Grant Thornton
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# Budget 2017

## Kenyan Edition

**30 March 2017**

Audit | Tax | Advisory

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"This Grant Thornton Budget analysis provides commentary designed to assist you in navigating the increasing complexities of the tax environment.
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# Contents

# Introduction

The Kenya Budget Statement for the Fiscal Year 2017/2018 of KShs 2.627 trillion was presented to Rev. Mutava Musyimi, the Chairman of the Budget and Appropriation Committee of the National Assembly, by Mr. Henry K. Rotich, Cabinet Secretary for Finance on 30th March 2017 under the theme "Creating Jobs, Delivering a Better Life for all Kenyans".

## Budget 2017 / 2018

This year's budget is seen as a tough balancing act by the Cabinet Secretary in which he walks a tight rope trying to grow tax revenues while at the same time, not to introduce a new stream of taxes. It has been projected that the Kenyan economy grew by an average of 5.9% in 2016/2017, which is twice the pace of global growth of Sub Saharan Africa.

This strong growth is attributed to continued macro-economic stability, lower import bill, investment in tourism and mainly the investment in infrastructure. This has in turn seen Kenya being a preferred investment destination in Africa with many multinationals across the world pitching tent in the country and rolling out their operations e.g. Peugeot, Volkswagen, Toyota, Ashok Leyland. The foreign direct investment (FDI) has risen from about US dollar 0.514 billion in 2013, to at least US dollar 2.3 billion in 2016.

The setting up of the e-Citizen, One Stop Center and e-Opportunities are some of measures being undertaken by the government to allow for easy and seamless business operations in the country. Kenya is taking up technological advancements and creating a conducive atmosphere for investors both locally and internationally. Kenya's ranking in the World Bank Doing Business indicators has improved from 136 to 92.

The budget also aims at keeping inflation with the targeted range of 2.5% on either side of 5.0%, of which analysts see as being an uphill task.

Yet again, the Treasury seeks to further improve revenue collections by the KRA while at the same time, improve overall revenue administration. The budget seeks to reduce the fiscal deficit, encourage investments from both the local and foreign investors and have the ripple effect of job creation. Infrastructure development also tops the list with the completion of ongoing projects while at the same time taking up new projects already earmarked.

This year's budget will in turn require the KRA to raise an additional KShs 300 billion to plug the deficit between this year KShs 1.7 trillion and last year's budget of KShs 1.4 trillion. This is another herculean task for the taxman seeing that it did not meet its target in the last fiscal year, and may not do so in the remainder of the period due to the slowdown in the business environment occasioned by the upcoming elections.

The Government also seeks to curb unnecessary expenditure and keep Government spending low, reduce the public sector wage bill and improve the public procurement and asset disposal to ensure it keeps within budget.

The Budget looks at furthering the gains made in the previous years by aligning itself with the onerous task to achieve Kenya's Vision 2030. The Budget then seeks to create jobs and better the lives of Kenyans by issuing tax incentives to;

1. Support and grow domestic production
2. Reduce income inequalities
3. Promote job creation
4. Improve tax administration and compliance
5. Enhance security and welfare

Tourism industry, improve access to education to all Kenyans, and empowering the youth. These measures are intended to act as a stimulus to the economic growth of the country which will help boost growth and in turn create jobs.

## The FY 2017/2018 budget has prioritized the following areas:

- **Commitment to free and fair elections** by allocating money for electoral related operations.

- **Fighting corruption** by implementing the measures articulated in the National Call to Action against Corruption and strengthened various institutions mandated to fight corruption. Funds have been allocated to support these institutions adequately.

- **Supporting devolution** by enhancing counties sourcing of own revenue thereby in order to strengthen their ability to offer better services to the public. To enable this, a legislative framework has been finalized together with a policy which will be submitted to Parliament shortly.

- **Public financial management** by cutting down unnecessary expenditure and keeping Government spending under control. To do this, the Government has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are finally committed in the Budget. Procurement reforms by improving the Public Procurement and Asset Disposal System, with the aim of managing our resources in an effective and efficient manner as per the Constitution. The Government has also now finalized development of Regulations and Code of Ethics for Suppliers of the National and County Governments. A new Code of Ethics has been prepared accountability on the part of those who do business with the Government.

- **Financial sector reforms through Central Bank of Kenya** by adopting a broad surveillance strategy to stabilize the sector around three pillars: (i) increasing transparency on shareholding; (ii) strengthening banks corporate governance; and (iii) ensuring banks adopt effective business models that will ensure resilience. Also, Kenya intends to maximize its comparative advantage and position itself as a regional hub for Islamic finance products, in order to attract foreign direct investment. Restructuring of the insurance industry in Kenya to enhance their capital base as well as take advantage of economies of scale and maximize on the expertise which is scarce. Perpetual licensing has been proposed for insurers. However, the intermediaries such as insurance brokers, loss assessors, among others, will continue to be issued with annual licensing.

- **Continuation of infrastructure development** by targeting to complete all ongoing projects so that Kenyans can realize the benefits of the expanded infrastructure facilities. The main projects are Standard Gauge Railway (SGR) and the LAPSSET Project.

- **Supporting industries and boosting exports** by creation of a conducive environment to encourage the return of investors was done most recently in the automotive industry. These have included Volkswagen, Peugeot, Toyota and others.

