



Direct Tax Implication of the Fiscal Budget 2019/2010

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Presentation Outline



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

Why the Budget Every Year?



Budget 2019/20 –Overarching Objective



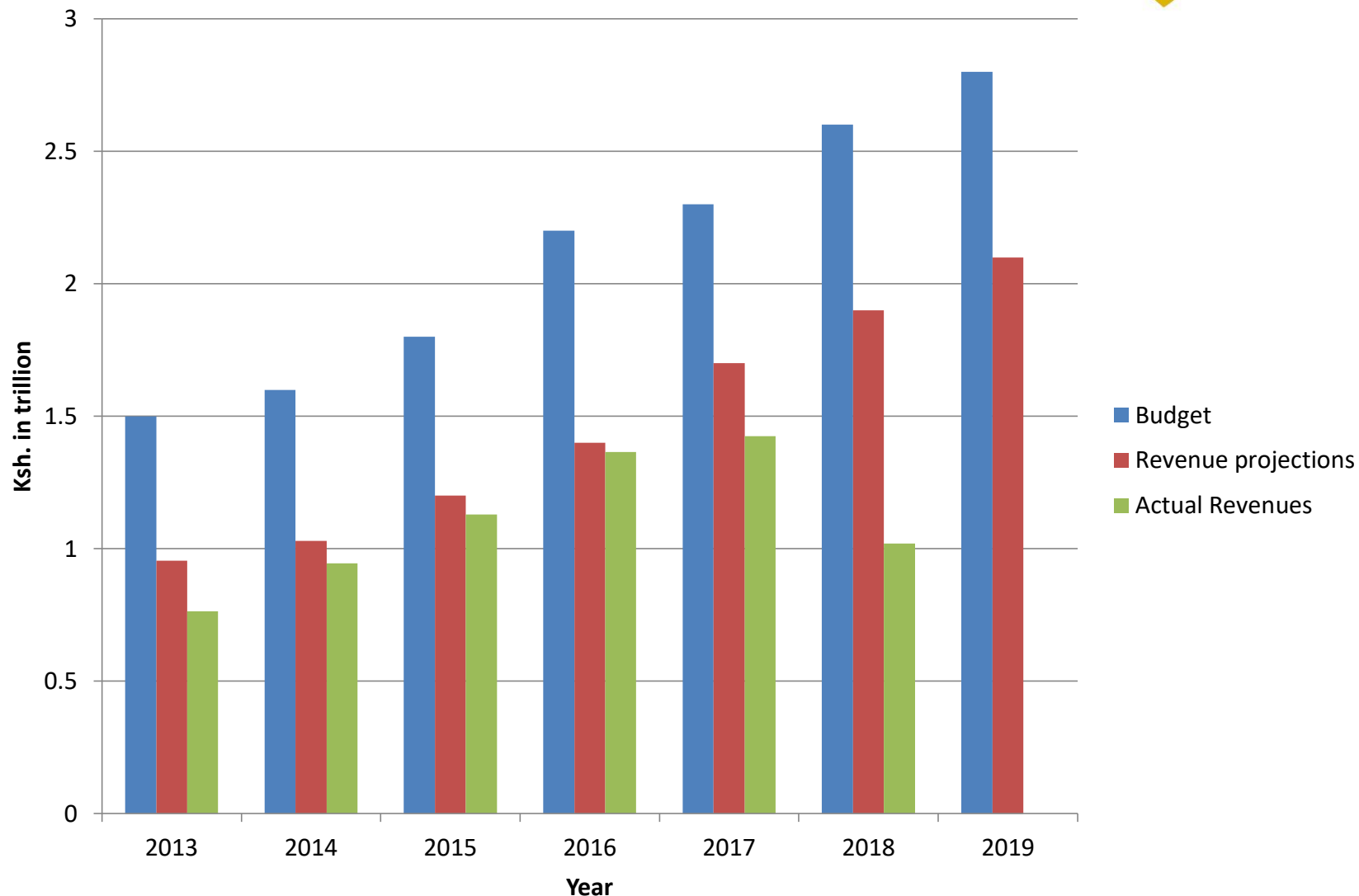
- ☐ **Creating Jobs, Transforming Lives -
Harnessing the “Big Four” Plan -
2019/2020**
- ☐ **Creating Jobs, Transforming Lives and
Sharing Prosperity -2018/19**
- **What comparatives can you make of this
two themes!!!**

Key Pillars to 2019/2020 Budget

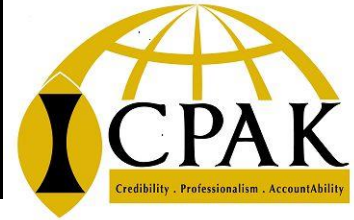


- ❑ Laying a strong foundation for achieving the President's Big Four agenda
- ❑ Addressing the following challenges in the economy:
 - ✓ Creating an enabling business environment in particular for the micro, small and medium enterprises
 - ✓ accelerate the economic growth
 - ✓ Create more jobs for youth;
 - ✓ The need to be prudent and efficient in spending
 - ✓ The need to mobilize domestic resources to fund priority projects and programmes.
 - ✓ The need to reduce fiscal deficit in order to stabilize and reduce debt;
 - ✓ The need to implement reforms that will enhance efficiency and become more competitive.

