



Indirect Tax Implications of the Fiscal Budget FY 2019/2020

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- VAT

- Excise duty

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Is 2019/2020 budget over ambitious?



Value Added Tax

- VAT refund formula to be adjusted to allow taxpayers to fully recover input tax on zero rated supplies (Proposal to change VAT regulation of 2017)

Proposed formula is as follows:

$$R = Z / T * I$$

R=Is the Value of input tax relating to zero rated supplies

. Z=Total Value of Zero rated supplies

T=Deductible input tax for the month of the supply

- *Boost to exporters and other dealers of zero rated products*
- *Amendment ensure that suppliers of Zero-rated supplies fully recovers the input tax related to those supplies*

Value Added Tax Cont..

- *Section 42A – withholding VAT under TPA (Tax Procures Act)*
- VAT Withholding rate reduces from 6% to 2%
 - *Reduce build up of VAT credits*
 - *Big beneficiaries are fuel and petroleum dealers.*
 - *WHVAT serves as a recruitment measure*

Value Added Tax Cont..

- Exempt locally manufactured motherboards and inputs for manufacture of motherboards. (*amendments to 1st schedule*)
- Must be approved by CS responsible for information & Comm. Technology.
- Sector targeted under Big 4 plan.
 - *Exemption unlike zero rating, does not result to lower prices for consumers*
 - *Objective is to increase competitiveness*
- VAT exemption to plant, machinery and equipment used in the construction of a plastic recycling plants.
 - *Government effort to minimise use of plastics.*
 - *Environmental conservation measure*

Value Added Tax Cont..

- The National Treasury to constitute a taskforce which will validate outstanding VAT refund claims for settlement within the next two months.
 - *Proposal set to reduce cashflows problem caused by pending VAT refunds.*
- Supply of Imported Services expanded to cover **non VAT registered** taxpayers. (sec.2 of VAT Act - definition of “supply of imported service”
 - *Every person importing services will be expected to charge imported VAT*
 - *VAT revenue expected to increase*

Value Added Tax Cont..

- Exemption of Agricultural pest control products from VAT.
 - *Proposal aimed at boosting food security under Big 4 plan*
- Clarification that supplies made through a digital market place are taxable (insert sec.5(7))

*Define: “**Digital Market place**” means a platform that enables, electronic means, direct interactions between buyers and sellers of goods and services*

- *Services being offered through online platforms to be taxable henceforth*

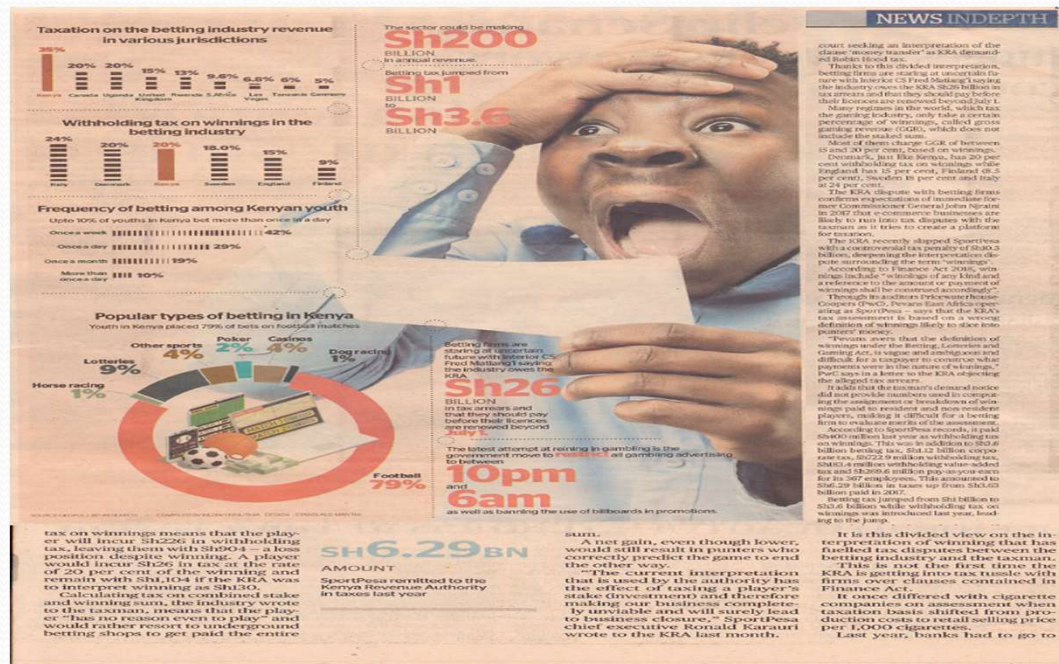
Value Added Tax Cont..

