

# **Budget Review & Emerging Tax Issues Workshop: Nyanza/Western Branches**

## **Tax Implication of the Fiscal Budget 2019/2010**

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# Presentation Outline



- ❑ Overview of Budget Trends
- ❑ Important Tax Highlights in the Budget
- ❑ Winners and losers in the 2019/2020 budget

# Why the Budget Every Year?



# Budget 2019/20 –Overarching Objective



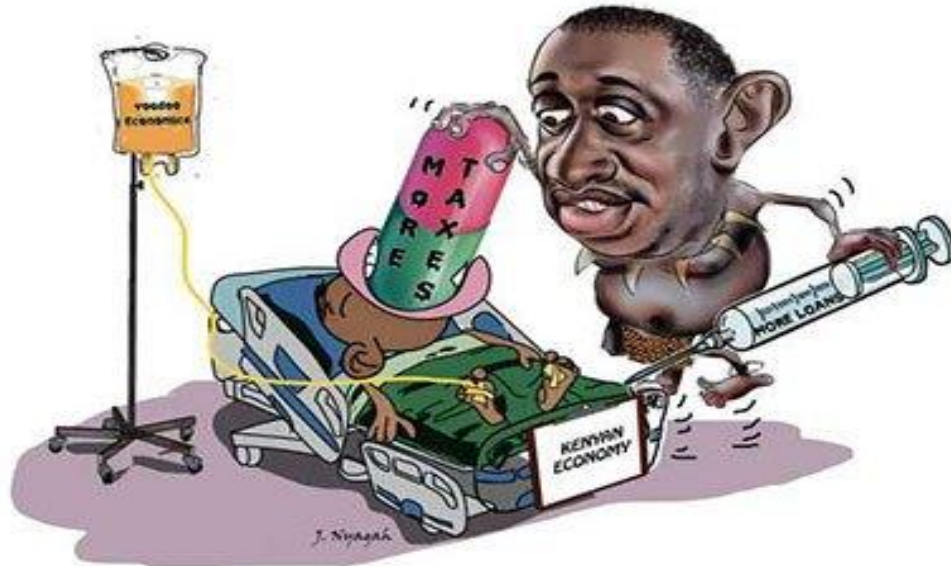
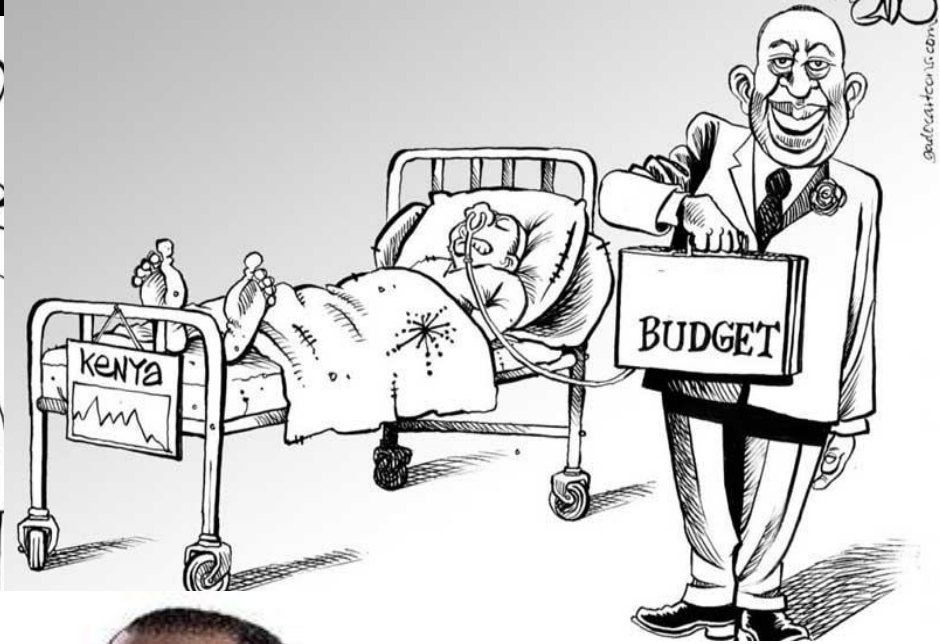
## □ Creating Jobs, Transforming Lives - Harnessing the “Big Four” Plan - 2019/2020

