

BUDGET SENSITIZATION ON THE FINANCE BILL, 2019

June, 2019



Income Tax Act

1. Clarify the chargeability to tax for transactions in the digital economy.

Clarify meaning of digital market place and brings to charge income arising out of such transactions

2. Clarify that dividends distributed out of untaxed gains/profit from exempt income shall not be subject to tax. Sec 7 A

Finance Act 2018 repealed compensating tax and introduced 30% tax on dividends distributed out of exempt profits. The provision clarifies that income distributed out of exempt income is not taxable.

Income Tax Act

3. Expansion of taxable income of non-resident ship owners.

The proposed change is to bring all income of non resident ship owner derived from Kenya. The local shipping agent is to account for it

4. Imposition of WHT on fees paid for other services – 5% for resident and 20% non-residents.

The provision is to expand scope of withholding tax to encompass security, cleaning, fumigation, catering, transportation, sales and marketing services. Tax base expansion move

- 5 Bring clarity to the industry that reinsurance premiums paid to non-residents are subject to WHT.

Reinsurance premiums paid to non residents are subject to withholding tax at 20%

Income Tax Act

6. Application of WHT on payments made by a Permanent Establishment (PE) to its Head-Office – in case of treaty.

Where a PE is allowed payments to HO to be tax deductible then those payments be subject to WHT

7. Re-introduction of Turnover Tax. 3%

Enhance tax base and ensure equitable contribution. PT not ideal

Income Tax Act

8. Exemption of investee companies of Real Estate Investment Trusts.

Exempt investee companies to ensure REITS objectives are fully accomplished

9. Increase of rate of Capital Gains Tax (CGT) – from 5% to 12.5%.

Tax base expansion and bring horizontal equity in taxation. Also EAC harmonization

10. Exempt the following income from tax -

- The National Housing Development Fund.
- Income earned by individuals under the Ajira Digital program.

Strengthen resource allocation and youth empowerment



Income Tax

11.Changes in the provisions of Affordable Housing Relief (AHR).

Alignment to make relief based on contribution instead of gross emoluments
(15% max Kes 108,000)

12.Reduced Corporation Tax rate for plastic recycling companies. – 15%.

Encourage environment protection

13.Exemption of group restructuring or reorganization transactions from
CGT.

Facilitate restructuring to bring efficiency, certainty and neutrality of tax

VAT Act, 2013

- a) Clarification of chargeability to tax for transactions in the digital economy.

Expand scope imported services to both registered and non registered importers.

- b) Exemption of specialized equipment for the development and generation of solar and wind energy.

Brings clarity on which agency/ body is to recommend exemption- CS in charge of Energy

- c) Exemption of Tractors – exclude semitrailers.

HS code is very wide on its definition of trailers, intention is to only exempt those used for agriculture

VAT

d) Exemption of inputs or raw materials for electric accumulators and separators supplied to manufactures of automotive and solar batteries in Kenya.

Brings clarity on which agency/ body is to recommend exemption- CS in charge of Industrialization. Also moves items from zero rate to exempt thus minimizing refunds

e) Exemption of Agricultural Pest Control Products.

Support big 4 Agenda on food security by making food production affordable

f) Exemption of locally manufactured motherboards and inputs for the manufacture of motherboards.

Make local assembly cheap. Exemption done by CS-ICT

VAT Act, 2013

- g) Exemption of Plant, machinery and equipment used in the construction of a plastics recycling plant and Services offered to plastic recycling plants.

Environment protection in line with ITA proposal

- h) Exemption of brokerage services for securities other than stocks.

Clean up to have stocks covered under securities

- i) Zero-rating of supply of denatured ethanol used in the use of clean energy stoves.

To encourage use of clean energy stoves

- j) Refining of VAT refund formula.

To allow full recovery of input tax for traders

C. Excise Duty Act, 2015

- a) Introduction of excise duty on betting services – 10%.
- b) Introduction of general penalty – a fine not exceeding Kshs 2m or a term not exceeding 2 years, or both.
- c) Change of adjustment day for the annual inflationary adjustment – 1st October every year.

C. Excise Duty Act, 2015 – First Schedule

Increase by 15% in duties for wines, spirits and cigarettes is meant to mobilize revenue as follows:

Description	Rate of Excise (Shs)
Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	12,098 per Kg
Electronic cigarettes	3,629 per unit
Cartridge for use in electronic cigarettes	2,420 per unit
Cigarette with filters (Hinge lid and soft cap)	3,025 per mille
Cigarettes without filters (plain cigarettes)	2,177 per mille
Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences	8,469 per kg
Wines including fortified wines, and other alcoholic beverages obtained by fermentation of fruits	181 per litre
Spirits of undenatured ethyl alcohol; spirits liqueurs and other spirituous beverages of alcoholic strength exceeding 10%	242 per litre

Excise Duty Act, 2015

<i>Description</i>	Rate of Excise Duty
Motor vehicles of tariff excluding— i. Locally assembled motor vehicles; ii. School buses for use by public schools; iii. Motor vehicles - Other vehicles, with only compression-ignition internal combustion piston engine (diesel or semi-diesel) and Unassembled; iv. Imported motor vehicles of cylinder capacity exceeding 1500cc	20%
Imported motor vehicles of cylinder capacity exceeding 1500cc of tariff.	25%.
Motor vehicles (Other vehicles, with only compression-ignition internal combustion piston engine (diesel or semi-diesel) and Unassembled).	35%
100% electric powered motor vehicles.	10%.

Tax Procedures Act, 2015

1. Exemption from requirement of PIN when opening a bank account under certain circumstances.
2. Tax Amnesty for companies listed on growth segment of a securities exchange in Kenya.
3. Recovery of taxes upon failure to deduct or withhold.
4. Reduction in rate of WHVAT from 6% to 2% & exclusion of zero rated supplies from WHVAT.
5. Departure Prohibition Order (DPO) to apply to tax representatives of companies.

Tax Procedures Act, 2015

6. Extension of Objection Decision Period where Commissioner requires additional information from taxpayer.
7. Determination of late submission penalty.
8. Transactions for which a PIN will be required:
 - Registration and renewal of membership by professional bodies and other licensing agencies.
 - Registration of mobile cellular paybill and till numbers.

Miscellaneous Fees and Levies Act

- 1) Provision for refund of anti-adulteration levy paid by manufacturers of paints and resins.
- 2) Reduction of IDF from 2% to 1.5% on intermediate goods and raw materials for use by approved manufacturers.
- 3) Increase of IDF from 2% to 3.5% on finished goods.
- 4) Maintained RDL at 1.5% on intermediate goods and raw materials for use by approved manufacturers.
- 5) Increase RDL from 1.5% to 2% on finished goods.
- 6) Imposition of export levy on tanned and crust hides and skins at 10%.





Thank you