

ANNUAL BUDGET REVIEW SEMINAR FY 2019/20

TAX IMPLICATIONS OF THE 2019/20 BUDGET

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Public Policy & Research - ICPAK

Uphold .

Public .

Interest

PRESENTATION OUTLINE



Underlying Macro-Economic Environment

Income Tax

VAT

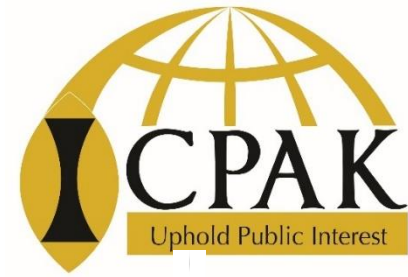
Excise

Customs

Miscellaneous Provisions

Fiscal Risks

THE ECONOMIC ENVIRONMENT & FORECAST



2002-2007

KENYA'S ECONOMIC GROWTH RATES

2008-2012

2013-2017



4.6

4.7

5.6

Broad based economic growth average

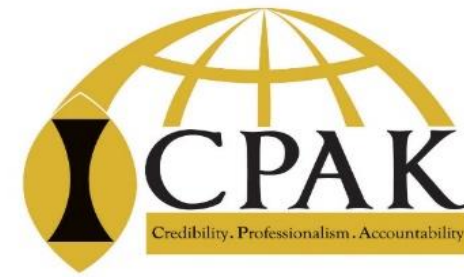
Uphold

Public

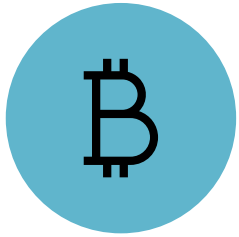
Interest

IMPLICATIONS OF TAX MEASURES;

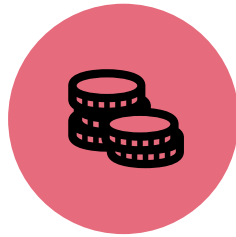
1. INCOME TAX.



CORPORATE TAX



Framework on the implementation of the 30% rebate on total electricity costs by manufacturers now developed.



Investors operating plastic recycling plants to enjoy a reduced corporate tax rate of 15% for the 1st 5 years.



Amnesty covering penalties & interest, on any outstanding tax for two years prior to listing, for SMEs under the Growth Enterprise Market Segment (GEMS) program at NS).



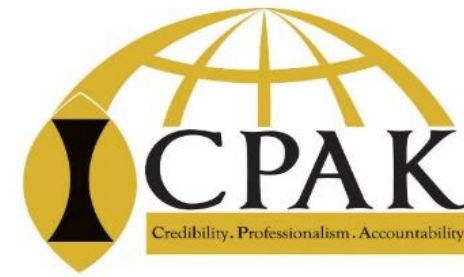
Taxation of income generated from the digital economy.



The Income Tax Bill introduced in 2018

IMPLICATIONS OF TAX MEASURES;

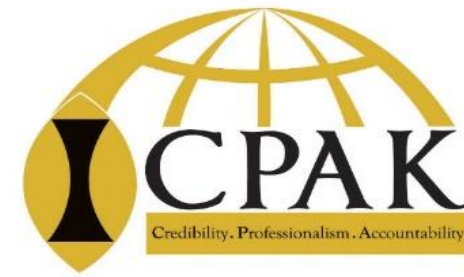
1. INCOME TAX.



PERSONAL INCOME TAX

- Exemption of Income earned under Ajira Program: bridge the gap between skills available and skills demand. one million youths annually to be engaged as digital freelance workers.
- The Government has proposed that the youth registered for the program pay a registration fee of ten thousand Kenya shillings for the next three years in lieu of income tax with effect from 1st January 2020.
- The Cabinet Secretary has proposed to amend the Income Tax Act to exempt registered members from regular taxation for the specified period

WITHHOLDING TAX



5% WHT on commercial services



Security services



Cleaning and
fumigation
services;



Catering services
offered outside
hotel premises;



Transportation of
goods excluding air
transport
services;



