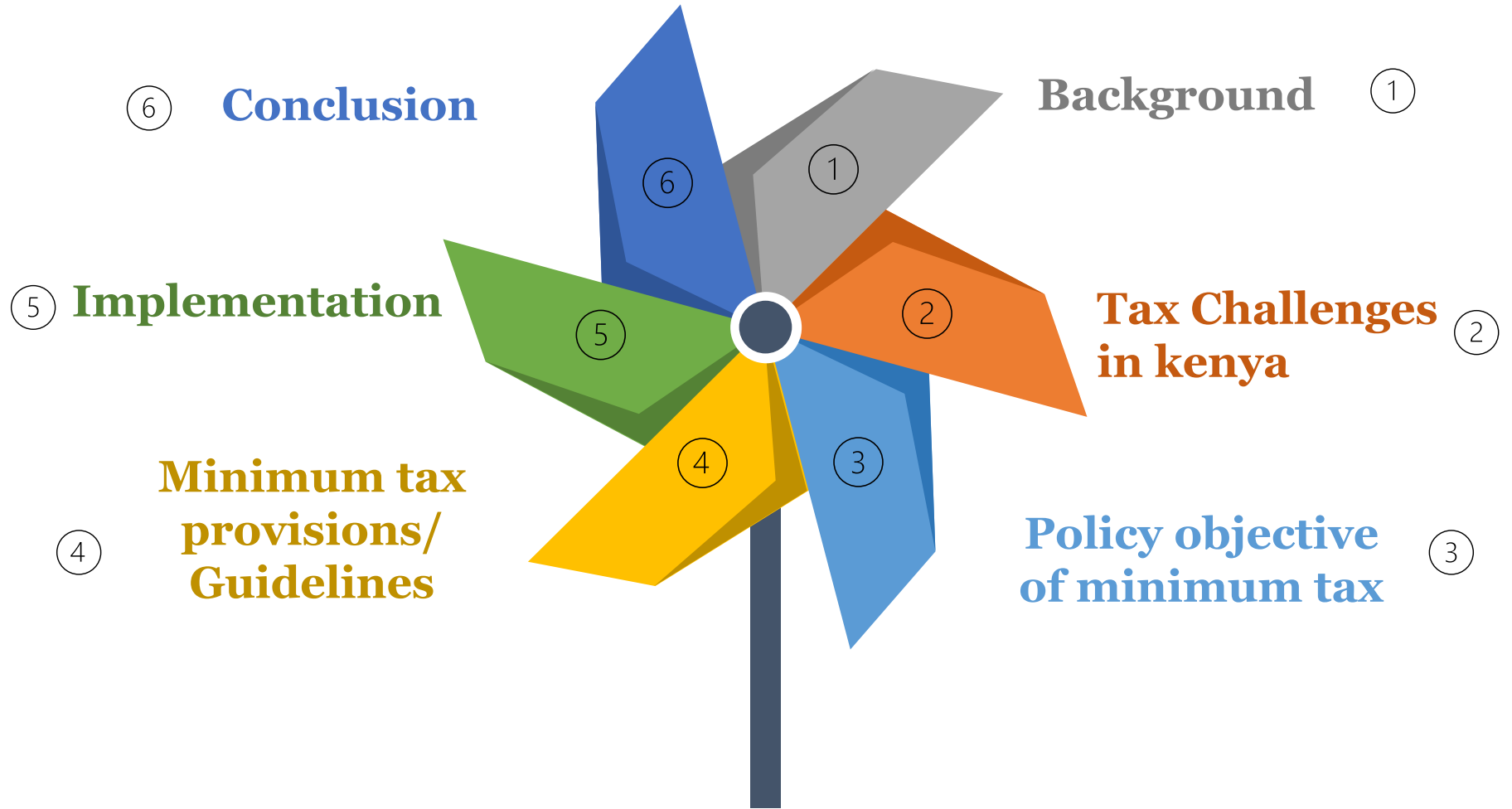


Overview of the Minimum Tax Regime in Kenya

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Corporate Policy Division
Kenya Revenue Authority**

Goods and Services Tax
Individual
Corporate
Property
Revenue
Profit Commission
Personal

Contents



Background



On average African countries collect just about 15% of GDP in taxes, compared with the developed economies which on average collect over 35% of their GDP.



More than ever, the collection of taxes and duties is a key development priority.



Taxes matter

We all know we need them to pay for public services.



The Government Tax Policies have to balance goals such as:

- increased revenue mobilization;
- sustainable growth and development;
- reduced compliance costs; and
- ensuring that the tax system is fair and equitable.

Tax Challenges in Kenya



Taxation is the largest source of government revenue in Kenya.

The pressure on governments to collect additional tax revenues to implement the Government agenda.

Kenya is walking in a tight rope as she strives to mobilize adequate domestic revenue to fund its development agenda.

The country faces challenges in domestic resource mobilization:

- a narrow tax base;
- limited natural resource endowment and
- significantly low compliance levels.

Tax Challenges in Kenya cont'd...



Evolving business models –

- Digitization where the market has moved from a physical location to a virtual space.
- Tax avoidance & evasion continue to be a challenge.



