BUDGET HIGHLIGHTS KENYA

2016/2017

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

TABLE OF CONTENTS

ECONOMIC PERFORMANCE IN 2015

GLOBAL ECONOMIC HIGHLIGHTS 2015

- The Global real GDP growth declined to around to 3.1% in 2015 from 3.4% in 2014. In 2015, global economic activity remained subdued. Growth in emerging market and developing economies, while still accounting for over 70% of global growth, declined for the fifth consecutive year, while a modest recovery continued in advanced economies. However, it is projected that growth will increase to 3.2% in 2016 and to 3.5% in 2017.
- Global industrial production, particularly of capital goods, remained subdued throughout 2015. This weakness is consistent with depressed investment worldwide – particularly in energy and mining – as well as the deceleration of China's manufacturing activity. In addition, the dramatic decline in imports in a number of emerging market and developing economies in economic distress is also weighing heavily on global trade. Global trade in volume declined to 3.2% in 2015 compared to 3.4% in 2014.
- Headline inflation has declined from 3.5% in 2014 to 3.3% in 2015, reflecting the decline in oil prices, softer prices for other commodities and a weakening of demand in a number of countries.
- Overall, oil prices continued to decline in through-out 2015 on account of strong supply from members of the Organization of the Petroleum Exporting Countries and Russia, expectations of higher supply from the Islamic Republic of Iran. Nonfuel commodity prices weakened as well, with metal and agricultural commodities prices declining by 9% and 4%, respectively.
- Three key transitions continue to influence the global outlook:
    - The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services.
    - Lower prices for energy and other commodities.
    - A gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy central banks continue to ease monetary policy.

Real GDP growth in %

	2012	2013	2014	2015	2016*	2017*
Japan	1.8	1.6	0.0	0.5	0.5	(0.1)
UK	1.3	1.7	2.9	2.2	1.9	2.2
USA	2.3	2.2	2.4	2.4	2.4	2.5
Euro Zone	-0.8	-0.5	0.9	1.6	1.5	1.6
China	7.8	7.8	7.3	6.9	6.5	6.2
India	5.1	6.9	7.3	7.3	7.5	7.5
World	3.4	3.4	3.4	3.1	3.2	3.5

SOURCE: WORLD ECONOMIC OUTLOOK: OCTOBER 2015 & APRIL 2016 IMF. FIGURES FOR 2016 & 2017 ARE PROJECTIONS.

AFRICA ECONOMIC HIGHLIGHTS 2015

- Economic activity in Sub-Saharan Africa in 2015 slumped to its lowest level in 15 years. Output expanded by 3.4%, down from 5.1% in 2014, and is set to decelerate further this year to 3% - well below the 5% to 7% range experienced over the decade.
- The sharp decline in commodity prices has put severe strains on many of the largest sub-Saharan African economies. Angola and Nigeria (oil exporting countries), continue to face difficult economic conditions, but so do non-energy-commodity exporters, such as Ghana, South Africa, and Zambia. Meanwhile, Guinea, Liberia, and Sierra Leone are only gradually recovering from the Ebola epidemic, and several southern and eastern African countries, including Ethiopia, Malawi, and Zimbabwe, are suffering from a severe drought.
- However, most oil importers are generally faring better, with growth in excess of 5% and even higher in countries such as Côte d'Ivoire, Kenya, and Senegal. Growth in most of these countries is being supported by ongoing infrastructure investment efforts and strong private consumption. The decline in oil prices has also helped these countries, though the windfall has been smaller than expected, as exposure as a result of the decline in commodity prices and currency depreciations have partly offset the gains in many of them.
- The Southern African Development Community (SADC) recorded a slowed growth of 3% in 2015 compared to a 3.2% growth in 2014. This was mainly due to declined economic growth registered in South Africa.
- Over the last decade, the Eastern African Community region has experienced average growth of 5.8%. In 2015, GDP growth of countries in the East African Community slowed to 3.4% compared to 6.0% in 2014 and 5.8% in 2013. This decline was associated with political instability in Burundi and uncertainties associated with general elections in Tanzania and Uganda.
- The main external challenges that the region faced last year, such as subdued commodity prices and China's slowdown along with domestic headwinds such as currency devaluations, political uncertainty and security threats and erratic weather patterns, will likely threaten growth this year as well. For 2017, growth is expected to recover to 4%.

