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KENYA BUDGET REVIEW/ HIGHLIGHTS: FISCAL YEAR 2016 / 2017

Theme: "Consolidating Gains for a Prosperous Kenya."

The Kenya budget speech for the financial year 2016/ 2017 was made on the 8th of June 2016 by the Cabinet Secretary for the National Treasury, Henry Rotich.

In FY 2016/17, overall expenditure and net lending are projected at KSh 2,264.8 billion (30.6 percent of GDP), up from the estimated KSh 1,842.7 billion (28.1 percent of GDP) in 2015/16. The expenditures in the FY 2016/17 include externally funded development projects amounting to KSh 413.6 billion (5.6 percent of GDP). Revenue collections, projected at 1,500.6 billion compared to the estimated KSh 1,295.4 billion in 2015/16, are to be achieved by broadening the tax base and improving revenue administration. The financing gap will be financed by a mix of domestic and external borrowing.

From a fiscal perspective, the budget has made proposals for amendments to various tax and related statutes. The objectives of the said amendments are to:

a) Facilitate Infrastructure Development;
b) Promote Growth of Industries and Employment Creation;
c) Strengthen Financial Sector Stability;
d) Enhance Equity and Fairness in the Tax System and Tax Administration;
e) Cushion Households' Budgets to Ease the Cost of Living;
f) Promote Private Sector Growth.

The proposed fiscal amendments to aid in realization of the above objectives are discussed below under each objective:

PROPOSED TAX MEASURES:

a) Facilitating Infrastructure Development

Measure	Impact on:	Change
The corporate income tax rate has been reduced from 30% to 20% for developers who construct at least 1000 units of low cost housing per year.	Corporate Income Tax	Decrease

To maintain the expanded road network, the Road Maintenance Levy has been increased from KSh 12 per litre to KSh 18 per litre.	Road Maintenance Levy	Increase
The transition period for imposition of VAT on petroleum products (set to expire in Sept. 2016) has been extended by another one year, to Sept. 2017.	VAT	No Change

b) Promoting Growth of Industries and Employment Creation

Measure	Impact On:	Change
Specific rates of duty of USD 200/MT on iron and steel products have been introduced to protect jobs and cushion manufacturers from unfair competition from cheaper imported iron and steel products.	Import Duty	Increase
Import duty on aluminum plates and sheets has been remitted to allow manufacturers of aluminum cans in the country to import the inputs under the duty remission scheme at a rate of 0% instead of 25%.	Import Duty	Decrease
Import duty on aluminum cans has been increased from 10% to 25% to protect local manufacturers of the cans.	Import Duty	Increase
HVAC Air Conditioners have been exempted from payment of import duty in order to make them affordable to the manufacturers of pharmaceutical products and to conform to WHO guidelines.	Import Duty	Decrease
Import duty on made up garments and footwear procured from the Export Processing Zones has been stayed and VAT exemption proposed, to enable Kenyans to acquire new clothes and shoes at affordable prices.	Import Duty, VAT	Import Duty – No Change VAT - Decrease
National park entry fees and commissions earned by tour operators have been exempted from VAT to boost the tourism sector.	VAT	Decrease
Wealthy Kenyans and Kenyans in the diaspora who have stashed assets abroad will get a blanket amnesty to repatriate the money tax-free in a move meant to attract local investors who have opted for offshore investments.	Income Tax	Decrease
Air Passenger Service Charges for external travel have been increased from 40 USD to 50 USD and for internal travel from KShs 500 to KShs 600, to generate sufficient funds for promotion of tourism.	Aviation Charges	Increase
Raw materials for manufacture of animal feeds have been exempted from VAT to make animal feeds affordable to farmers and to attract more manufacturers to invest in the sector.	VAT	Decrease

Employers who engage at least ten graduates will be allowed an extra fifty percent cost of the apprentice emoluments in addition to the normal allowable emoluments.	Corporate Income Tax	Decrease

c) Strengthening Financial Sector Stability

There are proposed amendments to:

1. *The Banking Act:*

- The minimum core capital for banks has been increased from KSh. 1 billion to 5 billion by December 2019.
- The maximum monetary penalty for violations of the Banking Act or the Prudential Guidelines has been increased from KSh. 5 million to KSh.20 million together with the introduction of an additional daily penalty for continuing violations.
- Amendments to the Sacco Societies Act as well as the Banking Act to facilitate cross- border information sharing and to allow Sacco and Utility Companies to participate in the Credit Information Sharing framework.