Budget and Revenue trends: 2013-2019

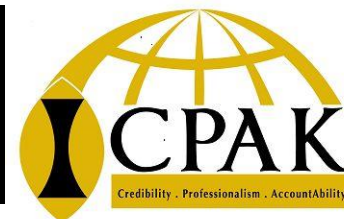


Overall Budget & Financing



- Government expenditure and net lending for the Financial Year 2019/20 -Ksh 2.8 trillion
- Total projected revenues – Ksh 2.1 trillion
- Deficit – Ksh 607.8 billion
- Financing the Deficit:
 - ✓ External sources – 324.3 billion; where do we borrow from?
 - ✓ Domestic sources – 283.5 billion
- *2.1T projected revenues- Is it realizable based on past experiences?*

Increasing Tax Collection



- One measure identified as a foundation for accelerated growth and shared prosperity is through increasing tax collection and seal revenue loopholes.
- **Administrative measures;**
 - ✓ Sustaining the fight against illicit and counterfeit trade that was launched last year.
 - ✓ Strengthen and upgrade the ICT systems, including the full rollout of the integrated customs management system which has been delayed for too long.
 - ✓ Information sharing through Memorandum of Understanding (MoUs) with other countries to fight cross-border tax evasion;

Increasing Tax Collection Cont.....



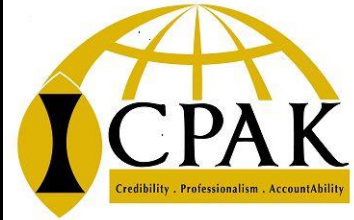
- ✓ Revenue Enhancement Initiatives (REI):
 - Scanning of containers to detect concealment
 - Implementation of a Regional Electronic Cargo Tracking system to tackle transit diversions
 - New debt collection strategy
 - Resolution of tax disputes
 - Enhancing investigative capacity to support revenue collection.

Direct Taxes –Income Tax



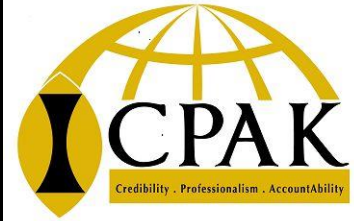
- The Income Tax Bill 2018 is in the final stages of legal drafting – *Delays??*
- Capital gains tax to increase from 5% to 12.5%
 - ✓ *Enhance equity and fairness*
 - ✓ *Raise more revenue*
 - ✓ *Harmonize with other jurisdictions*
- CGT to be exempted on transfer of property and shares during restructuring purposes.
 - ✓ *To enhance operational efficiency and make Kenya an attractive holding company location.*
- Dividend distributed out of income exempt from tax under the ITA shall not be subject to 30% tax under sec 7A.

Income Tax Cont.....



- Taxation of re-insurance premium paid to non resident: such income is now subject to WHT.
- Turnover Tax reintroduced while maintaining presumptive tax.
- Introduction of withholding tax on the following services: Security services, Cleaning and fumigation, Outside catering transportation of goods excluding air transport, sales promotion, marketing and advertising at 5% on gross amount.

Income Tax Cont.....



- ✓ *Increase tax revenue*

- ✓ *Increase the administrative burden of collecting and remitting the WHT.*

- ✓ *Tax burden may be passed to customers*

- 15% corporation tax for investors operating plastic recycling plant for the first 5 years.

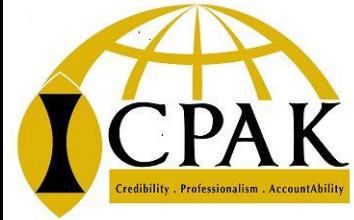
- ✓ *Help reduce pollution and provide a clean environment*

- ✓ *The attractiveness of this incentive will be limited by the fact that businesses make losses in initial years.*

- Penalties on unpaid tax now 5% as per TPA not 20% as per ITA.

- National Housing Development Fund-income will be tax exempt

Income Tax Cont.....



- Affordable Housing Relief- Taxpayer to enjoy a relief of 15% of employees contribution up to a limit of ksh.108,000 p.a
 - ✓ *Achieve government agenda on affordable housing*
- Income earned by an individual who is registered under the Ajira Digital Program exempt for three years beginning 1st January 2020 but pay a one off registration fee of 10,000 in lieu of taxes.
 - ✓ *create employment opportunities.*
- Amendment of Act in order to tax digital economy
 - ✓ *Double taxation of companies*
 - ✓ *Increasing the costs of doing business.*
 - ✓ *Complex area to tax that requires sufficient consultations*

Financial Sector



- Penalties and sanctions on market players who violate CMA rules and procedures
 - ✓ *Deter frauds like insider trading*
- Boda boda and tuk tuks operators required to have insurance covers for passengers and pedestrians.
 - ✓ *Cushion against accidents*
- RBA Act to be amended to allow Retirement Benefit Scheme to withdraw from guaranteed funds within one year, previously three years.

Financial Sector



- Exiting members of RBS to access an equitable share of the reserve fund.
- Members of umbrella Retirement Benefit Schemes to contribute towards post retirement medical fund.
 - ✓ *achievement of Universal Health Coverage*
- Proposal to remove interest capping.
- SME credit Guarantee Scheme to enable SME's access credit without complex collateral requirements.

Tax Procedures Act



- Tax amnesty on tax penalties and interest for SME's listing at the Growth Enterprise Market Segment (GEMS) for outstanding 2 years prior the listing;
 - ✓ *Encourage listing*
 - ✓ *what about prior years*
- Commissioner to be empowered to grant exemption from PIN requirements for privileged persons and foreign investors when opening bank accounts
 - ✓ *Can encourage money laundering and tax evasion*

So who are the Losers & the winners?



And Finally.....

