Personal Taxes – Emerging Issues

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Matters Compliance

Like most countries in Africa, Kenya operates a self-assessment tax system where taxpayers evaluate their business operations, compute tax liability or net loss for the relevant period.

Key taxes applicable in the East African country include income tax, (VAT), excise duty, Cuctoms duty, stamp duty and statutory payments such as the NSSF, NHIF, NITA,

VAT to slow construction momentum

Fears abound tax could unsettle Kenya's housing market, and ultimately halt recent gains already made in cheap housing bid

Why millions go hungry despite surplus produce

Coast hoteliers fight Covid scourge with sweet deals

Facilities reduce prices drastically, introduce a number of offers in bid to fill up empty spaces left international visitors who were locked out by travel restrictions to curb spread of the virus

Customers in shock as banks end loans relief

PG5 Some customers get negative bank balances after depostis were used to repay debts hey thought were spended

Experts concerned over slow transition to entrepreneurship

Treasury report reveals fear of revenue shortfall

Economy at Large

Our economy is on “Fuliza” Mode

We cannot borrow ourselves to prosperity

39 banks, 14 Microfinance, 1,353 unregulated Sacco's, 16 regulated Sacco's,

More than 100 Digital lenders most of them unregulated, 14 M loans blacklisted out of 110 Million Acs

Tax to GDP Ratio

Taxing is a component to finance the government

70% of Govt Expenditure is financed through Tax

With a Tax to GDP ratio of 18% = Av Performer

Developing countries ratio is 40 to 50%

India is around 10% , Mauritius 18%, Rwanda 15%

Reasons for low Tax to GDP Ratio

1. Narrow tax base.

2. There is large scale tax evasion.

3. Weakness is tax administration

4. Corporate have tendency to avoid tax.

Are our tax policies Wrong

We need to address policy engagements

Structure our economy and stop relying on agriculture

Stop comparing Kenya GDP to Japan GDP

We have a skewed income structure where majority are low income earners

Tax Incentives - Misused

Developing countries grant exemptions to attract investments

In Kenya we lack a frame work to monitor the effectiveness of the incentives.

There is poor surveillance and compliance complicated by Govt structures, poverty level and issues with our economy

Practical Issues

Problems at Hand	Problems at hand
• Did SGR reduce the cost of freight • Did geothermal Power reduce cost of Electricity • Are the huge Investments beneficial or a form of Political Legacy • Gov borrowing locally and abroad to meet recurrent expenditures.	▪ Interest Rates on savings are dropping

Practical Solutions

Options to revice the Economy

- **Stop Tolerance to Bad behaviour**
- **Rationalise Government expenditure**
- **Do no Increase Taxes**
- **Encourage Manufacturing**

Options to revive the economy

- Debt rescheduling and forgiveness
- Seal revenue loopholes
- Expand debt tenure
- Increase in taxes
- Stop over commitment in public spending

Economy at Large

Economy Live within your means, lender tells the government

Higher taxes, job cuts as IMF returns

Tough times ahead: The International Monetary Fund on Monday announced a **Sh264 billion** loan to Kenya, and with it a raft of new conditions, whose effects will permeate the entire economy **P. 10**

International Monetary Fund Managing Director Kristalina Georgieva during a meeting in Washington, DC, early this month. PHOTO| AFP

Counties get nod to borrow loans of up to Sh60bn

The money is expected to finance development projects

BY GUCHU NDUNG'U

County governments now have the greenlight to borrow up to Sh60 billion for development projects in a deal reached between the Intergovernmental Budget and Economic Council (IBEC) and the National Treasury.

Council of Governors Finance Committee Chairman Ndiritu Muriithi in an interview said counties can borrow up to 20 per cent of their last audited total revenue. The Sh60 billion upper limit is based on the Financial Year 2018/19 audited revenues.

Revenue is, for purposes of setting the borrowing ceiling, defined as the share that counties receive from the Treasury and own-generated cash that the regional governments raise from fees such as licence and parking charges.

"The money can be used for capital projects as anticipated in the Constitution and Public Finance Management Act. Importantly, counties can issue securities such as bonds," said Mr Muriithi, who is also the Laikipia governor.

Previously, counties could borrow cash from banks for recurrent expenditure, but there was no provision for long-term development borrowing.

The proposal for counties to borrow has been previously floated in IBEC meetings and accepted but, counties never got the clearance to proceed until now.

IBEC, which is chaired by Deputy President William Ruto and includes governors and Treasury Cabinet Secretary Ukur Yatani, approved the Sh60 billion debt provision during a meeting two weeks ago that also increased counties' equitable shareable revenue by Sh44 billion to Sh409.88 billion in the next financial year.