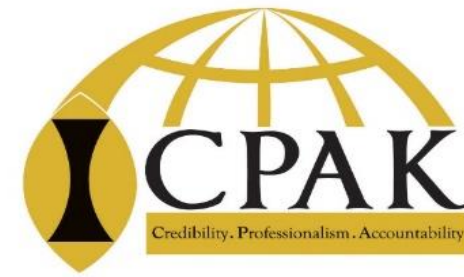
Sales promotion;
and



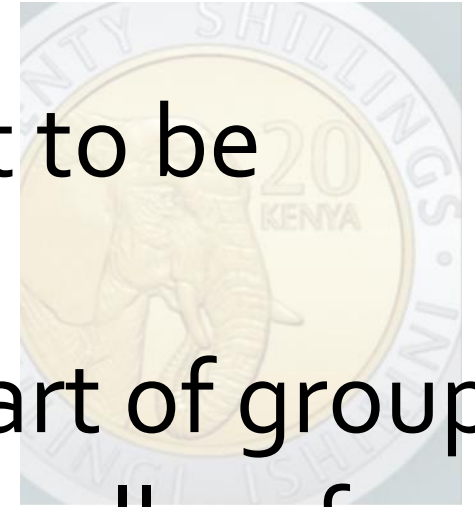
Marketing and
advertising service

IMPLICATIONS OF TAX MEASURES;

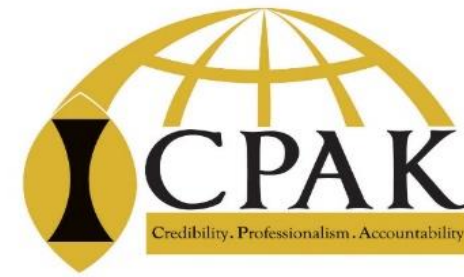
1. INCOME TAX - CGT



- Capital Gains Tax
 - The rate of Capital Gains Tax (CGT) is set to be increased from 5% to 12.5%.
 - Property transferred by corporates as part of group restructuring to be exempted from CGT to allow for seamless restructuring for operational efficiency and encourage business growth
- There is no indication that indexation will be introduced to take into account the effects of

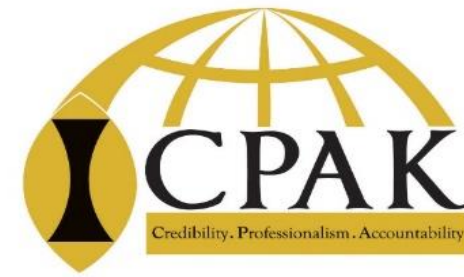


2. VAT



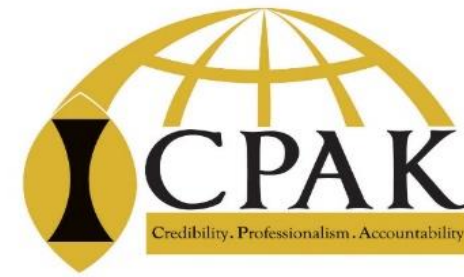
- Reduction of the withholding VAT rate from 6% to 2%.
 - Taskforce constituted to validate outstanding VAT refund claims for settlement within the next two months.
 - Adjustment of the VAT refund formula introduced through the VAT Regulations, 2017 to ensure a full refund of input tax credit relating to zero-rated supplies.
 - Since implementation, the formula has resulted in an unfair position for taxpayers - specifically exporters who were not able to fully recover the excess input tax relating to zero-rated supplies.
 - Zero rating of denatured ethanol.
 - Introduction of VAT exemption on the following:
 - Locally manufactured motherboards and all inputs used in their manufacture

2. VAT



Particulars	Old rate	New rate
Withholding VAT	6%	2%
Locally manufactured motherboards & accessories	16%	Exempt
Denatured bio-ethanol	16%	0%
Services offered to plastic recycling plants, machinery and equipment for constructing plastic recycling plants	16%	Exempt

