

JUNE 2019 | 5.48

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KENYA

3.02 BILLION BUDGET PLAN

Tax Due Dates .6



Newsletter

MBAYA AND ASSOCIATES

June 2019 | Issue 048 | Volume 5

Introduction

Greetings and welcome to the sixth edition of our tax newsletter. In this issue we focus on the 2019/2020 National budget summary read by the Treasury CS Henry Rotich on Thursday, 13th June 2019.

On the right column of this issue, you will find our contact details for the senior members of our team who 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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From the **TaxDesk**

Fiscal year 2019/2020 Budget Highlights



Introduction

The National Treasury Cabinet Secretary presented a KES 3.02 Trillion Budget plan before the National Assembly on 13th June 2019. This year's budget aims to lay a strong foundation for achieving the President's Big Four Agenda while at the same time addressing the challenges facing our economy.

The Big Four Agenda focuses on four thematic areas; manufacturing, food and nutrition security, affordable housing, and universal health care. Included in the Budget was also the tax measures aimed at financing the Budget.

The following are some of the measures proposed by the cabinet secretary.

Making the tax system more efficient and strengthening the revenues.

The government through the refurbishment of the KRA is in the process of taking up some administrative measures to enhance and improve revenue collection and seal revenue loopholes. By this, a number of initiatives are envisaged, including:

- Sustaining the fight against illicit and counterfeit trade that was launched last year.
- KRA to continue to strengthen and upgrade the ICT systems, including the full rollout of the Integrated Customs Management System which has been delayed for too long;
- Information sharing through Memorandums of Understanding (MoUs) with other jurisdictions to support the fight against cross-border tax evasion;
- Revenue Enhancement Initiatives (REI) that target among others: enhanced scanning of containers to detect concealment; implementation of a Regional Electronic Cargo Tracking system to tackle transit diversions; implementation of new debt collection Strategy; Resolution of tax disputes; and enhancing investigative capacity to support revenue collection.

Proposed Taxation Measures

The CS proposed tax measures to improve and enhance revenue collection and try to bridge the revenue gap. These measures will also assist the government to seal the loopholes brought about by tax avoidance and the tax administration in general.

The measures will be brought to the floor of the house through the Finance Bill 2019 and debated by the Members of Parliament. They will be voted on and if adopted in whole, will be presented to the president for assent.

If the president assents to the bill, they become law and take effect, some immediately and others on the date specified in the Act. The president can also refer the bill back to the National Assembly with recommendations of the clauses he would like amended, if any.

The measures below have been proposed.

Capital Gains Tax

The rate of Capital Gains Tax (CGT) is set to be increased from 5% to 12.5%. There is no indication that indexation will be introduced to take into account the effects of inflation over time.

Property transferred by corporates as part of group restructuring to be exempted from CGT to allow for seamless restructuring, operational efficiency and to encourage business growth.

This proposal aims to raise the revenue to the exchequer but commentators fear it will in turn discourage investments in the real estate sector.

Corporate Tax

1. Framework on the implementation of the 30% rebate on total electricity costs by manufacturers that was introduced through the Finance Act 2018 has now been developed.
2. Investors operating plastic recycling plants will enjoy a reduced corporate tax rate of 15% for the first five years.
3. Introduction of amnesty covering penalties and interest, on any outstanding tax for two years prior to listing, for SMEs under the Growth Enterprise Market Segment (GEMS) program at the Nairobi Securities Exchange (NSE).
4. The Cabinet Secretary (CS) indicated that measures aimed at the taxation of income generated from the digital economy would be introduced. The measures were not specified by the CS.

The Income Tax Bill introduced in 2018 is currently at advanced stages of legal drafting and will be tabled in parliament soon.

Personal Income Tax

Exemption of Income earned under the Ajira Program: The Government through the Ministry of Information, Communications and Technology in partnership with academia, civil society and the private sector has set up a program known as "**Ajira Digital Program**" whose aim is to bridge the gap between skills available and skills demanded. A major objective of the program is to enable over one million youth annually to be engaged as digital freelance workers.

The Government has proposed that the youth registered for the program pay a registration fee of ten thousand Kenya shillings for the next three years in lieu of income tax with effect from 1st January 2020.

The Cabinet Secretary has proposed to amend the Income Tax Act to exempt registered members from regular taxation for the specified period.

Turnover Tax

Turnover tax, which was replaced by Presumptive Income Tax in 2018, is to be reintroduced.

Turnover tax will apply to taxpayers whose business income does not exceed Kshs. 5 million per annum.

Tax rate of 3% on the gross turnover accounted for every month.

Turnover tax will apply in addition to presumptive income tax, which was introduced through the Finance Act 2018.

Withholding Tax

The scope of qualifying services subject to withholding tax in addition to professional services is set to be expanded to include:

- Security services;
- Cleaning and fumigation services;
- Catering services offered outside hotel premises;
- Transportation of goods excluding air transport services;
- Sales promotion; and

- Marketing and advertising services.

This will enhance compliance and reduce confusion to companies who offer the above services but have not been sure whether withholding tax is applicable to their services. This will also boost revenue to the government.

Value Added Tax (VAT)

Reduction of the withholding VAT rate from 6% to 2%.

The Cabinet Secretary for The National Treasury to constitute a taskforce which will validate outstanding VAT refund claims for settlement within the next two months.

Adjustment of the VAT refund formula introduced through the VAT Regulations, 2017 to ensure a full refund of input tax credit relating to zero-rated supplies.

Denatured ethanol to be zero-rated.

Introduction of VAT exemption on the following:

- Locally manufactured motherboards and all inputs used in their manufacture.
- The supply of machinery and equipment used in the construction of plastic recycling plants as well as all services offered to these plants.
- Agricultural pest control products.
- Electric accumulators and separators used in the manufacture of automotive and solar batteries.

Customs Duties

Extension of stay of application of the Common External Tariff (CET) rate on a wide range of iron and steel products at 25% or the corresponding specific rates.

Application of 25% import duty on paper and paperboard instead of 10%.

Reduction of import duty on raw timber from 10% to 0%.

Proposal to retain import duty on finished timber products at 25%.

Detailed Customs measures to be communicated through the East African Community (EAC) Gazette effective 1 July 2019.

Kenya Electronic Single Window System Bill to be tabled in Parliament.

Excise Duties

Introduction of excise duty on betting activities at 10% of the amounts staked.

Reduction of excise duty on fully-powered electric motor vehicles from 20% to 10%.

Increase in excise duty on motor vehicles of engine capacity exceeding 1500cc to 25%.

Increase in excise duty rates on cigarettes, wines and spirits by 15%.

Miscellaneous Fees and Levies

Manufacturers of paints and resins to receive a refund of anti-adulteration levy paid on kerosene used as their input.

Reduction of Import Declaration Fee (IDF) on raw materials and intermediate goods from 2% to 1.5%.

Increase in IDF on finished goods from 2% to 3.5%.

Increase in Railway Development Levy on finished goods from 1.5% to 2%. Remission available for approved manufacturers.

Introduction of export levy on tanned or crust hides and skins at 10%.

Continuation of Revenue Enhancement Initiatives (REI) such as:

- Scanning of containers to detect concealment;
- Regional electronic cargo tracking system;
- New debt collection strategy;
- Resolution of tax disputes; and
- Enhanced investigative capacity.

Our analysis above is based on the available information at our disposal. The information is correct to the best of our knowledge but not final as the Finance Bill is yet to become law. The Finance Bill will need to go through the stages to become law and effective.

In our next issue we will be in a position to highlight what has been approved and assented by the president and when it will take effect.

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.