## Creating Jobs, Transforming Lives and Sharing Prosperity -2018/19

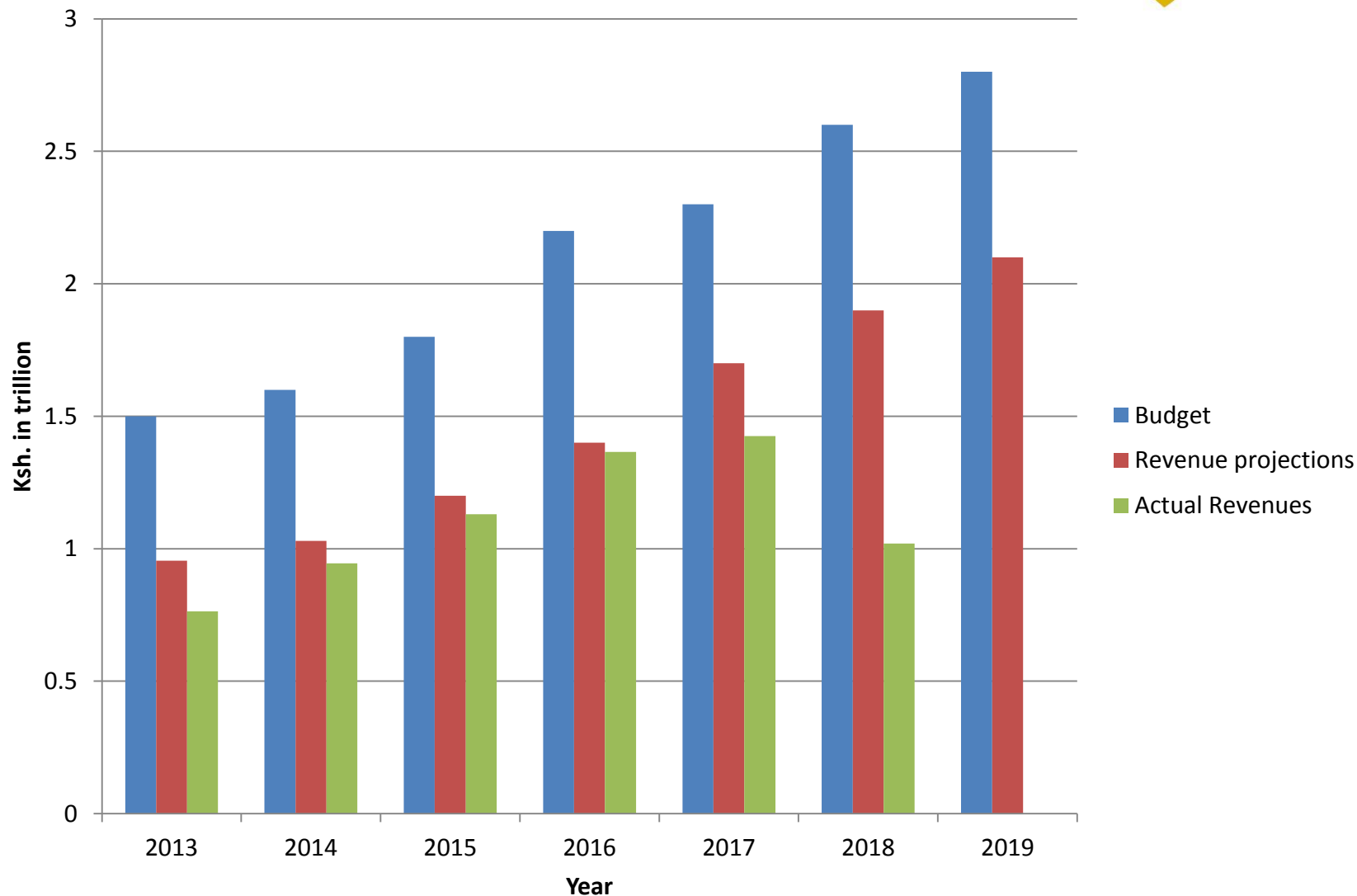
- What comparatives can you make of this two themes!!!