Real GDP growth in %

	2012	2013	2014	2015	2016*	2017*
Sub-Saharan Africa	4.3	5.2	5.1	3.4	3.0	4.0
EAC-5	4.6	5.8	6.0	5.8	6.1	6.3
SADC	3.7	4.2	3.5	2.7	2.4	2.9
Nigeria	4.3	5.4	6.3	2.7	2.3	3.5
South Africa	2.2	2.2	1.5	1.3	0.6	1.2
Kenya	4.6	5.7	5.3	5.6	6.0	6.1
Tanzania	5.1	7.3	7.0	7.0	6.9	6.8
Uganda	2.6	4.0	4.9	5.0	5.3	5.7

SOURCE: REGIONAL ECONOMIC OUTLOOK: WORLD ECONOMIC AND FINANCIAL SURVEYS, OCTOBER 2015 & APRIL 2016, IMF. FIGURES FOR 2016 & 2017 ARE PROJECTIONS.

KENYA ECONOMIC HIGHLIGHTS 2015

- Kenya's economic performance was more solid in 2015 than most other large African economies. The Gross Domestic Product (GDP) is estimated to have expanded by 5.6% in 2015, a slight improvement compared to 5.3% in 2014. The growth was mainly supported by a stable macroeconomic environment and improvement in outputs of agriculture, construction, finance and insurance and real estate. Inflation eased from 6.9% in 2014 to 6.6% in 2015 due to lower energy and transport prices.
- Interest rates recorded mixed performance with spikes and dips for most nominal rates in 2015. The Central Bank Rate (CBR) increased from 8.5% in December 2014 to 10.0% and 11.5% in June and December 2015, respectively. The weighted average interest rates on commercial banks loans and advances rose by 1.4% points to 17.5% in December 2015 compared to a rise of 15.9% in December 2014.
- Generally, the Kenya Shilling depreciated against the major trading international currencies. The Kenya Shilling weakened against the US Dollar, Chinese Yuan, Indian Rupee and Pound Sterling by 11.7%, 9.5%, 6.3% and 3.7%, respectively, in 2015. However, the Kenya Shilling gained against the Euro, South African Rand and 100 Japanese Yen by 6.7%, 4.7% and 2.6%, respectively, in 2015. Within the EAC region, the Kenya Shilling displayed mixed performance, strengthening against the Ugandan Shilling and Tanzanian Shilling by 11.5% and 9.5%, respectively but weakening against the Rwandese Franc by 9.0%. The depreciation of the currency was mainly due to the global strengthening of the US Dollar on the international market, and high dollar demand by importers in the domestic market.
- Total debt as at end of 2014/15 stood at Shs 2,601.4 billion, of which external debt stock accounted for 54.7%. Debt servicing charges net of repayments from on lending are expected to stand at Shs 399.0 billion. During the period under review, Shs 259.8 billion will be transferred to county Governments. The total budgeted expenditure for county Governments is estimated at Shs 361.1 billion against an estimated revenue of Shs 343.7 billion.
- Terms of trade of all items improved from 73.1% in 2014 to 84.9% in 2015, mainly due to improved unit prices of the export commodities coupled with a decline in import prices of mineral fuels.
- The current account deficit narrowed from 14.5% as a percentage of GDP in 2014 to 11.4% in 2015 due to a substantial growth in export of goods and services; a reduction in the import bill; and due to low oil prices.
- Total exports rose by 8.2% to Shs 581 billion in 2015, while total imports declined by 2.5% to Shs 1,578 billion. This resulted to the balance of trade improving from a deficit of Shs 1,081 billion in 2014 to a deficit of Shs 997 billion. The volume of trade increased marginally from Shs 2,156 billion in 2014 to Shs 2,158 billion in 2015. The rise in the total export earnings compared to the decline in the total import bill led to the improvement of export-import ratio from 33.2% in 2014 to 36.8% in 2015.

