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Kenya Budget Highlights 2016

The Story Behind the Numbers

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Preamble

Our publication incorporates changes based on the 2016 Budget speech. Some changes may arise when the Finance Bill 2016 and subsequently the Finance Act 2016 are published.

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June 2016

Budget highlights

Tax provisions

Corporate Tax

- As part of the reform of income tax and to widen the tax net, the Government has proposed to re-introduce presumptive tax for the hard-to-tax segment of the economy especially the informal sector.
- Corporate tax rate has been reduced from 30% to 20% for developers who construct at least 1,000 low cost housing units per year.
- Rules to facilitate implementation of simplified taxation of residential rental income to be gazetted.
- Minimum residential rental income subject to residential rental income tax is KES 12,000 per month and the Commissioner is empowered to appoint withholding tax agents for this purpose.

Value Added Tax

- VAT exemption for made up garments and leather footwear procured from the Export Processing Zones (EPZ).
- VAT exemption for raw materials used in the manufacture of animal feeds.
- VAT exemption for fees charged for entry into the National parks.
- VAT exemption for commissions earned by tour operators.
- Extension of the transition period for the imposition of VAT on petroleum products which was set to expire in September 2016 by one year. The exempt status will now expire in September 2017.
- VAT exemption for liquefied petroleum gas.

Customs

- Introduction of a specific import duty rate of USD 200 per Metric Tonne on a wide range of iron and steel products.
- Introduction of aluminum sheets and plates into the duty remission scheme at a rate of 0% instead of 25%.
- Increase in import duty rate of aluminum cans from 10% to 25%.
- Import duty exemption for Heating, Ventilation and Air Conditioners (HVAC) used by manufacturers of pharmaceutical products.
- Stay of application of import duty on garments and leather footwear procured from the Export Processing Zones (EPZ) at a rate of 0%.
- Reduction of import duty on energy efficient stoves from 25% to 10%.
- Insurance of imported goods to be covered by local insurance companies. Therefore goods are to be imported on Cost and Freight (C&F) terms rather than Cost, Insurance and Freight (CIF) terms.
- Legislation streamlining training, licensing and regulation of Kenyan clearing agents to be introduced pending agreement at the EAC level.

Excise Duty

- Introduction of excise duty on kerosene to be charged at KES 7,205 per 1,000 litres.
- Change of excise duty regime on motor vehicles from specific to *advalorem* at a rate of 20%.
- Introduction of excise duty of 10% on cosmetics and beauty products.

Pay As You Earn (PAYE)

- Bonuses, overtime and retirement benefits paid to workers whose income falls under the lowest tax band declared non-taxable income.
- Expansion of personal income tax bands and increase of personal relief by 10%.

Motor Taxes and Other Levies

- Road Maintenance Levy increased by a further KES 6 per litre from KES 12 per litre to KES 18 per litre. In the 2015 budget, the levy was increased by KES 3 per litre.
- The tea and sugar development levies will be scrapped in order to improve earnings for farmers.
- Other levies including those charged by the National Construction Authority and NEMA will be scrapped in order to reduce the cost of doing business.

Tax Administration

- Proposed ammendment to the Tax Procedures Act in order to grant the KRA powers to collect information in advance from identified persons for purposes of pre-populating the information in the iTax System.
- Review of the Income Tax Act Cap 470 is currently ongoing and a new Bill to be tabled in Parliament in FY17/18.

Tax Amnesty

- Tax amnesty on principal tax, penalty and interest declared for individuals owning assets and businesses outside the country, who are willing to reinvest in Kenya provided that they submit their return and accounts for the year of income 2016 between 1 January 2017 and 31 December 2017.

