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Personal Finance

Newsletter

MBAYA AND ASSOCIATES
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Introduction

We are pleased to release the tenth edition of our tax newsletter. We appreciate the lively feedback and fruitful engagement we have had in the previous editions of our newsletters. This issue will summarize VAT regulations, Tax Exemptions and the continued article on Personal Finance.

On the right column of the newsletter, you will find contact details for key members of our team who can help answer any questions you may have about the issues highlighted in this newsletter or any other matter.

We are interested in your feedback on the items covered and what topics you would like covered in the future. Please provide any feedback at tax@mbaya.co.ke

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Deadline For Compliance with Tax Invoice Management System (TIMS)

As indicated in our last edition of our newsletter, the Kenya Revenue Authority (KRA) has again extended the deadline for the requirement by taxpayers to comply with regulations of Tax Invoice Management System (TIMS) to **30th November 2022**.

The extension of deadline is an administrative decision necessitated by taxpayers' request for more time to acquire and activate their TIMS devices in compliance with Electronic Tax Invoice (ETI) Regulations that were gazetted on 25th September 2020, Legal Notice 189.

The overall objective of the introduction of TIMS vide VAT (Electronic Tax Invoice) Regulations, 2020 is to increase VAT compliance, minimize on VAT fraud and increase tax revenue. VAT registered taxpayers are required to fully transition to use Electronic Tax Registers that meet the requirements outlined in the Regulations. Taxpayers are still grappling with the need to acquire the devices and this has necessitated KRA to extend the deadline for the VAT compliance.

We recommend that all VAT registered taxpayers to consider migrating to TIMS before the extended time lapses which is in the next one and a half months' time.

Given the rush for the TIMS kits, we ask all taxpayers who have not gotten one to do so immediately. The system will require some set up and therefore plan for some onboarding lags.

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 (KRA) 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 (KRA) 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.

a) 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

b) 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.

c) 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 duty's exemptions.
- Textiles, new and used clothing, footwear, and certain foods also are excluded from the customs duty's 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

Personal Finance

In our last edition of our newsletter, we discussed the second step to consider as you start the journey of financial freedom, making of a budget.

In this issue, we discuss the third and fourth steps; how to **start a saving scheme** and **making your money grow**.

Small Savings adds up to big Money. How much does a cup of coffee cost you? Do you think you can save some coins from this cost? This is a Savings Plan

Now that you know your current financial situation and your monthly expenses, take a look back at your goals that you created first and make a plan to save from the money that you have after cutting back your expenses.

In order to reach your goal, you will need to make a plan. What you may have been taught to do in the past is use left over money after you pay your expenses and split between **savings** and **spending**. This method can usually leave you short of cash for saving. So, what we will do instead is save first.

Decide what percentage of your income you need to be saving to achieve your financial goals by the date that you set. To do this, divide the total cost of the item you want to save for by the number of years you want to have it. Then divide that number by 12 months, the outcome is how much you need to save per month. Example

Goal: I want so save $15,000 in 5 years.

$15,000 / 5 years = $3,000 a year

$3,000 / 12 months = $250 a month

Do this for one or all of your goal items. Keep in mind you may only want to be working on a few financial goals at a time. Once you achieve a few, then move on to others. This process could take years, that's why a plan is so important! Now you know what you need to save monthly. Subtract this from your monthly income before you account for expenses. What is left over from income is now for expenses.

Example;

Monthly Income $2,500 - Monthly Savings goal $500 = $2,000 left for expenses

If you find you don't have enough money left to cover the expenses you listed, see where you can cut back. The first place to start cutting back is nonessentials such as entertainment, shopping, clothes, etc. Of course, you could always opt to spend your savings money on these things, but know that it will set you back in your plan to save for the future.

If you cut back the nonessentials and still don't have enough money to cover expenses, you could consider your lifestyle. Maybe living in a smaller house, driving an older car, or working additional hours could contribute greatly to the savings goal you set.

Remember, you can always re-evaluate your goals. There is nothing wrong with wanting to live a more expense lifestyle, just know that savings may be traded for that.

Having goals and a plan to reach them means nothing if you aren't staying on track! Be sure to make a method of recording your progress. You could make a written list of a shilling / dollar amount to save each month, an excel sheet, or set up an automatic payment from your income to go into a savings. Whichever method you choose, be sure to keep tabs on it monthly. Whilst making sure that you make a saving, you can make your saved money grow.

Making your Money Grow - Put your saved money to an investment. While money doesn't grow on trees, it can grow when you save and invest wisely. Knowing how to secure your financial well-being is one of the most important things you'll ever need in life. You don't have to be a genius to do it. You just need to know a few basics, form a plan, and be ready to stick to it. No matter how much or little money you have, the important thing is to educate yourself about your opportunities.

To make your money grow, one need to keep off some enticing habits some of which are as below:

- ✓ ***Put Away the Plastic -*** Don't use a credit card unless your debt is at a manageable level and you know you'll have the money to pay the bill when its due.
- ✓ ***Know What You Owe –*** It's easy to forget how much you've charged on your credit card. Every time you use a credit card, write down how much you have spent and figure out how much you'll have to pay that month.
- ✓ ***Pay Off the Card with the Highest Rate -*** If you've got unpaid balances on several credit cards, you should first pay down the card that charges the highest rate. Pay as much as you can toward that debt each month until your balance is once again zero, while still paying the minimum on your other cards.

The above habits irrespective of how appealing they are, one need to regulate them as the money that has been keenly saved through budget cuts can make a saving plan impossible as the funds that should be put in savings will end up being used to pay off the interests.

To grow your money, your money needs to work for you. This is when you invest your money and it implies that:

- ✓ Someone pays you to use your money for a period of time. When you get your money back, you get it back plus "interest."
- ✓ If you buy stock in a company that pays "dividends" to shareholders, the company may pay you a portion of its earnings on a regular basis.
- ✓ You buy something with your money that could increase in value. You become an owner of something that you hope increases in value over time e.g., land.

Your money can make an "income," just like you. You can make more money when you and your money work and that's how your money grows. Sometimes, your money can do both (save & invest) at the same time and increase in value. However, a difference between investing and saving.

Savings are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit. Some deposits in these products may be insured.

Investments have a greater chance of losing your money than when you "save." The money you invest in securities, mutual funds, and other similar investments typically is not insured. You could lose your "principal" amount you've invested. But you also have the opportunity to earn more money.

But how "safe" is a savings account? Does it make some sense if you leave all of your money there for a long time, and the interest it earns doesn't keep up with inflation? What if you save a shilling / dollar when it can buy a loaf of bread but years later when you withdraw that dollar plus the interest you earned on it, it can only buy half a loaf?

This is why many people put some of their money in savings, but look to investing it so they can earn more over long periods of time, say three years or longer.

We hope you are having an interesting read. In our subsequent issues, we will in details advice you on how best to have a grip of the taxes when you put your saving on investments and also how to protect your savings as well. Remember that when you protect your savings, you secure your future.

« In our subsequent issues, we will in details advice you on how best to factor in the tax element, savings and investments on your personal finance matters. Keep in touch with us in our next publication and lean more on our next topic on personal financing. You need such a service? Get in touch with us and we can begin your journey to financial freedom. »

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.

Digital Service Tax (DST)

20th day of the following month

Minimum Tax

Applicable where minimum tax is higher than instalment tax payable
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