Laikipia is set to be the first county to borrow for development as it is scheduled to hold a public launch of its Credit Rating Report today morning in readiness for floating a sovereign bond.

The self-funded credit rating has been undertaken by GCR Ratings and compliments the county government of Laikipia's strategy to raise funds from the private sector to support projects like water supply, smart towns initiative among others.

The go-ahead for counties to borrow will, however, also raise concerns over their capacity to absorb money and misuse by regions. While regional governments in countries like the US have used the borrowing provision to grow and build infrastructure for water and education, others like Argentina's plunged the country into a debt crisis that tanked the economy when they were unable to repay.

Mr Muriithi, however, says the provision for counties' borrowing has strict legal guidelines and provisions. The Treasury has to ensure counties meet the guidelines before they go to the market for loans.

"For instance, it requires counties to undertake feasibility studies to find out if the projects have any economic or social gains or returns. Then, their ability to conduct timely procurement to ensure cash borrowed can be absorbed. The pricing is likely going to be uniform because all county borrowing has Treasury guarantee. In the future, we may see pricing based on perceived risk of the sub-sovereigns," says Mr Muriithi.

The proposal comes at a time when, nationally, repayment of public debt is for the first time set to cross the Sh1 trillion mark from July underlining the burden of mounting government borrowing. The Treasury in February disclosures to Parliament shows that it will pay Sh1.023 trillion for loans in the year starting July, making it the single-largest expenditure and more than double the Sh435.7 billion that taxpayers paid for debt four years ago.

MPs have also raised issues on public debt and called on the National Treasury to be realistic in its budget estimates so as to save the country from further sinking into unsustainable debts.

The caucus chaired by Kiambu Town MP Jude Njomo said there is an urgent need to initiate reforms in the budgeting process in order to enhance fiscal discipline and control runaway national debt.

Mr Njomo was speaking during a meeting with Parliament Budget Office, the Kenya Institute for Public Policy Research and Analysis, Commission on Revenue Allocation, Okoa Uchumi Coalition, and Westminster Consulting in Mombasa.

Additional reporting by Samuel Owino

Laikipia Governor Ndiritu Muriithi, who is also the Council of Governors Finance Committee chairman. Laikipia is set to be the first county to borrow for development as it is scheduled to hold a public launch of its Credit Rating Report today morning. FILE | NATION

FUNDING

Good news for devolved units

44BN

Counties' equitable shareable revenue has been increased by this amount to Sh409.88 billion in the next financial year.

Yatani's tough balancing act at Treasury

Page 6 From striking health workers to mounting debt and expected BBI referendum, CS has to somehow find money to finance an avalanche of demands on a shrinking purse

Emerging issues on personal taxes

Pay As You Earn

HEALTHCARE DECEMBER 22, 2020 / 5:20 PM / UPDATED 2 MONTHS AGO

Kenyan parliament halts COVID-19 related tax relief

Kenyan coronavirus tax reprieve ends on Dec. 31

In April, Kenya announced tax relief to offset adverse effects of COVID-19

Was the stimulus package really a stimulus package?

Uhuru hits salaried workers with hidden tax increase

Thursday December 31 2020

The National Treasury has revised the tax bands for salaried workers.

The net effect will see high earners shoulder the biggest burden of keeping government afloat

Pay As You Earn

NAIROBI, Dec 22 (Reuters) - Kenya's parliament on Tuesday voted to end tax cuts put in place in April to cushion the economy from the impact of the COVID-19 pandemic, a move lawmakers said would help to plug revenue shortfalls but investors said would hamper a recovery.

Policy makers make political decisions

NEWS

IMF seeks reversal of Corona tax cuts

TUESDAY MAY 12 2020

National Treasury says economic growth could decline to 2.5 percent in 2020, but may go lower to 1.8 percent compared with 5.4 percent growth earlier this year

In early 2020 growth was projected to be 6.4% but grew at 1%

We cannot borrow ourselves to prosperity

Pay As You Earn

2021 (Post Covid Relief)

Income Per Month	Rate %
On the first 24,000	10
On the next 8,333	25
All income over 32,333	30

2020 (Pre Covid relief)

Income Per Month	Rate %
0 to 12,298	10
12,298 to 23,885	15
23,885 to 35,472	20
35,472 to 47,059	25
47,059 and above	30

Emerging issues on personal taxes

PAYE Calculations

Income	NSSF	Taxable income	Pre-Covid Analysis: Personal relief	Pre-Covid Analysis: PAYE	Covid Analysis: Personal relief	Covid Analysis: PAYE	Post-covid Analysis: Personal relief	Post-covid Analysis: PAYE
24,000	200	23,800	1,408	1,547	2,400	-	2,400	-
100,000	200	99,800	1,408	22,597	2,400	16,500	2,400	22,383
900,000	200	899,800	1,408	262,597	2,400	216,500	2,400	262,383