- **Tourism** by working with key stakeholders in the industry will continue to promote and develop new areas of tourism including sports, beach and medical tourism.

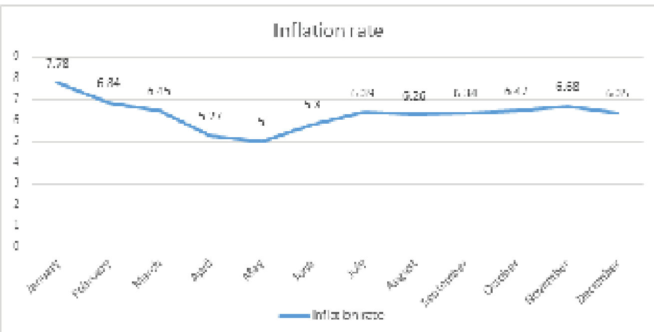
The Budget 2017/18, seeks to complete the already continuing infrastructural projects and jumpstart new projects already earmarked. It seeks to complete the Standard Gauge Railway as per schedule, complete new and existing roads projects, improve security, hasten Business Regulatory Reforms, equip hospitals and make healthcare affordable, strengthen governance institutions, strengthen devolution, create jobs, modernizing agriculture, boost the growth and in turn create jobs.

# Economic Review

Kenya's GDP was projected to grow by 5.9% in 2016, and was further projected to increase to 6% in 2017. Data reveals that the first 3 quarters of 2016 averaged 5.9%, compared to 5.4% over the same period in 2015.

Low oil prices, a stable performance in agriculture and a recovering tourism sector were the main contributors to growth. Development expenditure by the government stood at 69.2% as at June 2016. Moody's rating agency changed Kenya's rating from stable to positive and Kenya moved up 21 spots from 113 to 92 in its ranking on ease of doing business.

Inflation in 2016 remained within the government's target, with January recording the highest for the year at 7.78%, and May recording the lowest for the year at 5%. Inflation in 2016 was largely driven by the increase in food prices. Low fuel prices and good rains were considered the main contributors to a stable macroeconomic environment, and good monetary policy action, which in turn ensured inflation remained contained.

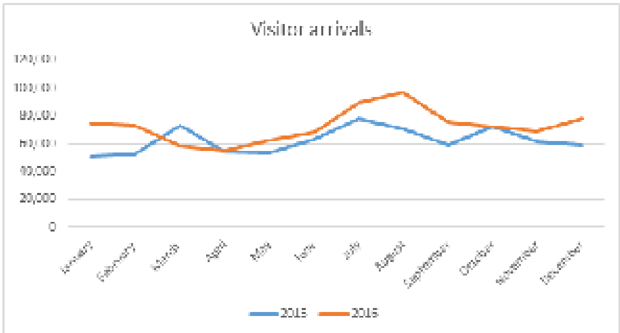



## Tourism sector

The tourism sector grew 13.8% year on year during 3rd quarter of 2016 with tourist arrivals into the country increasing by 25.8% year on year. The Kenya Tourism Board (KTB) Chief Executive Betty Radier said there was a notable recovery in the sector in 2016, and was confident this would continue in 2017 despite it being an election year. The KTB has embarked on repackaging and marketing Kenya to different source markets. Factors that have contributed to the recovery of the sector include:

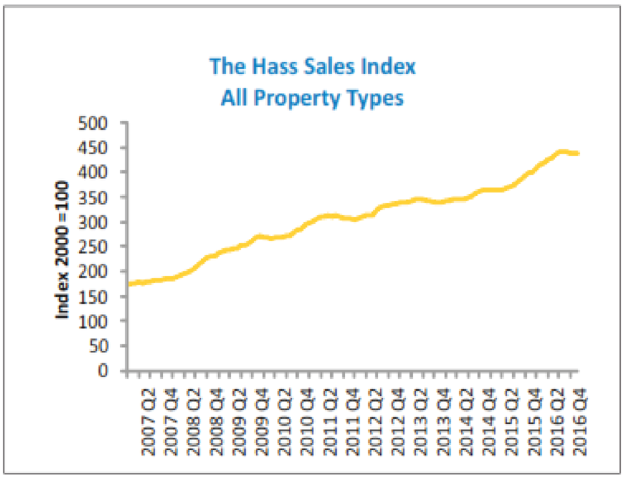
i. Improved security and lifting of travel advisories;
ii. Major global conferences being hosted in Nairobi;
iii. Increased budgetary allocation to tourism; and
iv. Improved facilities with hotels attaining five star ratings.

Investors in the sector have expressed their confidence in the recovery as well, noted by significant increases in overall bed capacity in the country. Carlson Rezidor Hotel Group (Radisson Blue) in 2016 announced the first quarter of 2017 as the opening date of their second outlet in Nairobi, in addition to other upcoming hotels such as Pullman, Hilton Garden Inn, Ramada, Mövenpick Hotel, Four Points by Sheraton, JW Marriott, Sarovar's Lazizi Premiere airport hotel, City Lodge I, and Wyndham Amboseli Golf Resort and Spa.




## Real Estate

Property prices in Nairobi suburbs increased by approximately 7.6% over 2016. Asking prices in satellite towns increased by 8.6% while asking rental prices increased by 4% over 2016.