3. CUSTOM



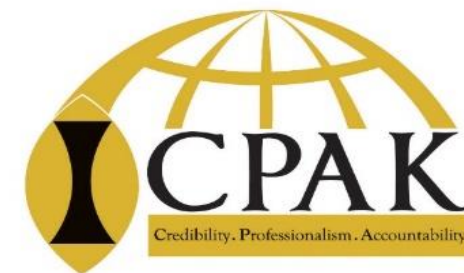
- Extension of stay of application of the CET rate on a wide range of iron and steel products at 25% or the corresponding specific rates.
 - This will reduce importation of cheap iron products into the country thus protecting the local industry.
- Application of 25% import duty on paper and paperboard instead of 10%.
- Reduction of import duty on raw timber from 10% to 0%.
- Proposal to retain import duty on finished timber products at 25%.
- Detailed Customs measures to be communicated through the East African Community (EAC) Gazette effective 1 July 2019.
- Kenya Electronic Single Window System Bill to be tabled in Parliament

4. EXCISE DUTY.



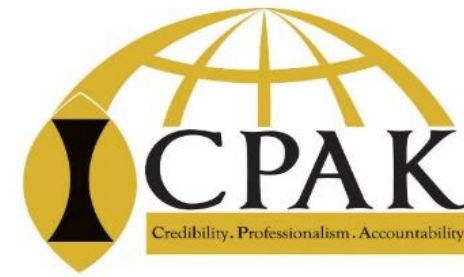
- Introduction of excise duty on betting activities at 10% of amounts staked.
- Reduction of excise duty on fully-powered electric motor vehicles from 20% to 10%.
- Increase in excise duty on motor vehicles of engine capacity exceeding 1500cc to 25%.
- Increase in excise duty rates on cigarettes, wines and spirits by 15%

EXCISE DUTY



Particulars	Old rate	New rate
Betting (on amounts staked)	0%	10%
Electric powered vehicles	20%	10%
Cigarettes (packet of 20)	KES 53	KES 61
Wines per 750 ml	KES 118	KES 136
Spirits and Whisky per 750 ml	KES 158	KES 182

EXCISE DUTY



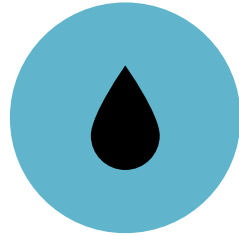
Annual inflation adjustment of specific excise duty rates



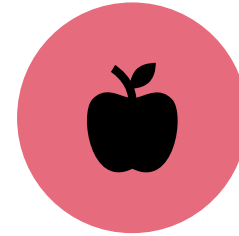
INFLATION

$5 + 2.5$
-

Annual Average 18/19 = 4.75%



PETROLEUM
PRODUCTS



FRUIT JUICES



BOTTLED
WATER



ALCOHOLIC
BEVERAGES

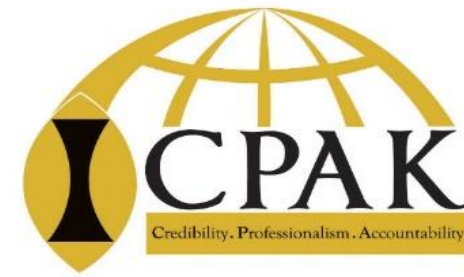


TOBACCO
PRODUCTS



MOTOR
CYCLES

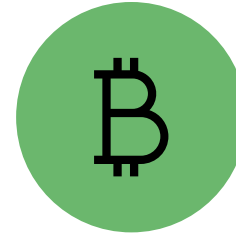
5. MISCELLANEOUS AMMENDMENTS



**Repeal Of
Interest Rate
Caps Under
Banking Act, Sec
33B - Greater
Access For
MSMEs**



**Insurance (Motor
vehicles Third
Party Risks) Rules
1999 - Boda bodas
and tuk tuks to
procure 3rd party
insurance to cover
passengers and
pedestrians**

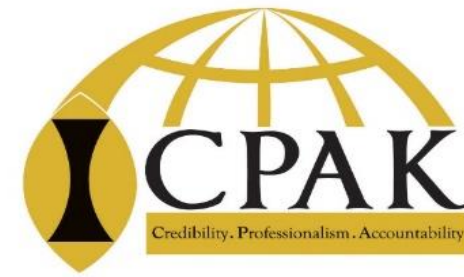


**Insurance Act &
Regulation -
Policyholders
Compensation Fund to
be used for
compensation of
claimants of companies
under statutory
management**