Snapshot of Economic Performance for the Period 2012 – 2015

	2012	2013	2014	2015
GDP at market prices (Shs million)	4,261,151	4,745,439	5,398,021	6,224,370
Real GDP growth (%)	4.6	5.7	5.3	5.6
Gross domestic investment as % of GDP	21.2	20.6	22.9	21.5
Population (million)	40.7	41.8	43.0	44.2
Population growth rate (%)	3.0	2.7	2.9	2.7
Average annual inflation (%)	9.4	5.7	7.3	6.3
91-day Treasury bill interest rate (%)	8.3	9.5	8.6	9.8
Lending rate (%)	18.2	17.0	16.0	17.5
Money supply (M3) (Shs million)	1,727,686	1,996,242	2,329,979	2,658,166
Growth in money supply (M3) (%)	14.1	13.3	19.0	14.1
Budget deficit (including grants - commitment basis) (Shs million)	(181,460)	(297,400)	NA	(570,200)
NSE 20 Share Index (1966 - 100)*	4,133.0	4.927.0	5,113.0	4,040.0
Exchange rate (Shs: USD)	84.5	86.1	87.9	98.2
Exchange rate (Shs: Pound)	134.0	134.8	144.9	150.2
Export / import cover ratio (%)	37.7	35.5	33.2	36.8
Total public debt (Shs million)	1,532,541	1,732,743	2,217,312	2,601,432
Domestic debt (Shs million)	768,569	889,180	1,078,807	1,178,180
External debt (Shs million)	763,972	843,562	1,138,504	1,423,252
Total public debt as % of GDP	36.0	36.5	41.0	41.8
CBR rate	11.0	8.5	8.5	11.5

SOURCE: ECONOMIC SURVEY 2016

RSM

SECTOR HIGHLIGHTS

Sectorial Performance – Gross Domestic Product by Activity

	% Growth				
	2011	**2012**	**2013+**	**2014+**	**2015***
Agriculture, forestry and fishing	26.3	26.1	26.4	27.3	30.0
Manufacturing	11.8	11.0	10.5	10.0	10.3
Construction	4.4	4.5	4.5	4.8	4.8
Wholesale and retail trade	8.1	7.8	8.0	8.0	7.5
Accommodation and food services	1.3	1.3	1.2	0.9	0.8
Transport & Storage	7.1	8.0	7.9	8.6	8.4
Financial and insurance services	5.7	5.9	6.6	6.8	6.9

Source: Economic Survey 2016
+ Revised
** Provisional*

SOURCE: ECONOMIC SURVEY 2016

Agriculture, Forestry and Fishing

- Performance of the agricultural sector in 2015 improved against a backdrop of good weather and abundant rainfall, hence Gross Value Added improved from 3.5% in 2014 to 6.2% in 2015. Attributed to this improvement was improved crop and livestock production.
- Total value of marketed production at current prices increased by 11.3% from Shs 333.2 billion in 2014 to Shs 371.0 billion in 2015. Overall, the value of marketed crops increased by 15.5% from Shs 235.3 billion in 2014 to Shs 271.8 billion in 2015. Marketed crops continued to account for over 70% of total marketed production in 2015, largely due to improved earnings from tea and horticulture exports.
- During the year under review, international coffee prices deteriorated significantly. The decline in marketed production coupled with a reduction in international coffee prices, resulted in a 27.4% decrease in domestic coffee earnings to Shs 12.1 billion in 2015.

Manufacturing Sector

- The sector’s real output grew by 3.5% in 2015 compared to a slower growth of 3.2% in 2014 attributed to reduced production costs arising from lower cost of petroleum and electricity inputs.
- The value of manufacturing projects approved by industrial financial institutions also increased to Shs 1,092.0 million in 2015 from Shs 569.1 million in 2014.
- The sector was negatively affected by cheap imports, high cost of capital and disincentives to export because of delayed Value Added Tax refunds.

Tourism Sector

- Tourism earnings went down to Shs 84.6 billion in 2015 compared to Shs 87.1 billion in 2014. Similarly, international visitor arrivals declined by 12.6% from 1.35 million in 2014 to 1.18 million in 2015. The suppressed performance was on account of security concerns, particularly in the coastal region and restrictive travel advisories from some European source markets.
- In 2015/16, the Government increased budgetary allocation to the State Department of Tourism from Shs 5.6 billion to Shs 10.7 billion, to among others, market Kenya as a preferred tourism destination. The sector is expected to improve following the scrapping of landing fees at Mombasa and Malindi international airports for chartered planes from January 2016 till June 2018 and a subsidy of US$ 30 for each passenger who disembarks in Kenya during the period.