The capacity of the tax administration.



Calls for the need for strategies to revolutionize the tax legislative framework.



The need for a raft of new strategic fiscal policy measures

Policy Objectives of minimum tax

Corporations are able to reduce or eliminate their taxes using means that are entirely legal.

This was indeed the case - use of provisions such as the investment allowance and accelerated depreciation.

The consequence of these tax incentives, taxable income, as defined in the ITA becomes significantly narrower than the accounting concept of income.

The concerns about the equity of the tax system becomes a concern:

- Imagine ***“I pay more taxes than GG and XJ Co”***.

There are shared resources e.g. infrastructure (roads, rail) – every taxpayer must contribute towards

The compromise - ***taxpayers with substantial economic income cannot avoid taxation at all but at least pay a “minimum tax”***.

Minimum Tax

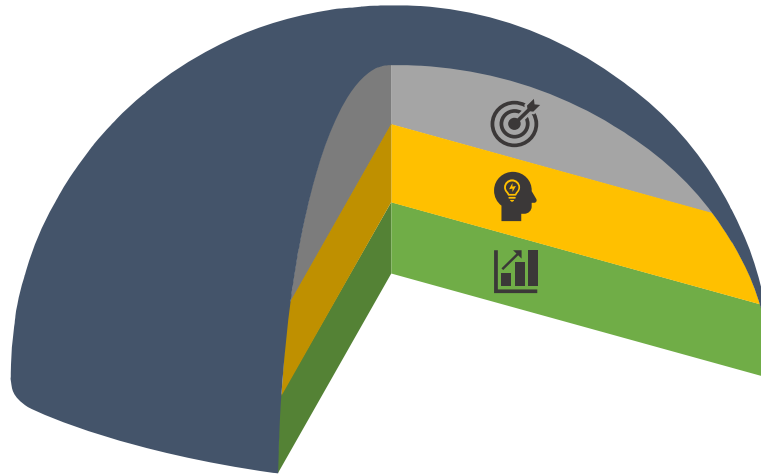
- Introduced through the Finance Act, 2020.
- Minimum Tax is a base income tax, payable by all person's regardless of whether or not they make a profit.

Effective date

1st January 2021

Rate of tax

1% of the **gross turnover** of the company.



Payment

The tax shall be paid in instalments due on the 20th day of each period ending on the **4th, 6th, 9th and 12th month** of the year of income.

Minimum tax vs. instalment tax

- **Pay instalment tax** - where instalment tax payable is higher than the minimum tax.
- **Pay minimum tax** - where the minimum tax is higher than the instalment tax.

Incomes exempt from Minimum Tax

**exempt income –
First Schedule**



**Persons in the
insurance sector**

**Businesses whose
retail prices are
controlled by Govt**



**income of extractive
sectors taxable under the
Ninth Schedule to the Act**



**income subject
to CGT**



employment income



**income subject to
residential rental
income tax**

**income that is subject
to Turnover Tax**



Minimum tax practice across the globe

Africa

| Country | Tax Base | Tax Rate |
|---------------|---|------------------------|
| Tunisia | Turnover | 0.10% |
| Tanzania | Turnover | 0.50% |
| Sierra Leone | Turnover | 30% on 20% of turnover |
| Nigeria | Net Assets | 0.50% |
| Morocco | Turnover | 0.50% |
| Niger | Turnover | 1% |
| Senegal | Turnover | 0.50% |
| Liberia | Turnover | 2% |
| Gabon | Turnover | 1% |
| Gambia | Turnover | 1% |
| Mauritius | Adjusted Book Profits/ Dividend declared | 7.5% / 10% |
| Madagascar | Turnover | 0.1% - 0.5% |
| Mali | Turnover | 0.75% or flat amount |
| Cote d'Ivoire | Turnover | 1% |
| Djibouti | Turnover | 1% |

The rest of the world

| Country | Tax Base | Tax Rate |
|-----------------------|---|----------|
| USA (Corporations) | Adjusted Income | 20% |
| Uruguay | Net Assets | 1.50% |
| Philippines | Gross Income | 2% |
| India | Adjusted Book Profits | 20% |
| Mexico | Cash Flow (with credit for wages and social security charges) | 17.50% |
| Netherlands | Personal Capital Assets | 1.20% |
| Belgium | Adjusted Income | 29% |
| Argentina | Gross Assets | 1% |
| South Korea | Adjusted Income | 7% - 17% |
| Trinidad and Tobago | Turnover | 0.60% |
| Romania | Turnover (in evasion prone sectors) | 5% |

Implementation

- Administrative guidelines on the implementation of minimum tax are available on the KRA website.
- Awareness campaigns among taxpayers ongoing.
- System enhancements to enable filing/payment ongoing.
- Review compliance with the tax to identify any challenges that may require mitigation through administrative or legislative measures.

Conclusion



**Continued engagement
& partnership is key to
the success of tax
policies in Kenya.**



**Professionals -
Contribute to the
design of a more
effective and business-
friendly tax policies
and procedures.**



**Keep with the
changing global
taxation policies**



Thank you