Miscellaneous Provisions: Financial sector

- Facilitative amendments to the Retirements Benefits Occupational and Individual Regulations to allow retirement schemes to establish separate medical funds into which members can make contributions during their working life in order to purchase medical cover at retirement.
- Three bills namely: the Financial Services Authority Bill, the Nairobi International Financial Centre Bill and the Moveable Property Security Rights Bill will be introduced to facilitate growth and stability of the financial sector.
- The following changes have also been proposed:

Banking and SACCOs

- The banking sector capitalisation proposals that were proposed in the 2015 budget will be reintroduced for reconsideration. The proposals included an increase in the minimum core capital requirements for banks, progressively from KES 1 billion to KES 5 billion by December 2018.
- The maximum penalty for violating the Banking Act to be increased from KES 5 million to KES 20 million. Additional penalties for each day the violation continues to be introduced.
- The Banking Act and the Sacco Societies Act will be amended to allow SACCOs and Utility Companies to participate more effectively in the Credit Information Sharing framework.

- Only licensed Deposit Taking SACCOs will be allowed to use the acronyms deposit taking SACCO Society (DTS) or DT-SACCO. This move is aimed at differentiating them from other SACCOs in particular those in the *matatu* industry.

Insurance

- The allowable forms of capital to be expanded to reflect the new gross premium valuation methodology across different classes of business.
- Reduction of the maximum time in which an insurance claim should be settled from 90 days to 30 days.
- Amendments to anchor Sharia compliant or Takaful insurance products in the Insurance Act and issuance of regulations to govern Takaful Insurance.

Retirement Benefits

- Removal of annual licensing for institutions licensed by the Retirement Benefits Authority (RBA) and in its place implementation of a non-renewable perpetual licence which RBA can withdraw if necessary.
- Retirement benefit schemes to be allowed to invest in new products that will be approved by the Capital Markets Authority including exchange-traded derivatives and listed Real Estate Investment Trusts.
- Retirement schemes to be allowed to establish separate medical funds into which members can contribute during their working life in order to enable them purchase medical cover at retirement.

Capital Markets

- Regulations for the effective and secure online forex trading by Kenyans to be gazetted.

Competition Authority

- The Competition Act to be amended to make it mandatory for stakeholders to provide vital information to the Competition Authority when requested to do so.
- The financial penalty for engaging in restrictive trade practices now anchored in law. The maximum penalty has been set at 10% of the gross annual turnover.
- Mergers which have no effect on competition and restrictive trade practices will be exempted from the provisions of the Competition Act. This is aimed at reducing the administrative burden on businesses / investors.

Public Private Partnerships

- The Public Private Partnership Act will be amended to recognize the County Government as an independent procuring entity for purposes of public private partnership projects.

Sectorial analysis

Energy

- With the addition of 615 MW of power in the last financial year and several projects in the pipeline, Kenya is making strides towards realising its objective of generating 5,000 MW of power.
- The Government has repeatedly stated its aspiration to export crude oil under the early production scheme by mid-2017. The fiscal and tax measures highlighted in this year's budget do not point in the direction of fast tracking early crude oil production.

Tourism

- VAT exemption on park entry fees and commissions earned by tour operators to keep tourism charges low as a means of boosting and promoting local tourism.
- Proposed increments in Air Passenger Service charges from USD 40 to USD 50 for external travels and from KES 500 to KES 600 for internal travels directed towards a Special Tourism Promotion Fund. This may have an adverse impact on the travel and tourism sector.
- KES 2.4 billion allocated towards tourism promotion.

Youth empowerment

- In the 2015/16 budget, a tax incentive for employers who hire young graduates on apprenticeship was introduced. The Cabinet Secretary will shortly gazette regulations to operationalize this incentive. Once in force, employers that hire at least 10 graduates for a period of six to twelve months will be allowed a deduction of 150% of the emoluments paid to the graduates.
- The government proposes to increase allocations to the Uwezo Fund and the Youth and Women Enterprise Fund by KES1.6 Billion.
- There is increased budgetary allocation for the upgrade of national schools, purchase of computers, aquaculture development and for prototype fresh produce and wholesale markets.