2. *The Insurance Act:*

- Expand the allowable forms of capital and reflect the new gross premium valuation methodology across different classes of business after last year's amendment move to a risk based solvency framework and principle based investment framework.
- Reduce the maximum time in which a claim should be settled from 90 days to 30 days.
- Anchor Sharia compliant or Takaful insurance products in the Insurance Act.
- Amend basis for computing customs duty from Cost Insurance and Freight (CIF) to Cost And Freight (C&F) so as to insure imports.

3. *The Retirement Benefits Occupational and Individual Regulation* to allow retirement benefit schemes to:

- Provide funding for medical cover for members at retirement.
- Introduce non-renewable perpetual licences to retirement benefit schemes
- Increase the products which retirement benefit schemes can invest in.

4. *The Capital Markets Act* to allow gazettement of regulations to enable for effective and secure online forex trading by Kenyans.

d) Enhancing Equity, Fairness and Tax Administration

Measure	Impact On:	Change
Specific rates of excise duty have been removed and an ad valorem rate of excise duty of 20 percent on non-commercial motor vehicles has been introduced, based on the value of vehicle.	Excise Duty	Decrease

Excise duty on cosmetics and beauty products been introduced at the rate of 10 percent to move towards the harmonization of the excise duty regime in the EAC.	Excise Duty	Increase
Excise duty on kerosene has been introduced at the rate of KSh 7,205 per 1000 litres to curb increased adulteration of fuel.	Excise Duty	Increase
Proposal to re-introduce a presumptive tax for the hard-to-tax segment of our people including those in the informal sector.	Income Tax	Increase

e) Promoting Private Sector Growth

- The Public Private Partnership Act has been amended, to recognize the County Government as an independent procuring entity for the public private partnership projects.

f) Cushioning Households' Budgets to Ease Cost Of Living

Measure	Impact On:	Change
Import duty on stoves has been reduced from 25 percent to 10 percent to encourage usage of energy efficient stoves that support conservation of the environment.	Import Duty	Decrease
Liquefied Petroleum Gas (LPG) has been exempted from VAT to allow Kenyans to access clean, safe and efficient household energy in order to protect our forests.	VAT	Decrease
Ad Valorem Tea levy and the Sugar development levy have been removed to improve farmers' earnings and increase the competitiveness of Kenyan tea in the export market.	Tea levy and Sugar development levy	Decrease
National Environmental Management Authority (NEMA) and National Construction Authority (NCA) levies have been removed to reduce cost of doing business.	NEMA & NCA levies	Decrease
Income tax brackets have been expanded by 10% and personal relief also increased by 10% to ease cost of living.	Personal Income Tax	Decrease
Bonuses, overtime and retirement benefits **for low income workers** (income below the lowest tax bracket of 10%) have been exempted from income tax to ease the cost of living.	Personal Income Tax	Decrease

Additional Measures

- Introduction of a minimum taxable rent income of shs.12,000 per month and empowering the KRA to appoint withholding tax agents for rental taxation.
- Amending the Tax Procedure Act to grant KRA powers to collect information in advance from identified persons for purposes of pre-populating the information in the iTax System.
- Streamlining the training, licensing and regulation of Kenyan clearing agents to strengthen controls on the import supply chain.
- Enforcement of a new Procurement Law and Public Audit Law to resource and strengthen the capacity of institutions that provide oversight on Public Financial Management, including the National Treasury, Office of the Controller of Budget, Office of the Auditor General and the Public Procurement Regulatory Authority.
- Commencement of a process to develop a National Policy and Legal Framework to guide County Governments' revenue raising measures particularly on own-source revenue.
- Changes to the Kenya Competition Act through the imposition of an obligation to provide information requested by the Competition Authority of Kenya and the introduction of a threshold that will exclude applications for insignificant mergers.

This publication incorporates changes based on the 2016/2017 Budget speech. Some changes may arise when the Finance Bill 2016 and subsequently the Finance Act 2016 are published.

TALK TO US TODAY

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