.
- Proposed amendment to the Insurance (Motor Vehicle Third Party Risks) (Certificate of Insurance) Rules to require all passenger carrying boda bodas and tuk-tuks to have an insurance cover for passengers and pedestrians.



Proposed changes to other Legislations



- Proposal to amend Proceeds of Crime and Anti-Money Laundering Act, 2009 to designate lawyers, notaries and other independent legal professionals as amongst reporting entities to whom Anti-Money Laundering/Combating Financing of Terrorism obligations shall apply.
- Capital Markets Authority to be empowered to enforce penalties and sanctions on market players who violate laid down rules and procedures.
- The Privileges and Immunities Act is to be amended by expanding the scope of tax exemptions offered to privileged organizations to cover goods or services procured locally.
- The Bill proposes to remove the requirement for the students to register with ICPAK before qualifying as accountants.



Q & A



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