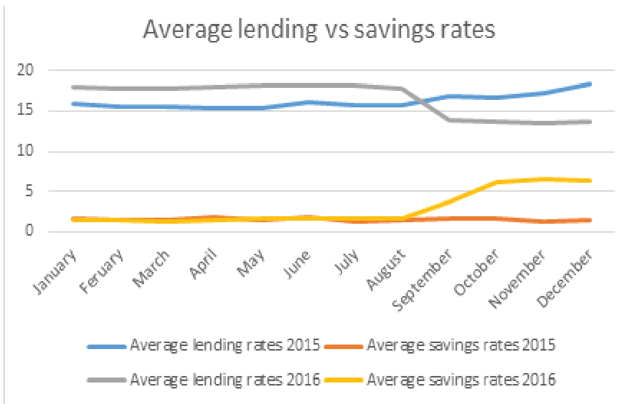

Source: https://www.hassconsult.co.ke/

The commercial office market saw relatively low increase in returns of 0.1% at 9.4% compared to 9.3% in 2015 on the backdrop of tough economic conditions. Rental income however increased by 6% and prices increased by 2% leading to a 1.1% increase in yield. Occupancy levels dropped slightly from 89% to 88% partially due to increased supply of office space in Nairobi, which has historically grown at an average rate of 16% from 2011.

The listed real estate market performed poorly with the only listed Real Estate Investment Trust (REIT), Fahari I-REIT, losing approximately 45% of its value and the Fusion Capital D-REIT failing to reach the minimum requisite of 50% subscription to list. Poor investor education, lack of transparency surrounding returns and poor returns from underlying assets are some of the reasons that have been cited by experts for the dismal performance.

## Banking

The sector witnessed increased regulation with emphasis on transparency on lending rates, governance and capitalization. In August 2016, President Uhuru Kenyatta approved the new law, which capped rates at a maximum of 4% above the CBR rate. Private sector credit had grown by approximately 4.6% in October 2016, compared to 21% over the same period in 2015. This was due to reforms in the banking sector brought about by the increase in non-performing loans, which in addition to the law capping interest rates has led to banks lending to the government as opposed to the riskier private sector.

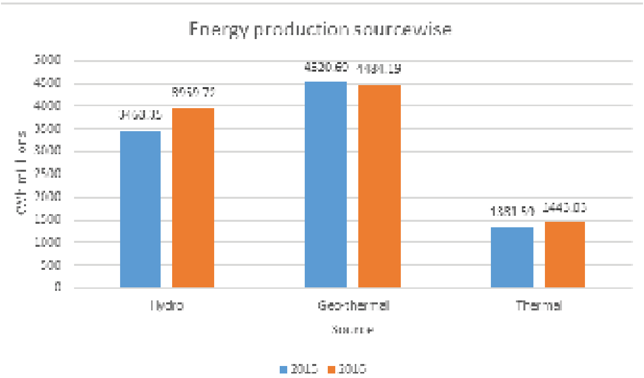


There have been over a thousand job cuts in the banking sector over 2016, with more expected over the course of 2017. Increased uptake of mobile banking and the automation of banking processes have been key contributors to job losses in an era where banks are fighting to protect their margins.

Shareholder dividends eroded after listed banks were forced to increase their provisions to cover non-performing loans. Additionally, the law capping lending rates may have been the largest cause of the loss in value amounting to KES 180 billion of the 11 banks listed on the NSE. Total loan-loss provisions for listed banks increased to KES 25 billion as of late September, from KES 11 billion in the same month in 2015.

The sector experienced heightened M&A activity in 2016. Mauritius based SBM holdings acquired Fidelity Commercial Bank, Bank M acquired Oriental Commercial Bank, and I&M Bank acquired Giro Bank.

## Energy




Total local electricity generation increased by 6% in 2016 as compared to 2015. Generation using the expensive thermal sources increased 8%, while cheaper source (hydro) increased by 14%. Hydro, Geo-thermal and thermal contributed 40%, 45% and 15% to total local electricity generation respectively. There are other sources such as wind and solar but their contribution to electricity generation did not exceed 0.4%. However, this is expected to change in 2017 once Africa's largest wind power farm comes online.

The Kenyan government has granted various tax exemptions in order to encourage investment in the energy sector for the purposes of lowering the cost of energy. For example, from June 2015, interest on loans advanced from foreign sources (provided the funds are utilised for investing in infrastructure) was exempted from tax. Despite increasing installed capacity, the demand for power in Kenya is rising at a faster rate than supply. The relatively slow growth in supply may be attributed to investors having to overcome the hurdles posed by outdated and overlapping legislation and regulations, the unclear mandate of national and county governments, and contradictory policy frameworks.

Kenya plans to set up its first nuclear power plant with a capacity of 1,000MW by 2027. To facilitate this, in September 2016, Kenya signed a partnership agreement with three South Korean nuclear power entities, which will help Kenya to obtain important knowledge and expertise from Korea, the world's fifth-largest user of nuclear power.