- Minimum taxable income increased to KES 24,000 per month;
- Relief increased from KES 1,408 to KES 2,400 per month;
- Tax payers will have to fill two (2) templates; one at 30% from Jan-Mar 2020 and the other at 25% for Apr-Dec 2020

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Tax Compliance in a Recessing Economy

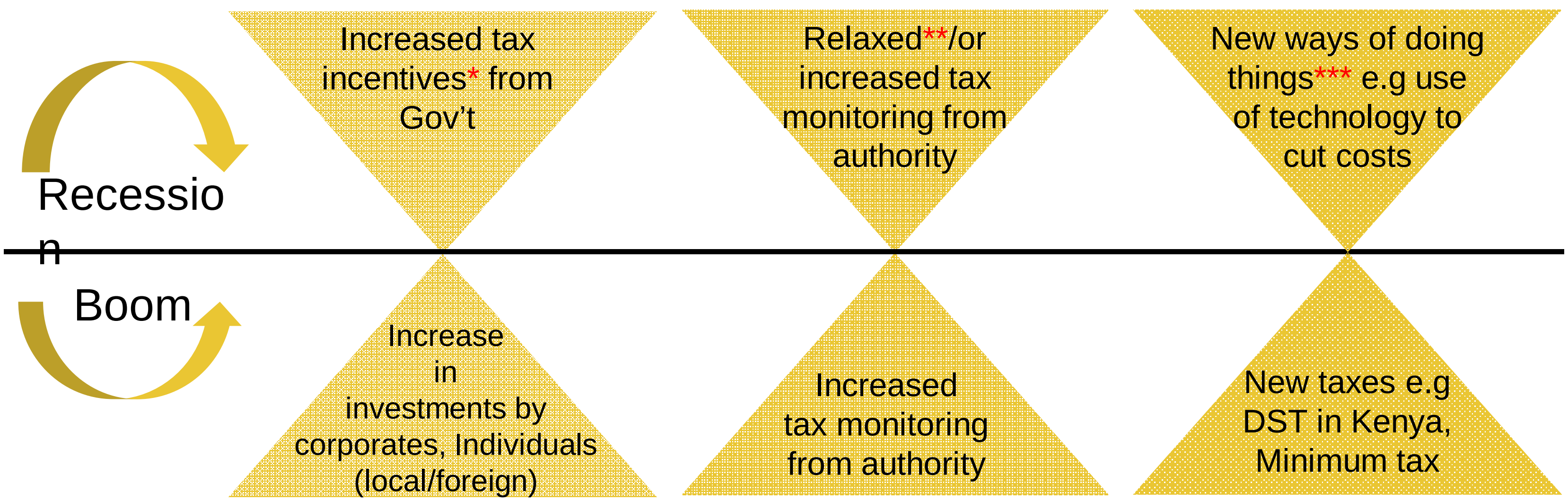
Tax Compliance in a Recessing Economy

Other Matters

New ways of doing things leads to unprecedented developments and hence tax authorities needs to enhance their way of doing things by;

- Simplifying tax administration procedures;
- Promoting taxpayer education to enhance compliance;
- Improving taxpayers relationship with authorities; eg the Chat option by KRA customer care
- Enactment of tax legislations and tax modules to keep up with the changing technological environment and ways of doing things;
- Simplifying and enhancing tax dispute resolutions mechanisms and processes;

Tax Compliance in a Recessing Economy



* This incentives might take the form of tax allowances such as capital allowances, tax exemptions, reduction in tax rates e.g. Covid-19 package in Kenya;

** Relaxed monitoring where tax authorities agree on payment plans for taxes due, VDP program in Kenya to encourage tax payments

*** Tax payers become innovative to survive the recession hence new ways of doing things are birthed; working from home?

Tax Compliance in a Recessing Economy

Governments

- *reduced economic activities*
- *reduced tax rates*
- *increased tax incentives*
- *Reduced tax monitoring*

Reduced revenues

Increased Government borrowing

Reduced expenditure on developmental projects

- Despite the dwindling economy's health leading to reduced revenues, Governments have the obligation of providing essential services to its citizens.
- This leads to increased Government borrowing and in the long-run, the Government designs strategies for the repayments of the loans when they shall fall due.
- To facilitate development, Governments considers PPPs or BOTs forms of project implementations

Your Burden

CPAK
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GDP in 3 regimes

Moi regime debt per capita 22,355

Kibaki regime debt per capita 50,469

Jubilee regime Debt per capita 133,932

Thank You