Budget Highlights

2016/2017 National Budget Highlights

KENYA

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The National Treasury CS before delivering the 2016/17 National Budget

"Budget stands at KES 1.5trillion with a Financing Deficit of KES 690billion"

Introduction

Key points on the 2016/17 National Budget delivered by the Cabinet Secretary (CS) to The National Treasury;

- 2016/2017 budget at KES 1.5 Trillion,
- Financing deficit of KES 690 Billion.

Based on the above, the government needs to explore financing options besides the taxation mechanism and debt which has the government is fast approaching the debt ceiling. While other measures of financing infrastructure projects having been introduced in prior budgets such as Public Private Partnerships (PPPs) the uptake has been low.

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 Taxes

Corporation Tax

- Taxing the informal sector of the economy – the government has proposed to re-introduce presumptive tax.
- Dealing with the housing shortfall in Kenya – reduction of corporate tax rate from 30% to 20% for developers who construct at least 1,000 low cost housing units per year.
- Government is to gazette Rules to facilitate the implementation of simplified taxation of residential rental income which is 10% of gross rental income which came into effect on 1 January 2106.
- Minimum residential rental income subject to residential rental income tax is KES 12,000 per month and the Commissioner is empowered to appoint withholding tax agents for this purpose.
- *Incentive to hire young graduate on apprenticeship* – following the 2015/16 budget that introduced the incentive the Government will gazette regulations that will see the operation of this incentive come into force. Employers will enjoy a deduction of 150% of the emoluments paid upon hiring at least 10 graduates for a period of six to twelve months.

Tax Amnesty

- *Diaspora Community* - Tax amnesty on principal tax, penalty and interest declared for individuals owning assets and businesses outside the country, who are willing to reinvest in Kenya provided that they submit their return and accounts for the year of income 2016 between 1 January 2017 and 31 December 2017.

Tax Administration

- *Amendment of the Tax Procedures Act, 2015* – The amendment is to Kenya Revenue Authority (KRA) more powers to gather information in advance, from "identified persons" for purposes of pre-populating the information in the i-Tax System.
- Review of the Income Tax Act Cap 470 is currently ongoing and a new Bill to be tabled in Parliament in FY17/18.

Pay As You Earn (PAYE)

- *Low income earners* – Those whose income fall under the lowest tax bands will have their bonuses, overtime and retirement benefits paid declared non-taxable income.
- *Expansion of personal income tax bands and increase of personal relief* - Government has proposed to expand the tax brackets by 10% and increase the personal relief from the current KES 13,944 per annum (KES 1,162 per month) to KES 15,338 per annum (KES 1,278 per month).

Indirect Taxes

Value Added Tax

The CS in his budget speech proposed to exempt the following from VAT;

- Made up garments and leather footwear procured from the Export Processing Zones (EPZ),
- Raw materials used in the manufacture of animal feeds,
- Fees charged for entry into the National parks,
- Commissions earned by tour operators,
- Extension of the transition period for the imposition of VAT on petroleum products which was set to expire in September 2016 by one year. The exempt status will now expire in September 2017, and
- Liquefied petroleum gas.

Customs

The CS in his budget speech proposed the following;

- Introduction of a specific import duty rate of USD 200 per Metric Tonne on a wide range of iron and steel products,

- Duty remission scheme at a rate of 0% instead of 25% on aluminium sheets and plates,
- Increase in import duty rate of aluminium cans from 10% to 25%,
- Import duty exemption for Heating, Ventilation and Air Conditioners (HVAC) used by manufacturers of pharmaceutical products,
- Stay of application of import duty on garments and leather footwear procured from the Export Processing Zones (EPZ) at a rate of 0%,
- Reduction of import duty on energy efficient stoves from 25% to 10%,
- Insurance of imported goods to be covered by local insurance companies. Therefore goods are to be imported on Cost and Freight (C&F) terms rather than Cost, Insurance and Freight (CIF) terms and
- Legislation to the streamline training, licensing and regulation of Kenya clearing agents proposed pending agreement at the EAC level.