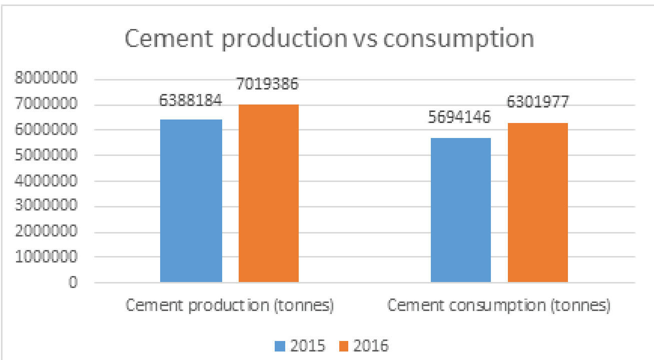
## Manufacturing

The manufacturing sector contributes to between 10% and 11% of Kenya's GDP, and the same has stagnated at that level for the past 10 years. Analysts argue that this contribution must increase to approximately 15% for there to be sufficient jobs to match the growing working population. Data from the Kenya National Bureau of Statistics shows the manufacturing sector grew 3.6% in the first quarter of 2016, down from 4.1% growth in the first quarter of 2015. In the third quarter to last year, the sector's growth rate was 1.9% compared with 3.3 % in the same quarter in 2015. The number of formal jobs in manufacturing has grown at just 7% per year over the past four years. This, despite numerous opportunities thet exist such as the significant potential in food processing. Most of the food crops produced within the country are exported in their raw form, with a finished product imported back into the country.

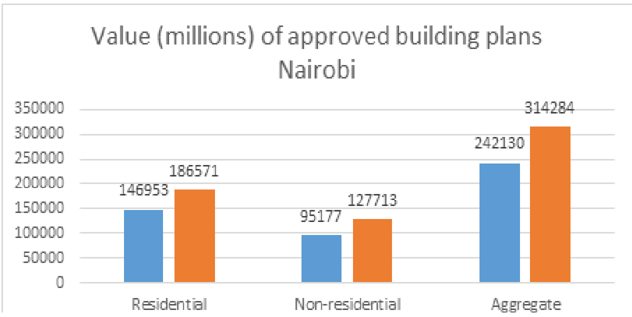
Challenges that the sector faces include high cost of energy (KES 11 per Kilowatt hour, compared to Ethiopia's between four and five cents per Kilowatt hour) and transport, low uptake of local products, and more recently, an influx of cheap imports from China and India. Over the year, Sameer Africa closed its factory and moved its operations abroad citing competition from cheap and subsidised tyre imports in the market, and Kenya Fluorspar Company which scaled down operations citing depressed global commodity prices.

Kenya has climbed up 21 places on the World Bank's Ease of Doing Business Index to stand at 92 in 2016, while the World Bank's Enterprise Surveys from 2007 and 2013 suggest the business climate is deteriorating. There are unclear indicators on the exact business environment in country; however, the lack of growth in the manufacturing sector may point towards a more challenging manufacturing environment, as opposed to a conducive one.

## Building and construction



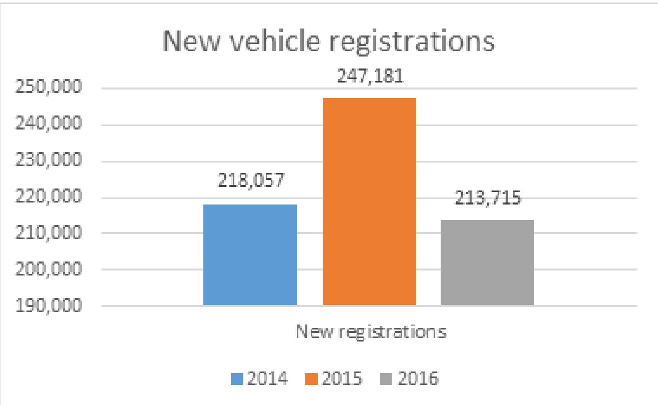

The construction sector continues to be one of the major contributors to GDP at approximately 7%. Mega infrastructure projects and demand for housing and office space have spurred growth in the sector despite suffering limitations as far as quality assurance is concerned - the collapse of several buildings and construction on road reserves and public utility spaces. The sector got a boost when the government scrapped environment audit and building levies despite it being affected months after an announcement by the Treasury. Duplicated or overlapping roles as far as regulatory bodies are concerned will be streamlined in order to ensure that ministries and departments focus on their core mandate. The creation of a collective single delivery system for licensing and registration of contractors was approved by the cabinet to reduce time spent in dealing with bureaucracy. Furthermore, the NCA begun enforcing a rule whereby international firms would have to cede 30% of contract value or enter in to a joint venture with local firms before permits are approved. This move was aimed at ensuring a transfer of skills as well as to increase the competitiveness of local contractors.




High land prices have pushed investors to target construction on the outskirts of Nairobi, as well as other less developed areas nationally - a trend which is expected to continue into 2017. Developers faced difficulties in getting finance in the 4th quarter of 2016 since the capping of interest rates took effect and banks did not see the premium of 4% commensurate to the risk of lending to the private sector.

## Transport and storage

There was a drop of 14% in 2016 in vehicle registrations compared to 2015. More specifically, the largest drops were witnessed in new registrations of Lorries and trailers possibly reflecting the impact of the SGR on the road sub-sector. New motorcycles registrations also dropped by 11% compared to the 21% increase seen in 2015. Wheeled tractors increased by 10%, perhaps correlated to the increased confidence in the agriculture sector.