**Capital Markets
Act - Power to
enforce sanctions
on violation by
market players**

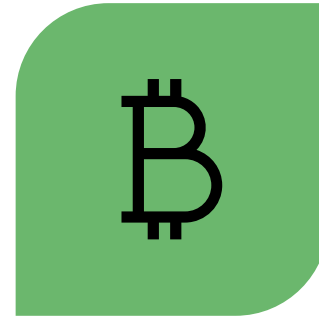
5. MISCELLANEOUS AMMENDMENTS



**PROMPT PAYMENT OF
BILLS - WITHIN 60 DAYS**



**RETIREMENT BENEFITS
ACT - PERIOD OF
TRANSFER REDUCED
FROM 3 YEARS TO ONE
YEAR**



**RETIREMENT BENEFITS
(REGULATIONS) - EXITING
MEMBERS OF DEFINED
CONTRIBUTION SCHEMES
TO RECEIVE EQUITABLE
SHARE OF RESERVE
FUNDS**



**MEMBERS OF UMBRELLA
RETIREMENT BENEFITS
SCHEMES CAN
CONTRIBUTE TO POST
RETIREMENT MEDICAL
COVER**

5. MISCELLANEOUS LEVIES



Particulars	Old rate	New rate
IDF for intermediate goods and raw materials	2%	1.5%
IDF for finished goods	2%	3.5%
Railway Development Levy on finished goods	1.5%	2%
Export of tanned and crust hides	0%	10%

REVIEW OF LAWS 2019



**Income
Tax Bill,
2019**

**National
Electronic
Single
Window
Bill, 2019**

**Kenya
Sovereign
Wealth
Fund Bill,
2019**

**Central
Bank of
Kenya,
2019**

**Prompt
Payment
Bill, 2019**

**Public
Finance
Managem
ent
(Biashara
Kenya
Fund)
Regulatio
ns, 2019**

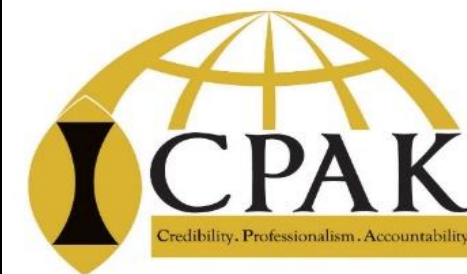
FISCAL PERFORMANCE



	2013/14	2014/15	2015/16	2016/17	2017/18
Budget	1,006,862	1,170,529	1,299,912	1,514,989	1,704,503
Actual	974,418	1,113,038	1,235,845	1,403,692	1,650,989
Deviation	(32,444)	(57,492)	(64,067)	(111,297)	(53,514)
Performance rate	97%	95%	95%	93%	97%

In the **FY 2019/20** revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase to **Ksh 2,080.9 billion (18.3 percent of GDP)** up from **Ksh 1,831.5 billion (18.3 percent of GDP) in the FY 2018/19**. Ordinary revenues will amount to Ksh 1,877.2 billion (16.5 percent of GDP) in FY 2019/20 up from Ksh 1,651.5 billion (16.5 percent of GDP) in FY 2018/19.