Excise Duty

The CS in his budget speech proposed the following;

- Excise duty on kerosene to be charged at KES 7,205 per 1,000 litres.
- Change of excise duty regime on motor vehicles from specific to ad valorem at a rate of 20%.
- Introduction of excise duty of 10% on cosmetics and beauty products.

Other Changes

Driving at an additional cost

- Road Maintenance Levy increased by a further KES 6 per litre from KES 12 per litre to KES 18 per litre.

Taking care of farmers' Pockets

- Sugar Development Levy (SDL) which applied at 4% on the net price of sugar has now been abolished, and
- Removal of ad valorem levy on tea – farmers have been paying a 1% ad valorem levy on the sale price per kg of tea sold at auctions.

Doing Business in Kenya Gets a Boost

- National Environmental Management Authority (NEMA) and the National Construction Authority (NCA) levies scrapped.

Promoting Tourism

The CS in his budget speech proposed;

- Creation of a Special Tourism Promotion Fund,
- Increments in Air Passenger Service charges from USD 40 to USD 50 for external travels and from KES 500 to KES 600 for internal travels directed towards a Special Tourism Promotion Fund.

Miscellaneous Provisions

Financial Sector

Sparing financial growth and stability

Three bills to be introduced namely;

- the Financial Services Authority Bill,
- the Nairobi International Financial Centre Bill, and
- the Moveable Property Security Rights Bill.

"Proposed penalty increase to KES 20million for Banking Act violations by Banks and SACCOs"

Banking and SACCOs

The following changes have also been proposed:

- In the 2015 budget the banking sector capitalisation had been proposed to be increased progressively from KES 1 billion to KES 5 billion by December 2018. This has been reintroduced for consideration in the 2016 budget
- Increase from KES 5 million to KES 20 million as the maximum penalty violating the Banking Act.
- Proposed amendments to the Banking Act and the Sacco Societies Act to allow SACCOs and Utility Companies to participate more effectively in the Credit Information Sharing framework.
- In a bid to differentiating between deposit taking SACCOs, the use of the acronyms deposit taking SACCO Society (DTS) or DT-SACCO will only be used by licensed Deposit Taking SACCOs.
- Central Bank Bill, to be presented in parliament introduced. The Bill is expected to improve the governance and operations of the CBK.

Insurance

The following changes have also been proposed:

- The allowable forms of capital to be expanded to reflect the new gross premium valuation methodology across different classes of business,
- Maximum time for claim settlement reduced to 30 days from the previous 90 days,
- Amendments to the Insurance Act to anchor Sharia compliant or Takaful insurance products and issuance of regulations to govern Takaful Insurance, and
- Insurance of imported goods to be covered by local insurance companies. Therefore goods are to be imported on Cost and Freight (C&F) terms rather than Cost, Insurance and Freight (CIF) terms.

Retirement Benefits

Amendments to the Retirements Benefits Occupational and Individual Regulations to allow for investments into new products in view of;

- Establishment of separate medical funds into which members can make contributions during their working life in order to purchase medical cover at retirement,
- A legal notice will also be gazetted to allow the National Social Security Fund to invest in alternative financial vehicles for development of affordable housing.
- Removal of annual licensing for institutions licensed by the Retirement Benefits Authority (RBA) and in its place implementation of a non-renewable perpetual license which RBA can withdraw if necessary.
- Regulations for the effective and secure on-line forex trading by Kenyans to be gazetted.

Competition Authority

The budget proposes the following;

- Amendment of the Competition Act to make it mandatory for stakeholders to provide vital information to the Competition Authority when requested to do so,
- Anchoring in law the financial penalty for engaging in restrictive trade practices, the maximum penalty has been set at 10% of the gross annual turnover.
- Reducing the administrative burden on business/investors – exemption from the provisions of the Competition Act of mergers which have no effect on competition and restrictive trade practices.

Public Private Partnerships (PPPs)

- There has been a low uptake in the PPPs in recent past that the CS in the budget has recognised there is need to amend the Public Private Partnership Act to recognize the County Government as an independent procuring entity for purposes of public private partnership projects.

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