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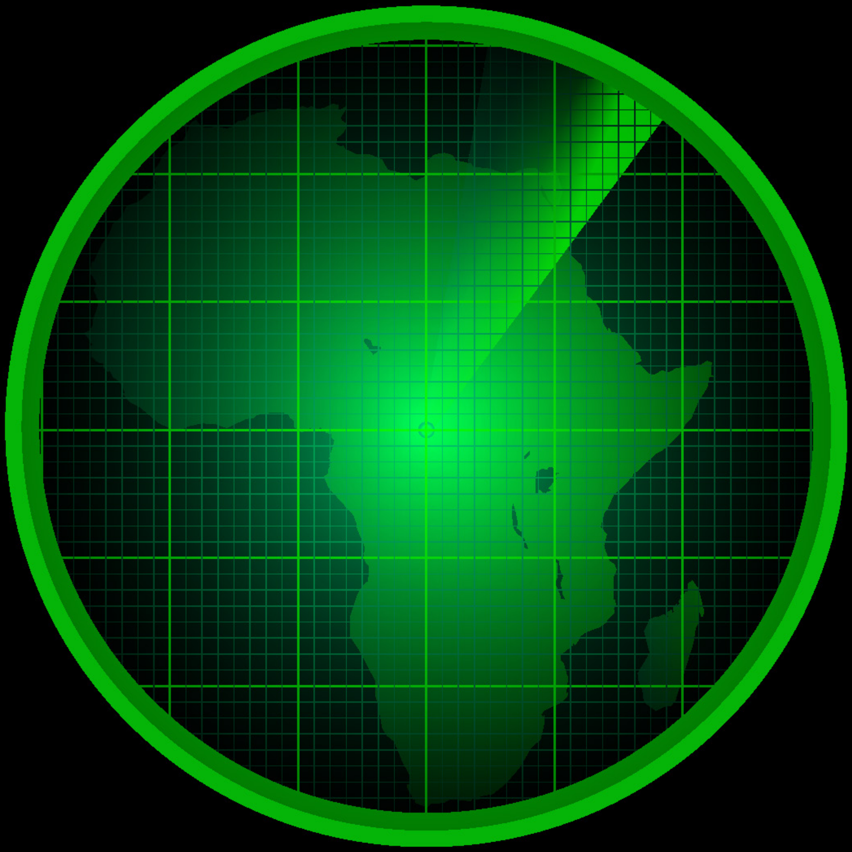

Kenya Budget Highlights 2017

Navigating headwinds

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Preamble

Our budget highlights incorporate changes based on the 2017/18 Budget speech. Some changes may arise when the Finance Bill 2017 and subsequently the Finance Act 2017 are published.

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Tax Measures

Income Tax

Withholding tax

- In a bid to attract foreign direct investment, the Income Tax Act is to be amended to exempt dividends payable to non-residents by enterprises operating in Special Economic Zones (SEZs); and
- Proposed reduction of the withholding tax on interest payable to non-residents by SEZs from 15% to 5%.

PAYE

- The personal income tax bands have been expanded by 10%. The lowest taxable income will be adjusted upwards from KES 11,180 to KES 12,298;
- Personal relief has been increased by 10% from KES 1,280 per month (KES15,360 p.a.) to KES 1,408 per month (KES 16,896 p.a.); and
- The tax amnesty declaration period in relation to foreign income has been extended to 30 June 2018 from 31 December 2017. Repatriation of the funds is a condition of being granted amnesty. KRA will issue guidelines for taking the amnesty.

Corporate Tax

- A 150% investment deduction allowance has been introduced for capital expenditure in the blue economy (i.e. economic activities in the maritime sector);
- A 100% investment deduction allowance has been introduced on investment costs of buildings and machinery for enterprises licenced under the Special Economic Zones (SEZ);
- To promote the assembly of motor vehicles in Kenya, the corporate tax rate for new assemblers is to be reduced from 30% to 15% for the first 5 years; and
- Other measures will be covered in the new Income Tax Act, expected later this year. The new Act is expected to address, among others; taxation of capital gains, compensating tax, taxation of pensions, taxation of the extractive industry and taxation of cross border transactions.

VAT

The following items will be exempt from VAT;

- Inputs used in the manufacture of pesticides;
- Locally assembled tourist vehicles;
- Medical equipment and apparatus for use in specialized hospitals;
- Packaging materials and other inputs intended to support primary, secondary and ancillary marine fisheries and fish processing; and
- Transfer of assets into Real Estate Investment Trust (REITS) and assets backed securities (ABS);

Other changes

- Ordinary bread and maize flour previously exempt now zero rated.
- VAT Regulations have been prepared and aligned to the Tax Procedures Act 2015. They will be published in due course.

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Customs Duties

- Customs related measures will be communicated through the EAC Gazette notice and implemented from 1 July 2017;
- The EAC Common External Tariff (EAC CET) is currently undergoing a comprehensive review with the revised EAC CET to be released on adoption by the EAC Council of Ministers;
- Reduction of port charges for fisheries vessels by 50%;
- Exemption of Export Duty and Import Declaration Fees (IDF) on goods exported to and imported by an enterprise licensed under the SEZ Act;
- White maize to be imported tax free for a period of four months; and
- The importation of dates during the period of Ramadhan will be tax free.