FISCAL PERFORMANCE



	FY 2017/18		FY 2018/19				FY 2019/20
	Revised Budget II Final	Preliminary	Budget	Revised Budget	BPS 2019	Deviation	
TOTAL REVENUE	1,659,611	1,522,455	1,949,181	1,852,572	1,831,460	(117,721)	2,080,922
Ordinary revenue	1,489,633	1,365,063	1,769,229	1,672,629	1,651,517	(117,712)	1,877,176
Ministerial Appropriation in Aid	169,977	157,392	179,952	179,944	179,944	(9)	203,746
						-	
TOTAL EXPENDITURE AND NET LENDING	2,329,961	2,146,687	2,557,246	2,509,083	2,514,421	(42,825)	2,704,706
Recurrent Expenditure	1,441,931	1,349,896	1,550,042	1,540,978	1,513,279	(36,763)	1,657,299
Development	556,349	469,517	625,722	595,663	631,183	5,461	670,854
County Transfer	331,681	327,274	376,481	367,441	364,958	(11,523)	371,553
Contingency Fund	-	-	5,000	5,000	5,000	-	5,000
						-	
BALANCE EXCLUSIVE OF GRANTS	(670,350)	(624,232)	(608,065)	(656,510)	(682,961)	(74,896)	(623,784)
Grants	42,953	27,600	48,487	48,487	47,483	(1,004)	51,616
BALANCE INCLUSIVE OF GRANTS	(627,397)	(596,632)	(559,578)	(608,023)	(635,477)	(75,900)	(572,168)
Balance Inclusive of Grants (Cash)	(627,397)	(631,309)	(559,578)	(608,023)	(635,477)	(75,900)	(572,168)
Discrepancy	-	-	-	-	-	-	-
TOTAL FINANCING	627,397	631,309	559,578	608,023	635,477	75,900	572,168
Net Foreign Financing	374,622	354,977	286,986	286,986	321,464	34,477	306,480
Other Domestic Financing	4,038	2,623	3,925	3,925	3,925	-	(5,677)
Net Domestic Financing	248,737	273,710	268,666	317,112	310,089	41,422	271,364
Nominal GDP (Fiscal Year)	8,678,974	8,796,500	9,726,649	9,990,033	10,030,206	303,557	11,346,478

Source: National Treasury

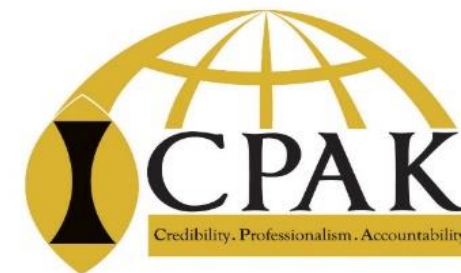
❑ Revenue collection for the first five months grew by 13.5% compared to the same period in the FY 2017/18.

❑ Despite the strong growth, cumulative ordinary revenue still fell short of the November target by Ksh 27.7

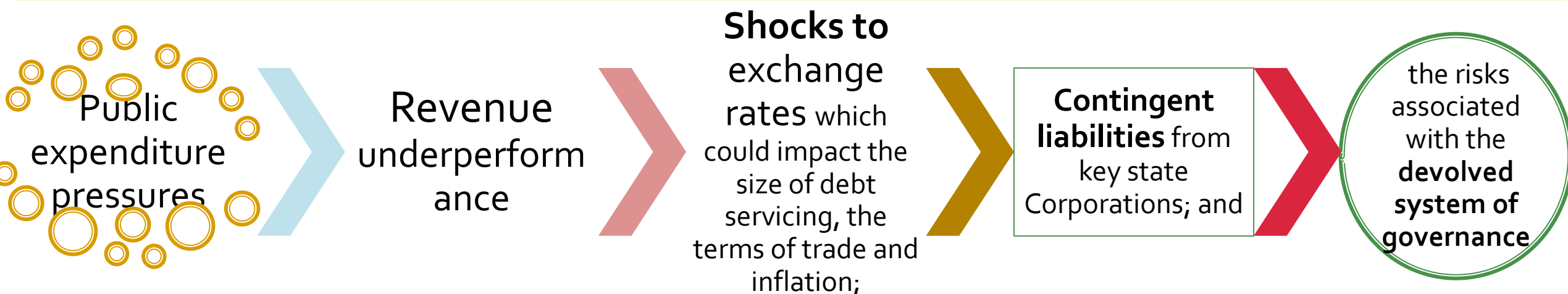
❑ Income tax from corporations recorded negative growth as at November 2018-----expected to bounce back to target levels by third & Fourth quarter due to the strong performance recorded in the economy in the first half of the financial year.

Interest

FISCAL RISKS



Fiscal risks that the Kenyan economy is exposed to that may affect the achievement of the macroeconomic targets and objectives detailed in the BPS:



Sustainability of the Public Debt

Uphold

Public

Interest

Thank You!

