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Newsletter

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Introduction

Welcome you to the fourth edition of our tax newsletter. In this issue we highlight the key information regarding tax exemptions in Kenya. We will also touch on some important aspects of delegating, an important step in leadership.

You will find our contact details on the right column. Senior members of our team will assist you by offering clarity on any questions you may have about the issues highlighted in this newsletter or any other questions.

We are interested in your feedback on the items covered and please let us know the topics you would like us to cover in the coming days.

Feel free to provide any feedback at **tax@mbaya.co.ke**

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» HOW TO DELEGATE: ONE KEY STEP TOWARDS LEADERSHIP, P4

In this issue

From the Tax Desk

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From the TaxDesk

Tax Exemptions

These are tax incentives available to specific individuals and corporates. The tax exemptions are usually offered to encourage investment in certain areas, protect the vulnerable in society or encourage a change in behaviour. The tax exemptions are not uniform and they tend to vary between corporates and individuals.

Individual Tax Exemptions

This is mainly offered to people with disability who are usually granted a tax exemption on their monthly or annual taxable income. This exemption applies to the first 150, 000 Kenya Shillings per month or for the first 1.8 Million Kenya Shillings per annum of the taxable income.

To qualify, one should have the following documents.

1. Disability Medical Assessment Report that stipulates the nature of disability and upholds the signature of the Director of Medical Services (AFYA HOUSE LG 29).
2. Kenya Revenue Authority (K.R.A) Pin certificate (i-Tax).
3. National Identification Card.
4. National Council for Persons with Disability (N.C.P.W.D) Disability card.
5. A copy of the latest pay slip where applicable.
6. A letter from the employer where applicable, clearly stating the nature of disability and how it affects the employee's productivity at place of work.
7. Tax compliance certificate.
8. Applicants to physically appear for interviews before Domestic Taxes Department officers in the nearest Kenya Revenue Authority (K.R.A) offices for an Acknowledgement Slip.

To renew an exemption certificate, the taxpayer should attach the above documents used for application together with a copy of the expired exemption certificate.

In cases where a disabled person wishes to import goods, especially motor vehicles, they are allowed to import them free of duty. However, they need to satisfy the following requirements for the duty free importation of the vehicle to be granted.

1. Application letter addressed to the commissioner of customs services
2. Original medical certificate from a registered doctor
3. Original letter of recommendation from the Association for the physically Disabled of Kenya or The National Council Of Persons With Disabilities
4. Copy of driving license with class 'H' endorsement
5. Bill of lading for the vehicle
6. Invoice/proforma invoice for the vehicle
7. Tax compliance certificate/Tax exemption certificate

8. Cash remittance transfer slips used to pay for the vehicle (i.e. proof that payment for the vehicle was made by the applicant)
9. Bank statement for the last six months
10. Test drive in using the modified vehicle (specially designed to suit the nature of the disability) in the presence of a customs officer

Where the applicant has previously been granted exemption on a vehicle under this category, subsequent exemption shall not apply unless such person has used the motor vehicle so imported on exemption for a period of 4 years and tax has been paid for the vehicle upon which exemption had been previously granted.

Corporates Tax Exemptions

These incentives are usually awarded to Not for Profit Organizations (NPOs). They enjoy tax exemptions and incentives from Government because they provide services that positively influence social welfare of the public and the less privileged in the society. These services should be provided free of charge, below cost or at the very minimum cost.
The power to administer the exemption of Institutions, body of persons or irrevocable Trust of a Public Character is mandated to the Commissioner. The institutions qualifying to be exempted are:

- Charities/NGOs/Trusts
- Churches/Religion Organizations
- Hospitals
- Schools/Universities etc.

For exemption to be allowed, the above NPOs should also prove to be:

- Established in Kenya; or
- have Regional Headquarters is situated in Kenya; or
- using their Income to benefit of residents of Kenya

Exemptions can be administered on **Income Tax**, **VAT**, **customs duty** etc. An entity can be exempted from all or on any of them depending on the circumstances.

Income Tax Exemptions

For NPOs to be exempt from Income Tax, they must have been established solely to;

- Relief poverty or distress of the Public
- Advance religion or education

VAT Exemptions

Under Regulation 30 of the NGO Coordination Regulations 1992, if an organization requires exemption from VAT on goods and services required to meet its objectives and on income generating activities (or income for expatriate employees), an application must be made through the NGO's Board to the Cabinet Secretary of Finance.

