

# INDIRECT TAX IMPLICATIONS OF THE FISCAL BUDGET 2019/2010

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# VAT proposals –Key Highlights



- VAT refund formula to be adjusted to allow taxpayers to fully recover input tax on Zero rated supplies.
  - ✓ *Boost to exporters and suppliers of zero rated products*
- VAT WHT rate reduces from 6% to 2%
  - ✓ *Reduce build up of VAT refundable*
  - ✓ *Fuel and petroleum dealers and exporters to benefit*
  - ✓ *What about historically underpaid VAT refunds??*
- VAT exemption on locally manufactured mother boards and all parts used in their manufacture.
  - ✓ *Exemption unlike zero rating doesn't result to lower prices for consumers.*
  - ✓ *Objective is to increase competitiveness in computers and electronics.*

# VAT proposals –Key Highlights



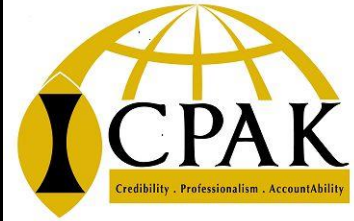
- VAT exemption on services offered to plastic recycling plants and supply of machinery and equipment used in their construction.
  - ✓ *What about goods supplied to them*
  - ✓ *Environmental conservation measure and boost to manufacturing.*
- Imported services VAT; The scope expanded to cover unregistered VAT taxpayers.
  - ✓ *This is meant to increase tax revenue.*
- Taxation of Digital economy; *all supplies made by through a digital market place will be taxable supply.*
  - ✓ *At what point?*
- Scope of exempt services to include securities brokerage services  
Previously, the exemption only covered the stock exchange brokerage.

# VAT proposals –Key Highlights



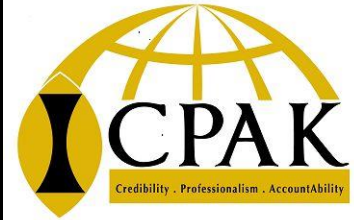
- Specialized equipment for development of solar and wind energy will be exempted subject to approval by energy CS.
  - ✓ *To promote green energy*
- Exemption of agriculture pest control products.
  - ✓ *To promote food security under Big 4 Agenda*
- Semi trailer to be subject to VAT at 16%
  - ✓ *To raise revenue*
  - ✓ *To increase transport cost.*

# Indirect Tax Proposals– Customs Duty



- Import duty on raw timber reduced from 10%-0%
  - ✓ *Reduce importation costs and enhance forest conservation*
- Retain an ad valorem rate of import duty at 25% on finished timber and furniture.
  - ✓ *To protect local timber and furniture industry from proliferation of cheap finished timber products and to enhance local production.*
- Maintained higher import duty rates applicable on selected imported iron and steel products at 25%
  - ✓ *protect local sector from unfair competition resulting from importation of cheap and subsidized iron and steel products.*

# Indirect Tax Proposals– Customs Duty



- Retain import duty on paper and paperboard at 25% rate for one more year from the previous rate of 10%
- ✓ protect manufacturers of these products from unfair external competition.*

# Indirect Tax proposals –Excise Tax



- Excise duty on betting activities at 10% of amount staked.
  - ✓ *Discourage betting and high revenue*
- Reduction of excise duty on motor vehicles that are fully powered by electricity from 20% to 10%
  - ✓ *Reduce carbon emission and promote green energy*
- Increase of specific rates of excise duty on cigar, wines and spirits by 15%
  - ✓ *Increase revenue*
- 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.
  - ✓ *Enhance compliance*

# Indirect Tax proposals –Fees and Levies



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



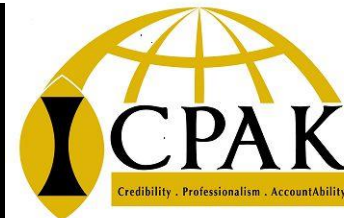
# Indirect Tax proposals –Fees and Levies



- Railway development levy on finished products increased from 1.5% to 2%
  - ✓ *To cushion to local manufacturers*
- Impose Export levy on tanned and crust hides and skins at 10% to harmonize with raw hides and skins that are currently subject to export levy.
  - ✓ *Encourage local processing of leather products for export*
  - ✓ *Discourage export of these products*

- 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.
- RBA Act to be amended to allow **RBS** to withdraw from guaranteed funds within one year, previously three years.

# Financial Sector



- Members of umbrella Retirement Benefit Schemes to contribute towards post retirement medical fund.
- 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 but still pay the principal tax.
- ✓ *Encourage listing of SME's*
- ✓ *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.....**