Continuous investment in infrastructure by the government has attracted multinationals, with analysts predicting further FDI through continuous investment in infrastructure. French firm Bollore setting up a KES 2 billion logistics hub in Kenya, is a prime example of infrastructure developments attracting multinationals.

Phase one of the Mombasa Port Development Project, which started in March 2012 at a cost of KES 22 billion, was declared complete, as per the schedule in February 2016. The port, after the recent development, will be able to increase its capacity by approximately 30% to 1.32 million containers annually.

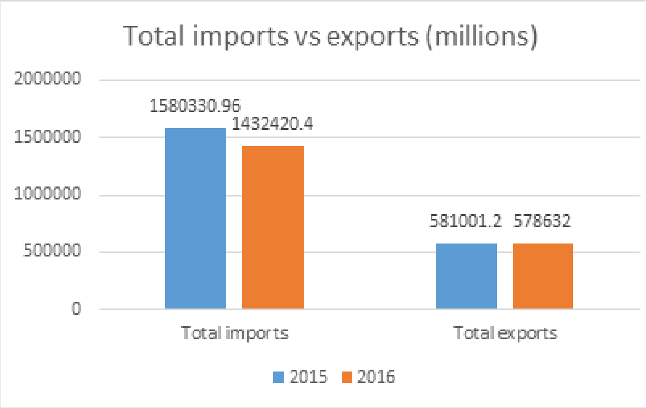
Combined turnover within the logistics industry in Kenya reached USD 9.4 billion in 2015, and increased at a CAGR of 13% over the 2010-2015 period. One of the driving reasons for such growth is the growing retail industry, which has been forecast to jump almost 34% in real value terms over the 2015-2021 period.

## Information and communication technology

As of the 3rd quarter of 2016, mobile penetration stood at 87.3% while the number of subscriptions stood at 38.5million. The number of internet subscriptions grew by 18.5% compared to the 3rd quarter of 2015. Overall internet penetration stood at 85.3% in 2016. Growth of e-commerce services and affordability of mobile data bundles provided by various internet service providers are factors leading to increased internet usage.

It was estimated that 80% of total funding (USD 103.2 million) flowed to technology-based startups in South Africa, Kenya and Nigeria. Private equity and venture capital firms have seen the potential for technology in Kenya amidst increasing mobile and internet penetration in the country and thus 2016 saw a number of investments (although relatively small ticket sizes) in relation with mobile lending, data collection etc.

## International trade and balance of payments





Africa and Europe remain the largest recipients of exports from Kenya. The largest country to which goods are exported outside of the East African region is the USA accounting for 14% of all exports in 2016. There was a 13% growth in the value of goods exported to Pakistan while the value of goods exported to Uganda dropped by 15%.

The total value of goods/service exported in 2016 was approximately KES 315 billion, compared to KES 308 billion in 2015. Food and beverages accounted for 40% of domestic exports, and in 2016, increased 2% in value compared to 2015. Fuel and lubricants increased by 179% as compared to 2015, and the value of machinery and other capital equipment exported increased by 52% compared to 2015. However, industrial supplies and other unspecified items dropped by 16% and 75% respectively as compared to 2015.

# Income Tax

The draft Income Tax Act is expected to be published soon after input from the public. The review of the Income Tax Act is expected to increase the tax base and ensure certainty with the tax laws. The Income Tax Act is expected to simplify the administration of the law and reduce cost of compliance by taxpayers.

### Tax Procedures Act (TPA) Amendments

1. Powers of KRA officers
   The proposal allows KRA officers to be able to initiate prosecution and produce seized evidence in Tribunal or a court of Law.

This will help the officers in investigation to conclude the cases at the court of law or tribunal without necessarily having to involve Police officers.

2. Inclusion of Penalty as part of liability
   The current law excludes penalties from reference to tax liability. This is now been clarified that penalties is part of tax liability.

3. Tax Amnesty for income earned outside Kenya.

   The Amnesty was introduced in the Finance Act 2016 and further guidelines published on 8 March 2017 is summarized as below:

- Full disclosure of assets to be done by 31 December 2017.
- Disclosure to be through a prescribed format to be uploaded on iTax by the KRA.
- No further information shall be required to be provided by the KRA
- A certificate of confirmation of amnesty shall be issued by the KRA
  Further to the regulation as summarized below, the budget statement has proposed the following:
- Extension to file returns and accounts for the year 2016 by 30th June 2018
- Funds declared under amnesty have to be repatriated.

There is still a large ambiguity on this subject and we hope that there will be further clarity publicized on the same to enable people take advantage of this opportunity.

### Income Tax Act Amendments

### Investment deduction

The proposal increases investment deduction on the capital expenditure incurred by industries in the Blue Economy sector to 150%. Blue economy relates to the fishing industry, both marine and fresh water.

### Expansion of Tax Bands

- In a bid to reduce the income tax inequalities, the proposal increases the tax bands and personal relief by another 10% following a similar increment in the year 2017.

- The lowest taxable income now moves from Kshs 11,135 to Kshs 13,486 and thus reduce the tax burden for the low-income earners.

## Reduced Corporate Tax Rates introduced for motor vehicle assemblers.

The proposal reduces the corporate tax rate for new vehicle assemblers from 30% to 15% for the first five years.
This is expected to increase job opportunities in the country and attract new investors.