NPOs get exemptions on VAT after satisfying the below conditions (VAT Act First Schedule, Part 2 Para. 11);
Must be registered under the Societies Act or NGO Act, or exempted from registration by the Registrar of Societies or the NGO Coordination Board.
Income must be exempt from tax under the Income Tax Act and approved by the Commissioner of Social Services.
Such services are not treated as taxable supplies, and no VAT is charged on them.

Exemptions on Customs Duty

NGOs are not automatically entitled to exemptions on import custom duties. To get the exemption on customs duty, NPOs must apply to the Cabinet Secretary for National Treasury through the NGO Board.
Goods that are exempt from Customs Duty include;

- Gifts or Goods donated or purchased for donation to a non-profit organization or government-approved institution for: their official use; free distribution to the poor and needy; use in medical treatment, education, religious, or rehabilitation work; or other purposes approved by the government.
- Certain goods, including some passenger motor vehicles, and office, audio and visual electronic equipment, are excluded from the custom duties exemptions.
- Textiles, new and used clothing, footwear, and certain foods also are excluded from the customs duties exemption; unless donated or purchased for donation to registered homes for poor and needy persons.

Note the Treasury must approve any duty exemption that exceeds Kshs. 500,000 (approx. USD 5,700)
Second schedule of the Excise Duty Act, 2015 exempts excisable goods imported into Kenya or purchased in Kenya by a foreign government, international organization, or aid agency to the extent provided for under an international agreement or the Privileges and Immunities Act,1970

How to Delegate: One Key Step towards Leadership

Delegating is simply the act of entrusting a task or responsibility to another person. The list of important things to do never gets smaller and in any company, the CEO's to-do list has the potential to grow infinitely.

What's a senior executive to do?

This is not simply a personal problem. Your company's future depends on what you do next. As you drive your organization beyond its current plateau, you must change the way you relate to your work. There are three stages to making the transition from chief-cook-and-bottle-washer (CC&BW) to CEO (source of the management and direction of the business). They are:

1. Understanding your highest value contribution to your company and focusing on that role.
2. Recognizing your position as a leader and owning the job.
3. Delegating everything else, and holding others accountable.

The Issue

You have doubtlessly concluded your next level of company performance requires a managerial change. And hopefully, you have realized the changes necessary are with you. As CEO (or, on a divisional or departmental level - senior executive) your jobs include holding the vision; inspiring your senior management and your staff; fostering key relationships with customers, vendors, investors and the public, etc.

You now need to let go of some cherished things like product design, hiring, perhaps day-to-day sales - many things you handled in the past, often out of necessity. What about all these things you used to do? Delegate them. Assign the job to someone else.

Do you Delegate?

Of course you do. But do you delegate the important things? Things you "know" you could do better? The things you are "best" at? Probably not! The question is, should you?

Your Highest Value Contribution

Think about your highest value contribution to your company. Which of your activities generate the most revenue, profit, market share, etc.? Where do you get the most bang for the buck? Like most chief executives, your greatest leverage is in mobilizing the forces around you - your senior staff and your employees, plus key customers, prospects and vendors. Everything else becomes secondary to that in terms of impact.

So the answer is yes. You should give away even the things you are "best" at. And then make sure they are done right. Make sure they are up to spec and delivered on time.

The Cost of Holding On

Now, the thorny part: Many executives refrain from delegating responsibilities they've labeled "critical". They fear the job won't be done correctly. Or no one else can do it as quickly, and it won't get done on time. Or the right attention won't be paid. Or something. Or something else.

Give it up! The growth of your organization will be stifled to the extent that you hold on to critical functions. Your company will suffer in the exact areas where you think you are the expert!

1. Product design? You hold up the development of a key component, because you are the expert, yet you are away at a customer meeting.
2. Staffing? Two engineers can't be hired because you haven't signed off and are out of town at a meeting with investment bankers.
3. Sales? Negotiations on an important deal are held up because you are in Asia meeting with a vendor.

You become the choke point on each of these vital functions. And you feel - of course - "I have to be involved." No you don't. To the exact degree you have not developed your staff to assume these functions, the growth of your company will be retarded.