Agriculture and environmental conservation

- Significant progress has been made in reducing dependence on rain-fed agriculture by continued investment in irrigated agriculture to improve food security. Measures have also been taken to improve yield and output for farmers. The Cabinet Secretary proposes the following measures:
    - Roll out of a programme covering at least 100,000 acres in Galana-Kulalu and other designated suitable schemes throughout the country under a viable business framework that involves the private sector.
    - In a bid to improve the earnings of tea and sugarcane farmers, there is a proposal to remove *Advalorem* levy on tea and the sugar development levy.
    - Import duty on stoves will be reduced from 25% to 10% to encourage the use of energy efficient stoves that support conservation of the environment.

Manufacturing

- The manufacturing sector has been identified as a key driver of economic growth through export growth and job creation.
- There is the proposal to allocate KES 7.7 billion to promote the development of industries and extractive sectors of the economy.
- Specific tax measures are proposed to spur industrial activities and growth which have been described above.

Education

The major proposed allocations to the education sector are:

- KES 32.4 billion for free day secondary school education (down from KES 32.1 billion in 2015).
- KES 14.7 billion for free primary education (down from KES 14.1 billion in 2015).
- KES 2.6 billion for school feeding programme (up from KES 1 billion in 2015).
- KES 3.2 billion for subsidy to KNEC for examinations fee waiver (none in 2015).

To increase quality and access to tertiary institutions:

- KES 2.5 billion to technical training institutes (down from KES 3.0 billion in 2015).
- KES 57.8 billion for university education (down from KES 52.9 billion in 2015).
- KES 9.1 billion for Higher Education Loans Board (down from KES 7.5 billion in 2015).

To support the demand for increased school enrolment:

- KES 4.5 billion for recruitment and promotion of teachers (up from KES 2.3 billion in 2015).
- KES 2.8 billion for phase 2 for teacher's house allowance (none in 2015).

To enhance the quality of educational systems and accessibility to e-learning programmes:

- KES 13.4 billion for deployment of ICT learning devices to primary schools throughout the country (down from KES 17.58 billion in 2015).

Healthcare

- The government recognizes that investment in quality healthcare services is essential in developing a healthy population with higher productivity for sustained economic growth.
- The major allocations towards health care are:
    - KES 4.3 billion to further the free maternal healthcare services (similar to 2015).
    - KES 4.5 billion to finance the lease of medical equipment (managed equipment services) (similar to 2015).
    - KES 3.5 billion for Kenya Medical Training Centers (similar to 2015).
    - KES 8.7 billion for Kenyatta National Hospital (down from KES 9.3 billion in 2015).
    - KES 5.8 billion for Moi Teaching and Referral Hospital (similar to 2015).
    - KES 1.7 billion for Kenya Medical Research Institute (down from KES 1.9 billion in 2015).
    - KES 3.0 billion for doctors/clinical officers/ nurses internship programme (similar to 2015).
    - KES 1.3 billion for roll out of universal health coverage.

Infrastructure and transport sector

Continued investments to improve infrastructure have been made. Major proposals include:

- KES 154 billion has been allocated towards the finalization of the Standard Gauge Railway, out of which China will contribute KES 118.2 billion.
- KES 5.5 billion allocated for Mombasa Port Development project.
- KES 10 billion for the LAPSSET project.
- The Government will prioritize the construction of the East Africa Road Network in order to boost regional trade.
- The government intends to turn around Kenya Airway's financial position in recognition to the crucial role it plays in the transport sector.
- Utilisation of the PPP arrangement to accelerate infrastructure development including development of 500km of roads using the annuity program, development of a seaport in Kisumu and the construction of the second Nyali bridge.

Equity, Poverty Reduction and social protection for vulnerable groups

- Various proposed budgetary allocations to reduce poverty and to empower vulnerable members of society. Significant ones include:
    - KES 34.5 billion for the National Government Constituency Development Fund.
    - KES 21.1 billion for gender and youth empowerment through NYS.
    - KES 2.1 billion for Affirmative Action for Social Development.
    - KES 6 billion for the Equalization Fund.
    - KES 7.9 billion for Orphans and Vulnerable Children (OVC).
    - KES 7.3 billion for Elderly Persons.
    - KES 1.5 billion for people with disabilities.
    - KES 6.0 billion for the final phase of resettling IDPs and for Restorative Justice.

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