## Betting, Lottery, Gaming and Competition

Betting and gaming have recently become popular in Kenya. The new generation Kenyans have become more passionate to sports and participation in competitions.

- Gaming Tax – from 12% to 50%
- Betting Tax – from 7.5% to 50%
- Lottery Tax – from5% to 50%
- Prize Competitions Tax – from 15% to 50%

The tax is payable by the companies and not the individual winners. There is however a chance that many of the companies may shift their base to outside Kenya and effectively the tax may never be collected in Kenya.

## Deduction for Expenditure Incurred On Donations towards National Disaster.

In the last few weeks, Kenya has had adverse times through drought and Famine. This has led to proposal to allow donations made to national disasters as tax deductible expenses. This has been pegged to a condition that such donations must be channeled through the Kenya Red Cross, County Government or any other institution responsible for national disaster.

# Value Added Tax

The Cabinet Secretary exceeded the taxpayers' expectations in the proposals made to the VAT regime.

### Zero Rating of Ordinary Bread and Maize Flour

In order to make bread and maize flour affordable to the common mwananchi, the cabinet secretary has proposed zero rating of maize flour and ordinary bread, which are currently VAT exempt.

The move is intended to reduce the cost of manufacturing bread and maize flour and consequently reduce the prices of these items. The manufacturers of maize and wheat flour will subsequently be forced into VAT refunds situation.

The manufacturers, wholesalers and retailers of the goods are required to reduce the prices of these basic commodities, failure to which the policy will be reversed. We also hope that the KRA will expedite prompt payment of the VAT refunds.

### VAT Exemption on inputs used in manufacture of pesticides

In a bid to promote local manufacturers of pesticides, it has been proposed to exempt from VAT all inputs used in the manufacture of pesticides products.

The change is expected to have a trickle-down effect to the agricultural sector by reducing the cost of production.

### Locally assembled tourist vehicles to be exempt from VAT Locally assembled tourist vehicles to be exempt from VAT

The tourism sector that was once the National Treasury's biggest foreign exchange earner has faced many difficulties that have adversely affected the gains earned in the past from this industry. In spite of the challenges, the sector has been resilient and has experienced steady growth in the last fiscal year.

The incentive has been proposed to further revamp the sector.

### VAT exemption on Medical Equipment and Apparatus for use in specialized hospitals

This is a welcome move in the health sector.
The Finance Act 2016 introduced VAT exemption on inputs used for construction of specialized hospitals with accommodation. The Cabinet secretary has now extended the VAT exemption to medical equipment and apparatus to make the health sector more attractive to investors.

## VAT exemption of transactions related to transfer of assets into Real Estate Investment Trusts (REITs) and Asset Backed Securities (ABS).

The Cabinet Secretary has proposed VAT exemption of transactions related to transfer of assets into REITS and ABS. The amendment is anticipated to enhance effective uptake of such infrastructure financing products, provide alternative means to raise funds for such projects and deepen the country's sources of infrastructure financing.

## Zero Rating of packaging materials and other inputs intended to support primary, secondary and ancillary marine fisheries and fish processing

The Cabinet Secretary has proposed VAT exemption of packaging materials and inputs for marine fisheries and fish processing.

The Cabinet secretary in his speech emphasized on the potential of the blue economy to spur economic growth. This tax incentive has been presented to facilitate development of the blue economy.

## VAT exemption of LPG gas and LPG gas cylinders

LPG Gas and LPG Gas Cylinders which are currently zero-rated, will now be exempt.

This proposal will promote local manufacturing of LPG gas cylinders, which currently are being majorly imported.

## Withholding VAT Proposals

The Withholding VAT system has increased VAT collection for the government but there is currently no specific provision stating the due date for payment of the tax.

There is a further proposal to streamline Withholding VAT agents in a perpetual credit position.

Any VAT withheld is now to be paid within 14 days from the date of payment to the supplier.

A proposal is also being made to revoke the appointment of withholding VAT agents for suppliers in a credit position for a period of not less than 24 months. This re-evaluation is expected to address the backlogs of the persistently delayed VAT refund claims.

## Issuing of VAT Regulations

The Cabinet Secretary has announced the publication of VAT regulations to enhance the smooth implementation of the VAT Act 2013.

The VAT regulations have been realigned with the Tax Procedures Act; 2015.This is a welcome move, as it will bring clarity in the administration of VAT rules and ease compliance.

# Customs & Excise

A comprehensive review of EAC Common External tariff is ongoing. This will set out the rates of duty applicable on imported goods and other amendments to be applied across the EAC countries.

The EAC Ministers of Finance will have a pre-budget consultation meeting in May this year to discuss matters relating to Customs, which shall later be communicated through the EAC Gazette and implemented from 1st July 2017.

A comprehensive review of EAC Common External tariff is ongoing. This will set out the rates of duty applicable on imported goods and other amendments to be applied across the EAC countries.

## Amendments to the Excise Duty Act

Refund of Excise duty on illuminating kerosene used in Paint manufacturing.

- The Cabinet Secretary has proposed to amend the Excise duty Act to allow refund of excise duty paid on illuminating kerosene used in the manufacturing of paints and resin by registered manufacturers.