# What the Fourth Estate Thought of the 2019/2020 Budget?



# Budget and Revenue trends: 2013-2019



# Overall Budget & Financing



- Government expenditure and net lending for the Financial Year 2019/20 -Ksh 2.8 trillion (**25.7% of GDP**)
- Total projected revenues – Ksh 2.1 trillion (**19.7% of GDP**)
- Deficit – Ksh 607.8 billion (**5.6% of GDP**)
- Financing the Deficit:
  - ✓ External sources – 324.3 billion (**3.0% of GDP**)
  - ✓ Domestic sources – 283.5 billion (**2.6% of GDP**)

# Expenditure clusters –Key Highlights



## □ Total expenditure -2.8 trillion (25.7% of the GDP)

- “BIG 4” programmes – 450.9 billion
- Security agencies – 326.5 billion
- Education sector – 207.9 billion (excludes TSC)
- Critical Infrastructure – 338.5 billion
- Governance -13.6898 billion
- Auditor General -5.7 billion
- Parliament – 40.5 billion
- Judiciary – 19.4 billion
- Transfers to County Governments -**371.6bn** (Equitable Ksh. 310 billion; Conditional transfers 61.6 billion; **Development partners 38.7 billion**)



# Expenditure clusters –Key Highlights



## □ Total expenditure -2.8 trillion (25.7% of the GDP)

- Digitization of the Economy -22.3 billion
- Social protection – 33.5 billion
- CDF – 41.7 billion
- Affirmative Action Fund – 2.3 billion
- Equalization Fund -5.8billion

# Tax proposals –Key Highlights



## ☐ Income Tax

- Capital Gains Tax proposed to increase from 5% to 12.5% (Transfers due to Corporate restructuring exempted)
- Withholding taxes expanded to include –Security services; Cleaning & Fumigation services; Catering services offered outside hotel premises; Transportation of goods excluding air transport services; Sales promotion; Marketing and advertising services
- Proposals to target the digital economy –included Tax bill 2018

## ☐ VAT

- VAT returns to be validated by treasury and paid in 60 days
- Reduction of withholding VAT from 6% to 2%
- Scope of exempt services to include securities brokerage services
- Taxable (16%) -Road tractors for semi-trailers
- Zero Rated -Denatured Bioethanol

# Tax proposals –Key Highlights



## ■ Exemptions:

- ✓ Locally manufactured motherboard and inputs used in their manufacture Plant, machinery and equipment used in construction of plastic recycling plants
- ✓ Agricultural pest control products
- ✓ Input or raw materials for electric accumulators and separators including lead battery separator rolls supplied to manufacturers of automotive and solar batteries

## □ Customs

### ■ Lower rates

- ✓ Reduced import duty rate on raw timber from 10% to 0%
- ✓ Reduced import duty rate from 10% to 0% on polymers of vinyl acetate
- ✓ Lower import duty rate of higher of 35% or USD 0.2/Kg on worn clothing instead of higher of 35% or USD 0.2/Kg

# Tax proposals –Key Highlights



- Higher rates
  - ✓ Maintained higher import duty rates applicable on selected imported iron and steel products
  - ✓ Minimum specific rate of USD 500/MT on refined edible oil
  - ✓ Increased duty rate on prefabricated buildings from 25% to 35% or USD 250/MT
  - ✓ Increased duty on liquid petroleum gas (LPG) cylinders from 0% to 25%
  - ✓ Increased duty on paper and paperboard instead from 10% to 25% rate.
- Miscellaneous fees and levies proposals
  - ✓ Increase railway development levy on finished products from 1.5% to 2.0%
  - ✓ Increase import declaration fee on finished goods from 2% to 3.5%
  - ✓ Impose 10% export levy on wet-blue and crust hides and skins exported outside East Africa Community (EAC)

# Tax proposals –Key Highlights



## ❑ Excise duty

- Betting services to be subject to duty at 10% of the amount staked
- Decrease of duty of all motor vehicles that are fully powered by electricity from 20% to 10%
- Increase of specific rates of duty of spirits, wine and cigarettes by 15%
- Introduction of a general penalty of a fine not exceeding KES 2m or imprisonment for a term not exceeding 2 years or both to cover offences under the Act or regulations without penalties

# Tax proposals –Key Highlights



## ❑ Financial sector highlights

- CMA empowered to enforce penalties, interests and sanction
- The Insurance Act and the regulations to be amended -Policy Holder's Compensation Fund to be utilised to compensate claimants even in instances of receivership
- Insurance (Motor Vehicle Third Party Risks) (Certificate of Insurance) Rules to require all passenger carrying boda bodas and tuk-tuks to have a comprehensive insurance cover
- Repeal of the interest rate capping regulations
- Proposed launch of the SME Credit Guarantee Scheme –Ease SME's to access credit



# So who are the Losers & the winners?



**And Finally.....**