- The proposal by the CS defines a “**concessional loan**” as a loan with at least 25% grant element.
 - *This definition now brings clarity to the official aid funded projects for the purpose of granting tax exemptions by the government.*
- Semitrailers excluded from the exemption of tractors.
 - *Law intends to exempt tractors used primarily for agriculture purposes and not road tractors for trailers*

Excise Duty

- Excise duty at rate of 10% on betting services.
- Tax point is at the point of staking.
- Majority of stakes do not generate winnings.
 - *Address social ills emanating from betting sector*
 - *Expand Revenue base*

Excise Duty Cont..



Betting companies query taxing of all account deposits

DILEMMA
Government is torn between regulating the industry and taxing the firms

However, the government is taking note. In the words of former US President Ronald Reagan, the government's view of the economy can be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.

But for gambling, the Kenyan government, now between chasing revenues and protecting children as well as vulnerable adults, wants to tax and regulate this new craze at the same time.

The latest attempt at reining in gambling is the government move to restrict all gambling advertising to between 10pm and 6am as well as banning the use of billboards in promotions.

But at the same time, the government wants to tax the industry

as much as it can, especially with prevailing falling tax revenues from traditional businesses.

The Kenya Revenue Authority (KRA), having been allowed to collect withholding taxes from gamblers based on the recent ruling at Milimani Commercial Courts, estimates that the sector could be making Sh200 billion in annual revenue.

However, its interpretation of tax on winnings as was introduced by Finance Act 2016 could now see gamblers pay tax on all amounts of money deposited in their e-wallets even before betting.

This has soon leading betting firms in the country such as SportPesa stepped with tax penalties, forcing them into a series of explanations with the KRA.

The taxman is calculating a 20 percent withholding tax on all the

money in punters' e-wallets, in the absence of a mechanism to differentiate between stake sum and the actual winnings.

A letter from SportPesa last month to the KRA, a copy seen by the business Daily, shows that the industry is wary that this will see punters pay taxes on the money loaded into their betting wallets, even before they actually play and win anything.

For instance, May 12 game between Brighton and Manchester City saw one of the betting firms give 12.81 for a win in favour of Brighton and 1.13 in favour of Manchester City. This means if a gambler stakes Sh1,000 in favour of Man City and it actually wins, his or her e-wallet would reflect Sh1,000 made of Sh1,000 initial stake and Sh130 winning.

Using the KRA interpretation of

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With just a basic phone and a little as Sh10, at least every day, somebody somewhere is trying to win something by betting on luck. And the gambling craze keeps gripping the economy.

20%
PERCENT
of withholding tax that the KRA is deducting from all the money in gamblers' e-wallets

Excise Duty Cont..

- Taxman demands Kshs 8.5 billion withholding tax arrears from sportpesa, Betin
- KRA declared Safaricom as collecting agents to remit to CBK
- Kshs 3.29 Billion for sportpesa
- Kshs 3.29 billion for betin

Excise Duty Cont..

- Reduction of excise duty on motor vehicles that are fully powered by electricity to 10%
 - *Reduce carbon emission and promote green energy*
- Increase of excise duty on cigarettes, wines and spirits by 15% as follows;
 - ❖ 750 ml bottle of wine – Kshs 136
 - ❖ 750 ml of whisky - Kshs 182
 - ❖ Packet of 20 cigarettes – Kshs 61 per packet
- *Increase in revenue*



Excise Duty Cont..

- Increase excise duty on imported motor vehicles of engine capacity exceeding 1500cc to 25%.
 - *Change will lead to increase in cost of used imported cars in that category.*
 - *Protect local assemblers of vehicles.*



Customs Duty

- Import duty on raw timber reduced from 10% -0%
 - *Reduce importation costs hence lower prices*
 - *Forest conservation measure*
- Application of 25% import duty on paper and paperboard instead of 10%
- Proposal to retain import duty on finished timber products at 25%.
 - *Measure aimed at promoting local furniture manufactures*



Fees and Levies

- Manufacturers of paint and resin to get refunds on anti-adulteration levy paid on kerosene.
 - *Boost to manufacturers*
 - *Refund process tedious*
- Import declaration fee (IDF) on intermediate goods and raw materials reduced from 2% to 1.5%
 - *Boost to manufacturers*
- IDF on finished goods increased from 2% to 3.5%
 - *Discourage importation of finished goods*



Fees and Levies cont.

- Railway Development Levy on finished products increased from 1.5% to 2%
 - *Cushion to local manufacturers*
- Export levy on tanned and crust hides and skins at 10%
 - *Encourage local processing of leather products for export*

THANK-YOU

ANY QUESTIONS??