This will see the Paint and Resin manufacturing industries grow tremendously in the anticipation that excise refunds shall be paid in time by the KRA

**Remission of Excise Duty**

- In order to discourage the consumption of illicit brews, the Cabinet Secretary has proposed 80% remission of excise duty on locally manufactured beer made from sorghum, millet or cassava or any other agricultural products grown in Kenya, excluding barley.

- The consumption of high value spirits has increased greatly with the growing middle income class in Kenya. The proposal is to increase the tax rate of spirits from Ksh. 175 per litre to Ksh. 200 per litre.

## Duty Exemption on Importation of White Maize

- The government has removed duty on the importation of white maize for a period of four (4) months.

**Importation of dates.**

- The importation of dates will also be duty free during the Ramadhan period in support of our Muslims.

**Inflation adjustments on Excise Rates**

- While the government does not intend to increase the tax rates on beer, there will be inflation adjustment that will be effected from 1st July 2017. This will increase government revenue in line with inflation rates.

- KRA is expected to publish the new inflation adjusted tax rate for all excisable goods shortly in July 2017.

**Excise duty on Cigarettes**

- The rate of excise duty has been amended from the single rate of Kshs 2,500 per mille to a two-tier tax structure of Ksh 2,500 per mille for cigarette with filters and Ksh 1,800 per mille for plain cigarette.

This tax measure will ensure equity and fairness in the tobacco industry and prevent job losses in this sector.

**Exemption of Excise duty in the manufacture of sanitary towels.**

- The Excise Duty Act is proposed to be amended to exempt from excise tax locally manufactured products purchased for use in manufacturing of sanitary towels

This move will ensure equal treatment on both Imported and locally produced raw materials to be used in the production of sanitary towels.

**Exemption of Excise duty for excisable goods supplied to St John Ambulance**

- The excise duty is further amended to exempt excisable goods supplied to the St. John Ambulance for official use in the provision of relief supplies in Kenya

**Benefits for returning residents under the Excise duty Act .**

- Returning residents will now be allowed to purchase a new right hand vehicle whose current retail-selling price shall not exceed that of the previous owned left hand drive vehicle.

# Special Economic Zones

## Favourable tax incentives to promote foreign direct investment in Kenya.

### Exemption of Dividends

- No withholding tax on dividends paid to non-resident investors by enterprises operating in Special Economic Zones (SEZ)

### Reduced Withholding Tax Rates

Reduced Withholding tax rates shall apply on payment to non-residents by the SEZ entities as below;

1. Management Fee - from 20%to 5%
2. Royalties - from 20% to 5%
3. Interest - from 15% to 5%

This will entice foreign investors to invest in the SEZ zones due to these tax incentives and promoting foreign direct investment in Kenya.

### Investment Deduction

- Enterprises licensed under SEZ shall qualify for 100% investment deduction on the capital cost incurred in the construction of buildings and installation of machinery.

Companies shall get an accelerated tax incentive within the first year of operations.

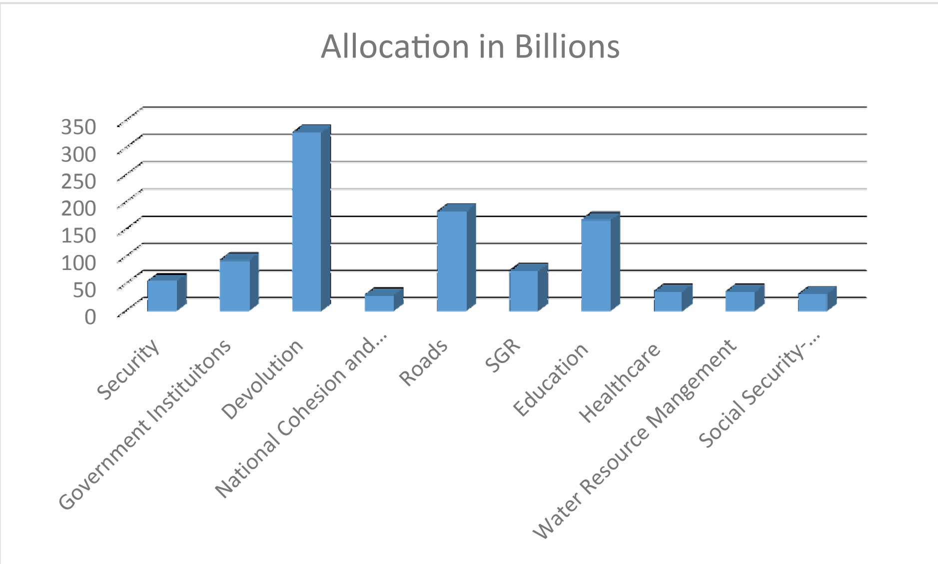
### Exemption of Export duty and IDF

- Enterprises licensed under SEZ Act will be exempted from excise duty and Import Declaration Fees on the exportation and importation goods.

# Miscellaneous

The Government is strongly committed to pursuing prudent fiscal and monetary policies that support strong economic growth.