Excise Duty

- Refund of excise duty paid on illuminating Kerosene used in the manufacture of paints and resins by registered manufacturers;
- Introduction of regulations that provide for differentiated prices of excise stamps based on the cost of the product. Prices to range from KES 0.5 to KES 2.5;
- 80% remission of excise duty in respect of locally manufactured beer made from locally produced sorghum, millet or cassava or any other produce except barley;
- Increase in excise duty rate on spirits from KES 175 per litre to KES 200 per litre;
- Inflationary adjustment of specific excise duty rates on all excisable goods to be effected from 1 July 2017 on publishing of the revised rates by the KRA; and
- Change in the tax structure of excise duty on cigarettes to a two-tier structure with filter cigarettes being taxed at KES 2,500 per mille and plain cigarettes being taxed at KES 1,800 per mille.

Betting, Gaming and Lotteries Tax

- In a move to curb the negative social effects of betting and gaming, taxes for betting, lottery, gaming and competition will be increased from the current 7.5%, 5%, 12% and 15% respectively to 50% for all categories.

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Sectorial Highlights

Energy and Resources

- Allocation of KES 16.4 billion to support the exploitation of geothermal, solar and wind resources as part of ongoing efforts to diversify Kenya's energy mix;
- Building upon the momentum generated by the enactment of the new Mining Act in 2016, the Government has set aside funds for an airborne survey that will map Kenya's geological potential, set up a geological databank, mineral certification laboratory and also support mineral audit activities;
- On course with the early crude oil production scheme and building of a crude oil pipeline;
- KES 9.7 billion allocated towards financing Last Mile Connectivity;
- KES 7.3 billion for electrification of public facilities;
- KES 3 billion for installation of transformers in Constituencies;
- KES 3.1 billion for the National Street Lighting Programme; and
- KES 3.84 billion for exploration and distribution of oil and gas.

Agriculture & Blue Economy

- Measures put in place to continue rehabilitating and expanding irrigation schemes (national, smallholder and community based) in a bid to reduce the dependency on rain-fed agriculture and ensure food security;
- KES 6.3 billion allocated to support on-going irrigation projects countrywide;
- KES 0.7 billion allocated to crop and livestock insurance schemes to help cushion farmers against adverse weather conditions;
- KES 4.1 billion set aside to subsidize fertilizer in order to improve yield and reduce input costs;
- KES 1.3 billion allocated to the strategic grain reserves to maintain adequate food reserves;
- KES 0.4 billion set aside for development of designated fish ports at the coast to facilitate deep sea fishing; and
- KES 0.3 billion allocated to improve aquaculture technology development and innovation transfers.

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Education

- Examination fees have been waived for all class eight and form four candidates sitting for KNEC Exams;
- To support free primary and free day secondary education programmes, the government has allocated KES 14 billion and KES 33 billion respectively;
- For purposes of increasing student to teacher ratios, KES 2 billion has been set aside for the recruitment of additional teachers;
- School feeding programmes will be introduced to minimize absenteeism of students, particularly in arid and semi-arid areas. KES 2.5 billion has been allocated for this; and
- KES 83.8 billion set aside to support University Education and KES 10.1 billion allocated to the Higher Education Loans Board (HELB).

Sports, Culture & Arts

- Special fund set up to support development of sports, culture and arts. The newly created National Sports, Culture and Arts Fund will be funded by the taxes from betting, gaming and lotteries.

Financial sector

- Comprehensive assessment of the impact of interest rate capping to be undertaken, suggesting a review of the law could be imminent;
- Nairobi International Financial Centre Bill to be submitted to parliament;
- Legislative amendments to the Capital Markets Act, Cooperative Societies Act and Sacco Societies Act to facilitate Islamic Financial Products;
- Insurance Act to be amended to provide for perpetual licensing of insurers; and
- Umbrella Retirement Benefits Scheme Regulations drafted.

Infrastructure and transport

- KES 63.6 billion has been allocated for on-going road construction;
- KES 49.3 billion allocated for road maintenance;
- Standard Gauge Railway – KES 15.5 billion allocated to complete Phase I (Mombasa to Nairobi) and KES 59.7 billion towards Phase II (Nairobi to Naivasha);
- Ports - KES 10 billion allocated for the LAPSSET Project and KES 3.6 billion for Mombasa Port Development Project; and
- Airports – KES 2.6 billion allocated for the upgrading of Malindi, Isiolo, and Lokichogio airports and Suneka airstrip.

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Health Care

- KES 4.3 billion allocated towards Free Maternity Healthcare;
- To bring specialized medical care close to the citizens, KES 5 billion allocated for specialized medical equipment; and
- Doctors and other medical personnel allocated KES 2.7 billion for salaries and allowances.

ICT

- To enhance service delivery by Government agencies, KES 0.3 billion allocated for Single Window Support Project;
- KES 0.15 billion allocated for continued roll out of Integrated Financial Management Information System (IFMIS) to counties; and
- KES 0.6 billion to development of Konza Technopolis.

Tourism

- Tourism Regulatory Authority established to regulate players in the sector;
- KES 1 billion allocated for tourism recovery;
- KES 1 billion allocated for sustaining new markets and sitting booths; and
- KES 600 million allocated for capital lending to hoteliers.

Manufacturing

- KES 1.6 billion allocated for the leather industrial park development and textile development;
- KES 450 million set aside for modernization of RIVATEX; and
- KES 250 million set aside for the modernization of New KCC to make it a strategic milk processor.

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