

COUNTY ASSEMBLIES FORUM



Kenya Budget Highlights 2019/2020

Preamble

The budget highlights presents a brief description of the key highlights of budgetary allocations, tax measures and related regulatory changes contained in the 2019/2020 Budget speech as presented by the Cabinet Secretary for the National Treasury, Henry Rotich.

The national government expenditure has increased its budget from 3.01 trillion in 2018/2019 to Sh3.02 trillion in 2019/2020. The drivers/gainers of increased budget allocations include the Big Four Agenda (Sh450 billion), Education (shs733.3 billion), Governance justice, law and order (sh200 billion), Health (sh 83 billion), food and nutrition security Sh2 billion. Revenue on the other hand is targeted to reach Sh1.8 in 2019/2020, as government implements a lot of tax measures (detailed in tax measures section). The budget deficit for the 2019/20 financial year is estimated at Sh 607.8 billion, Sh 324.3 billion of which will be financed through external borrowing while Sh 289.2 billion will be raised through domestic borrowing.

Kenya Budget Highlights 2019/2020

Tax Measures

Capital Gains Tax

- The Capital Gains Tax (CGT) is set to be raised by more than twice from 5% to 12.5 %.
- Property transferred by corporates as part of group restructuring to be exempted from CGT to allow for seamless restructuring for operational efficiency and encourage business growth.

Corporate Tax

- Framework on the implementation of the 30% rebate on total electricity costs by manufacturers introduced through the Finance Act 2018 has now been developed.
- Investors operating plastic recycling plants to enjoy a reduced corporate tax rate of 15% for the first five years.
- 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).
- 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.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

Personal Income Tax

- Exemption of Income earned under 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 demand. A major objective of the program is to enable over one million youths 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.

Withholding Tax

- The following services are to be made part of professional services for purposes of withholding tax: security services; cleaning and fumigation; catering services offered outside hotel premises; transportation of goods excluding air transport services; and sales, promotion, marketing and advertising.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

Value Added Tax (VAT)

- Rate of VAT withholding tax reduced from 6% to 2%.
- Locally manufactured motherboards and inputs used in the manufacture of computers to be exempted from VAT.
- 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.
- Services offered to plastic recycling plants as well as the supply of machinery and equipment used in the construction of these plants to be exempted from VAT.
- 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.
- 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

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

Excise Duties

- Increase in excise duty on cigarettes and alcoholic beverages by 15 percent.
- Excise duty of electricity-powered motor vehicles reduced from 20% to 10%.
- Increase in excise duty on motor vehicles of engine capacity exceeding 1500cc to 25%.
- Introduction of excise duty at 10 percent on betting services of amounts staked.

Customs Duties

- Application of 25% import duty on paper and paperboard instead of 10%.
- Import duty on raw timber reduced from 10% to zero.
- Extension of stay of application of the CET rate on a wide range of iron and steel products at 25% or the corresponding specific rates.
- Detailed Customs measures to be communicated through the East African Community (EAC) Gazette effective 1 July 2019.
- Proposal to retain import duty on finished timber products at 25%.
- Kenya Electronic Single Window System Bill to be tabled in Parliament.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

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.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

Other Highlights

Banking Act (Cap 488)

Proposed repeal of section 33B of the Banking Act (interest rate capping) to enhance access to credit and minimize the adverse impact of the cap on the interest rate. This has been necessitated by different market surveys by the Central Bank of Kenya and the World Bank Group showing that the unintended consequence of the rate capping was that SMEs and riskier individuals were excluded from the formal borrowing market. This further had the effect of ballooning the unregulated lending industry.

Insurance Act (Cap 487) and Insurance (Policy Holder's Compensation Fund) Regulations, 2010 (the Regulations)

The Policy Holder's Compensation Fund was set up to cushion holders of insurance policies in the event that insurance companies become insolvent. There is a proposal, however, to introduce amendments to the Insurance Act and the Regulations to bring clarity and enable the Fund to be utilised to compensate claimants presumably also in the case of statutory management.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

The Insurance (Motor Vehicle Third Party Risks) (Certificate of Insurance) Rules (the Rules)

There is a proposal to amend the Rules to require all passenger arrying “bodabodas” and “tuk-tuks” to have an insurance cover for passengers and pedestrians.

VAT Refunds

- The VAT Refund Formula is to be revised to allow for easier recovery of input tax related to zero-rated supplies.
- National Treasury will set up a team to validate outstanding VAT refunds within the next 2 months.
- Withholding VAT is proposed to be reduced from 6% to 2% in order to reduce the accumulation of WHVAT credit.

Civil Service

- Government to restrict recruitment of civil servants to key technical staff, teachers and health workers to trim the wage bill. Government also plans to clean the public service system by further getting rid of ghost workers.
- Government to introduce credit cards for state officials local and foreign travel in a bid to control expenditure.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

County Revenue Collection

The county government was estimated to raise Sh410 million but by the time the CFSP was approved, less than Sh119 million had been raised (representing 71% of the targeted revenues), will not meet its revenue target of 2018/2019 financial year. This local revenue, together with equitable share from the national government and other monies is used to fund development projects. The shortfall means the programmes of over Sh70 million shall be pending bills because this revenue projection is over ambitious and unachievable

Other Changes

There are a number of additional changes and clarifications expected to be reflected in the Finance Bill, 2019 including the following:

- i.) various changes to the Real Estate Investment Trusts (REITs) regime;
- ii.) clarification on whether the new compensating tax provisions apply to dividends arising from exempt income;
- iii.) proposals on taxation of the Digital Economy which has been an area of focus by the Government and most economies globally;
- iv.) clarity on what constitutes an export of services for VAT purposes; and
- v.) further tax incentives to enhance the attractiveness of the Government's affordable housing scheme.

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Kenya Budget Highlights 2019/2020

Comparison of Kenya's Budget with that of EAC Countries

- Kenya's budget is the highest in the East Africa region: Kenya's budget stands at Sh3.02 trillion, Tanzania (Sh1.4 trillion), Uganda (Sh1.08 trillion) and Rwanda at Sh316 billion.
- Rwanda's overall spending will rise by 11% with Tanzania spending rising by 2% while Uganda's spending is set to rise by 23%. Kenya's spending is set to rise by 19%.
- Kenya's economy is expected to grow at 6.3% while Uganda and Tanzania are expected to grow at 6.1% and 7.3% respectively. Rwanda's economy is projected to grow 7.8%

Preamble

Capital Gains Tax

Corporate Tax

Personal Income Tax

Withholding Tax

Value Added Tax
(VAT)

Excise Duties

Customs Duties

Miscellaneous Fees
and Levies

Banking Act

Insurance Act and
Regulations

The Insurance
Rules

VAT Refunds

Civil Service

County Revenue
Collection

Comparison of
Kenya's Budget
with that of EAC
Countries

Contacts

Contacts

The County Assemblies Forum
Flamingo Towers,
5th Floor, Upper-Hill, Mara Road