**The graph below illustrates the top 10 revenue allocation by sector under the 2017/2018 budget**




## Financial Sector Reforms

### Mobile Phone technology

- About 75.3% of Kenyans now have access to financial services, a massive growth from the 26.7% in 2006. This growth has been driven by the mobile phone technology. More Kenyans buy goods and services, and pay their bills conveniently using their phones.
- The government launched a special limited offer of the M-Akiba bond worth Ksh 150 million. This is a tax-free retail bond issued by the Government of Kenya and can be bought and sold via the mobile phone platform.
- The Cabinet Secretary announced that the main M-Akiba bond with an offer of Ksh 4.85 billion will be launched by the President in June 2017.

### Banking Sector

- The banking sector remained largely profitable with capital adequacy and liquidity ratios above the recommended

thresholds despite some banks being placed either under liquidation or under statutory management, thus giving assurance to Kenyans that their money is in safe hands.

- The lending rate was capped at 14% while interest deposit rates now stands at 7%.

- Islamic Financing - In order to attract foreign direct investment, the Cabinet Secretary proposes legislative amendments to the Capital Markets Act, the Cooperatives Societies Act and Sacco Societies Act to facilitate for sharia compliant finance products.

- Islamic Bonds- The Cabinet secretary proposes to amend the Public Finance Management Act to provide for issuance of Islamic bond as an alternative source of financing for government development projects.

### Automotive Sector

The Cabinet Secretary noted a return of investors into the automotive industry; the Government in close engagement with stakeholders will complete the development of a Comprehensive Automotive Industry Development Policy for Kenya and finalize an actionable 10-year Automotive Industry Development Plan.

### Insurance Sector

- The Cabinet Secretary pointed out that the insurance industry in Kenya was restructuring into groups to enhance their capital base as well as take advantage of economies of scale and maximize on the expertise, which is scarce. He proposed to amend the Insurance Act to enhance supervision of insurance groups in Kenya and ensure financial stability in the sector.

- The Cabinet Secretary proposed an amendment of the Insurance Act to provide for perpetual licensing of insurers, as is the case for other financial institutions under the Banking Act. This provision will however not be applicable to intermediaries such as insurance brokers, loss assessors, among others, who will continue to be issued with annual licenses.

### Retirement Benefits Sector

- The Cabinet Secretary plans to introduce regulations to facilitate development of Takaful Retirement Benefits Schemes in Kenya.

- Government has decided to enhance coverage of the cash transfer programme to fully support all old persons above the age of 70 years. With effect from January 2018, all persons above the age of 70 years will receive a cash transfer in the form of a monthly stipend and NHIF cover that will be paid by the Government.

## Key Bills

### The Movable Property Security Rights Bills 2016

- The Bill was introduced in the 2016 Budget.

- The purpose of this Bill is to provide for the use of movable property as collateral for credit facilities. In addition the Bill provides a framework to establish the office of the Registrar of security rights, to promote consistency and certainty in secured financing relating to movable assets, to enhance the ability of individuals and entities to access credit using movable assets and to establish a Registry to facilitate the registration of notices relating to security rights in movable assets.

- In the 2017/2018 budget, the Cabinet Minister announced that the Bill approved by the National Assembly should facilitate lower lending rates as it provides for borrowing using movable assets.

## Nairobi International Financial Centre Bill

- The Bill is geared towards consolidating Kenya's position as a financial hub in the region by formulating framework for addressing bottlenecks and creating market infrastructure and fostering development. According to the provisions of the Bill, an entity, which intends to operate as an NIFC firm, shall apply to the proposed Nairobi International Financial Centre Authority, in the prescribed form to be considered.

- This bill is aimed at establishing the Nairobi International Financial Centre to position Nairobi as an international financial hub.

- The Cabinet secretary announced that, the Bill has been approved by Cabinet and has been sent to the National Assembly for approval.

## Financial Services Authority Bill

The Financial Services Authority will supervise the conduct of all financial markets players. This helps to ensure that industry players do not get opportunities to exploit gaps in regulations. The various Acts; (CMA, RBA, IRA, SASRS), were amended and integrated under the Financial Services Authority Act to form a standard guideline that is to be enforced.

## Kenya Revenue Authority Act

The Cabinet Secretary proposes to amend the Kenya Revenue Authority Act to include Tax Procedure Act 2015, Excise Duty Act 2015, and Value Added Act 2013 that were enacted but not included in the second schedule. This has been updated in order to stream line revenue laws.

## Tax Appeal Tribunal Act

The Act has been amended and the time limit set for resolving cases before the tribunal set for 90 days from the date of lodgment of such disputes.

## Other Highlights;

- The Cabinet Secretary intends to introduce tax statutes to provide for equivalent tax treatment of Islamic financing with the conventional financial products.

- Double Taxation by County Governments- the Cabinet Secretary, in his Budget Policy Statement legislative proposed to make proposals to Parliament that will set out how County Governments may raise revenues without violating the Constitution and raising the cost of doing business.

- In addition, and in the spirit of controlling the growth of the wage bill, new recruitments will remain frozen except for limited technical staff, security personnel, teachers and health workers.

- The Cabinet Secretary will soon gazette the Public Procurement and Asset Disposal Regulations, 2017. These regulations aim at facilitating procurement at both levels of governments.

- The Government intends to provide incentives that will create more jobs for the youth; this will be done by supporting the agricultural, leather, textile and apparels, the pharmaceutical and extractive industry in a manner that leverages the labour absorbing characteristics of these sectors.

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