

2017/2018 National Budget Highlights - KENYA

KENYA

Introduction

Key points on the 2017/18 National Budget delivered by the Cabinet Secretary (CS) to The National Treasury;

- 2017/2018 budget at KES 2.6 Trillion,
- Financing deficit of KES 900 Billion.

This year's budget theme was ***“Creating jobs, Delivering a Better Life for All Kenyans”***.

To further accelerate growth, create jobs and better the lives of Kenya the CS to The National Treasury proposed the tax incentives to;

- Support Growth and Domestic Production;
- Reduce Income Inequality;
- Promote Job Creation;
- Improve Tax Administration and Compliance; and
- Enhance Social Security and Welfare.

We share the National Budget Highlights based on the CS's Budget speech, as such please note that some of the items proposed might change upon the publication of the Finance Bill and Finance Act.

Direct Tax

Corporation Income Tax

- A 150% investment deduction allowance has been introduced for capital expenditure in the blue economy (i.e. economic activities in the maritime sector);
- Enterprises licenced under the Special Economic Zones (SEZ) to enjoy a 100% Investment Deduction on the cost of building and machinery;
- New assemblers to be taxed at a reduced corporate rate of tax from 30% to 15% for the first 5 years;

- Overhaul of the Current Income Tax Act already underway will address the following issues taxation of capital gains, compensating tax, taxation of pensions, taxation of extractive industries and taxation of cross border transactions among other.
- Proposal to allow a deduction for expenditure incurred on donations for the alleviation of distress during national disaster as declared by the President. Such donations should be channelled through the Kenya Red Cross, a County Government or any other institution responsible for national disaster.

Withholding tax

- In a bid to attract foreign direct investment, the Income Tax Act is to be amended to exempt dividends payable to non-residents by enterprises operating in Special Economic Zones (SEZs); and
- Proposed reduction of the withholding tax on interest payable to non-residents by SEZs from 15% to 5%.

Pay-As-You-Earn (PAYE)

- **Lowest tax band** has been increased by 10% from the previous KES 134,161 per annum (KES 11,180 per month) to KES 147,576 per annum (KES 12,298 per month).
- **Residents' personal tax relief** has been increased by 10% from KES 15,360.00 per annum (KES 1,280 per month) to KES 16,896 per annum (KES 1,408 per month).
- Those whose income fall under the lowest tax bands will continue to have their bonuses, overtime and retirement benefits paid declared non-taxable income.
- Tax amnesty declaration period in relation to foreign income has been extended to 30 June

2018 from 31 December 2017. Repatriation of the funds is a condition of being granted amnesty. KRA will issue guidelines for taking the amnesty.

Indirect Tax

Value Added Tax (VAT)

The following items will be exempt from VAT:

- Input used in the manufacture of pesticides;
- Locally assembled tourist vehicles;
- Medical equipment and apparatus for use in the specialised hospitals;
- Packaging materials and other inputs intended to support primary, secondary and ancillary marine fisheries and fish processing;
- Transactions related to transfer of assets into Real Estate Investment Trust (REITs) and Asset Backed Securities (ABS);

Zero rating of bread and maize flour;

Customs Duty

- Goods exported to and imported by an enterprise licenced under the SEZ Act will be exempt from export duty and Import Declaration Fees;
- The EAC Common External Tariff (EAC CET) is currently undergoing a comprehensive review with the revised EAC CET to be released on adoption by the EAC Council of Ministers;
- Port charges reduced by 50% for fisheries vessels;
- White maize to be imported tax free for a period of four months; and
- The importation of dates during the period of Ramadhan will be tax free.

Excise Duty

- Refund of excise duty paid on illuminating kerosene used in the manufacture of paints and resin by registered manufacturers.
- Introduction of differentiated prices of excise stamps based on the cost of the product. Prices to range from KES 0.5 to KES 2.5;
- 80% remission of excise duty in respect of locally manufactured beer made from locally produced sorghum, millet or cassava or any other produce except barley;
- Increase in excise duty rate on spirits from KES 175 per litre to KES 200 per litre;
- Inflationary adjustment of specific excise duty rates on all excisable goods to be effected from 1 July 2017 on publishing of the revised rates by the KRA; and
- Change in the tax structure of excise duty on cigarettes to a two-tier structure with filter cigarettes being taxed at KES 2,500 per mille and plain cigarettes being taxed at KES 1,800 per mille

Betting Gaming and Lottery Taxes

- In a bid to curtail the negative social impact of betting and gaming, taxes from betting, lottery, gaming and competition will be increased from the current rates of 7.5%, 5%, 12% and 15%, respectively to a uniform tax rate of 50% for all categories.

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