

2018/2019 National Budget Highlights - KENYA

KENYA

Introduction

Key points on the 2018/19 National Budget delivered by the Cabinet Secretary (CS) to The National Treasury;

- 2018/2019 budget at KES 2.56 Trillion,
- Deficit of KES 558.9Billion.
- Financing of the budget;
 - Total Revenue KES 1.949Trillion
 - Grants KES 48.5Billion
 - Deficit financing;
 - ✓ Project Loans KES 235.8bn,
 - ✓ Commercial financing KES 298.9bn,
 - ✓ Program Support KES 2.5bn,
 - ✓ Foreign payments KES – 250.3bn,
 - ✓ Net Domestic Financing KES 271.9bn

This year's budget theme was ***“Creating jobs, Transforming lives for shared prosperity”***.

To further accelerate creating jobs, transforming lives for shared prosperity the CS to The National Treasury outlined that the Government expenditure would be geared towards the “Big Four” plan namely;

- Support value addition and promote growth of the manufacturing sector;
- Enhancing food and nutrition security to all Kenyans;
- Providing universal health coverage to guarantee quality and affordable healthcare to all Kenyan's;
- Provision of affordable and decent Housing for all Kenyans.

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

Corporate Tax

- Overhaul of the Current Income Tax Act (ITA) is already underway with the availability of an Income Tax Bill (ITB) that has undergone public participation in accordance with the Constitutional requirements. The ITB is to be presented to the Cabinet for approval before submission to The National Assembly.
- The CS has dropped in the ITB two proposed changes the introduction of a higher tax band of 35% on incomes earned by individuals above KES 750,000 per month and the increase of the capital gains tax from 5% to 20%.

As the ITB undergoes legislative process the CS proposed the following changes to the current ITA;

- In order to bring the informal sector into the tax net and increase compliance the Turnover Tax (ToT) at 3% has been replaced with the presumptive tax at 15% which will be based on the single business permit or trading license fees paid to the County Governments by resident businesses whose turnover does not exceed KES 5 million in a year of income.
- Payments for demurrage charges made to non-resident persons to be subject to withholding tax at a rate of 20%.
- Transfer of property by general insurance companies to be subject to Capital Gains Tax (CGT).
- Payments of insurance premiums to non-residents to the subject to Withholding tax at a rate of 5%, however this will not apply to the insurance premiums paid for insurance of aircraft.

- Manufacturers to enjoy a 30% deduction of the total electricity bill from corporate profits in addition to normal deduction subject to the conditions to be set by the Ministry of Energy.
- Introduction of tax on untaxed distributed profits to replace compensating tax.

Pay-As-You-Earn (PAYE)

- In 2016, Tax Procedures Act was amended to provide a tax amnesty on income declared for the year 2016 by a person who earned taxable income outside Kenya. In 2017, the period for applying for amnesty was extended from 30 December 2017 to 30 June 2018 for the year of income 2016.
- Due to the low uptake of the amnesty partly due to concerns that when the monies are returned, questions will be raised regarding the source as required by the Financial Reporting Centre. The CS proposes to extend the period of amnesty from 30 June 2018 to 30 June 2019 and the year of income declaration to be 2017.
- The CS further proposes to provide that funds transferred under the amnesty shall be exempt from the provisions of the Proceeds of Crime and Anti-Money Laundering Act or any other Act relating to reporting and investigation of financial transactions, to the extent of the source of the funds. However, the exemption does not extend to proceeds from terrorism, poaching and drug trafficking.
- Amendment to the Tax Procedures Act (TPA), introducing late payment penalty of 20% and increasing the late payment interest from 1% to 2% for individuals. The change is effective 1 July 2018.
- Proposal to reduce the late filing penalty for individuals from KES 20,000 to KES 2,000 effective 1 July 2018.
- A tax payer requiring an extension to file a return should make a request for the extension via an application to the Commissioner 15 days before the deadline if the tax return is a

monthly return or 30 days before the deadline if the return is an annual return. The Commissioner should respond at least five days before The Commissioner should respond at least five days before the deadline lest the request is presumed to be accepted, effective 1 July 2018.

Indirect Tax

Value Added Tax (VAT)

The following items will be exempt from VAT:

- Equipment to be used in the construction of grain storage facilities;
- Raw materials for animal feeds;
- Parts imported or purchased locally for the assembly of computers.

Customs Duty

- Increase in the rate of import duty from 25% to 35% in a wide range of steel and iron products which are available in the region.
- Increase in the rate of import duty from 25% to 35% on some paper and paper board produced in the region.
- Introduction of specific rate of import duty of USD 5 per unit or 35% whichever is higher on imported textiles and footwear as well as second hand clothing and footwear.
- Introduction of a specific rate of duty of USD 110/ Metric Tonne (MT) on particle board, USD 120/MT on medium density fiber board, USD 230/M³ on plywood and USD 200/MT on block boards, or an advalorem duty of 35% whichever is higher.
- Introduction of a specific rate of USD 500/MT of 35% whichever is higher on vegetable oils.
- Exemption from import duty of sightseeing buses and overland trucks imported by licensed tour operators.

- Remission of import duty on inputs used in the manufacture of pesticides, fungicides, insecticides and acaricides. Gazetted manufacturers of these products will import the inputs at a duty rate of 0%.
- Remission of import duty on inputs and raw materials for direct and exclusive use in the assembly, manufacture or repair of clean energy cooking stoves. Gazetted manufacturers will import these inputs at a duty rate of 0%.

Excise Duty

- Increase in excise duty rates on illuminating kerosene and gas oil by increasing the rate on kerosene from KES 7,205 per litre to KES 10,305 per litre.
- Increase in excise duty on private passenger motor vehicles whose engine capacity exceeds 2,500cc for diesel and 3,000cc for petrol powered vehicles from 20% to 30%.
- Introduction of a Robin Hood tax of 0.05% on transfer of sums of money, in excess of KES 500,000, through banks and other financial institutions.
- Increase in excise duty on fees charged on money transfer services by cellular phone service providers from 10% to 12%.

Export Levy

- Introduction of an export levy of 20% on copper waste and scrap metals tariff code 7404.00.00.

Betting, Lotteries and Gaming Act

- Introduction of penalty of 20% and interest of 2% on late payment of tax.

Other Key Points

- The CS proposed the introduction of a framework to introduce special incentives in the VAT Act, Excise Duty Act, and Miscellaneous Fees and Levies Act, and provide a preferential tax rate under the Income Tax Act in order to encourage investments.

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