Aside from fear the job won't be done as well, there is another, more insidious reason senior executives (particularly entrepreneurs) do not delegate. If you aren't doing the "important" stuff, you become redundant. Dead weight. Overhead. If you have a great VP of Sales, or a Chief Technologist, what will you do?

You feel this way because you haven't completed transitions one and two: you haven't taken the trouble of understanding how you personally create value in your company, and you haven't fully assumed the role of leader. Once you make these transitions, you won't have time for the rest. Delegation, not abdication.

Many executives delegate like this. They say, "John, would you take on this project? It has to be done by next Thursday. Thanks." That's it. Then, when the job comes back incomplete, they are infuriated. What happened? They left out accountability. They neglected the structure for making sure things happened according to plan.

There are five Components to Successful Delegation.

1. **Give the job to someone who can get it done.** This doesn't mean that person has all the skills for execution, but that they are able to marshal the right resources. Sometimes the first step in the project will be education. Maybe your delegate has to attend a seminar or take a course to get up to speed.
2. **Communicate precise conditions of satisfaction.** Timeframe, outcomes, budget constraints, etc.; all must be spelled out. Anything less creates conditions for failure. It's like the old story about basketball - without nets the players don't know where to shoot the ball.
3. **Work out a plan.** Depending on the project's complexity, the first step may be creation of a plan. The plan should include resources, approach or methodology, timeline, measures and milestones. Even simple projects require a plan.
4. **Set up a structure for accountability.** If the project is to take place over the next six weeks, schedule an interim meeting two weeks from now or establish a weekly conference call, or an e-mailed status report. Provide some mechanism where you can jointly evaluate progress and make mid-course corrections. This helps keep the project, and the people, on track.
5. **Get buy in.** Often timeframes are dictated by external circumstances. Still, your delegate must sign on for the task at hand. If you say, "This must be done by next Tuesday," they have to agree that it is possible. Ask instead. "Can you have this by Tuesday?" To you this may seem a bit remedial, but the step is often overlooked. Whenever possible, have your delegate set the timeline and create the plan. You need only provide guidance and sign off. As ***General Patton*** said, "***Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity***."

If you skip any one of the above steps, you dramatically reduce the likelihood things will turn out the way you want them to. On the other hand, if you rigorously follow the steps, you greatly increase the odds in your favour.

Establish the Goals, Review the Plan, and Monitor the Progress.

The ***time it takes to do these things*** is not equal to ***the time it takes to execute them***. That is how you gain leverage. This is how you multiply your efforts. Occasionally it does take longer to communicate something than to do it yourself. Delegate it anyway. The next time will be easier.

Above, I've referred to projects. This is not to say delegation is reserved for discrete tasks and problems. You also delegate ongoing functions. The process is the same in each case.

As an exercise, ask yourself, what am I unwilling to delegate? Make a list of the reasons why not. Identify the best person in your organization - not you - to take on this project or function. Then call a meeting. Begin the meeting with step one, above.

If there is no one to whom you can give away key functions, you have to look carefully at your staff situation. It may be time to hire the right people. If you don't have the revenues to support the staff additions, consider what is restraining your growth.

Review your relationship with your assistant or secretary. Have you let them take on their fair share of the workload? Are you giving them sufficiently sophisticated work to do? Are they ready to upgrade?

Some situations call for you to dive back in. Perhaps you are the only one in your company with some particular technical knowledge, or your insight will accelerate the design process, or you have the long-standing relationship with a vendor or customer. Go ahead, dive. Do your thing - briefly, complete the project and resume your leadership position.

One more thing, the only point to delegating something is if it frees you for things which create greater value for your company.

Tax Due Dates

Withholding Tax | 20th Day of the following month

Pay as You Earn | 9th Day of the following month

VAT | 20th Day of the following month

Balance of Tax on Self-Assessment | 4th Month after year end

Monthly Rental Income | 20th Day of the following month

Instalment Tax

1st Instalment |20th day of the 4th month after year end

2nd Instalment | 20th day of the 6th month after year end

3rd Instalment | 20th day of the 9th month after year end

4th Instalment | 20th day of the 12th month after year end

Kindly note that all the returns must be filed on I tax while the payments e-slips must be generated from the I-Tax platform.