Money, Banking and Finance

- The total liabilities and assets of the banking system for the period under review grew to Shs 3,324.0 billion, an increase of 16.4%. Total liabilities of the banking system increased on account of expansion in broad money supply and foreign currency holdings.
- The increase in assets of the banking system was due to increases in domestic credit to the National Government and private sector, which grew by 26.6% and 18.1%, leading to an increase of 19.2% in overall domestic credit.
- During the year under review, the Kenya Government negotiated a precautionary programme support with the IMF to mitigate the impact of possible exogenous shocks in 2015. Through this programme, the IMF undertook to provide US$ 696.7 million to strengthen Kenya's external position.

Building, Construction and Energy

- The country witnessed a thriving building and construction sector in 2015 registering a growth of 13.6% in value added. This growth was on account of the on-going public infrastructure projects and private sector development in the real estate sector and is mirrored in the increased cement consumption.
- Cement production went up by 8.0% from 5.88 million tonnes in 2014 to 6.35 million tonnes in 2015. Cement consumption and stocks rose to 5.71 million tonnes in 2015 from 5.20 million tonnes in 2014 as a result of increased demand in the construction sector. However, total exports of cement declined by 5.7% to 0.68 million tonnes in 2015.
- Total installed electricity capacity increased by 6.3% to 2,333.6 MW, while total electricity generation expanded by 4.1% to 9,514.6 GWh in 2015. Demand for electricity increased from 7,415.4 million KWh to 7,826.4 million KWh during the same period. The number of customers connected under the Rural Electrification Programme (REP) rose by 33% to stand at 703,190 customers as at July 2015, up from 528,552 as at July 2014.

BUDGET OBJECTIVES

The Kenyan economy continues to gain momentum. The Budget for 2016/2017 aims to consolidate the significant gains already made in priority areas such as, healthcare, business environment, investing in security, infrastructure, food security, employment, reducing poverty and implementing economic, financial and other ongoing reforms to boost productivity and competitiveness.

The Cabinet Secretary to the National Treasury announced the following key measures to facilitate a more enabling business environment for continued economic growth.

Improving the Business Environment

- The National Treasury has allocated Shs 2.8 billion to the Ethics and Anti-Corruption Commission (EACC), Shs 2.1 billion to the Department of Public Prosecutions (DPP), and Shs 300 million to the Financial Reporting Centre (FRC) to continue strengthening the various institutions that are mandated to fight corruption. Other initiatives include repatriation of proceeds used to purchase property and assets using the proceeds of corruption.

Use of ICT to Enhance Efficiency

- Information Communication and Technology (ICT) is critical for the country's productivity and competitiveness in a knowledge based economy.
- Over 1.7 million Kenyans have registered on the e-Citizen payment platform, where they are able to access 115 services from different government agencies including some from County Governments. The platform has processed over 2.4 million application and collected Shs 4.2 billion in revenue.
- In addition, Shs 13.4 billion has been allocated for the Digital Literacy Programme (School Laptop Project), development of digital content, building capacity of teachers and rolling out computer laboratories for primary schools throughout the country.

Security and Tourism

- Given the current insecurity climate in the country, this remains the top priority of the Government. In 2015, the Government rolled out security cameras that provide real time footage from strategic points and roads in Nairobi and Mombasa to the National Police Operations Centre.
- In order to counter the on-going threat of terrorism and insecurity which is affecting the business environment, Shs 124.04 billion has been allocated to Defence and National Intelligence Service (NIS), and Shs 140.6 billion to the State Departments of Interior and Coordination of National Government.
- To counter the effects of adverse travel advisories experienced by the tourism sector, Shs 4.5 billion has been allocated for tourism promotion activities.

RSM

Financial Sector Stability and Development

- Various measures are being put in place to further regulate the banking sector including the Central Bank Bill which will be presented to Parliament and investment in human capital to strengthen Central Bank of Kenya's technical capacity;
- In order facilitate access of credit in the economy, the Government has developed a Movable Property Security Rights Bill, 2016 which provides for borrowing using movable assets as collateral. In addition, an electronic collateral registry is being developed where lenders will be able to lodge their security rights on specific collateral.
- The Cabinet Secretary (National Treasury) is seeking to table the Financial Services Authority (FSA) Bill which proposes to merge the Capital Markets Authority (CMA), the Retirements Benefits Authority (RBA), the Insurance Regulatory Authority (IRA) and Sacco Societies Regulatory Agency (Sasra).
- M-Akiba, an initiative announced in 2015 is going to be rolled out in the new financial year having been previously discontinued on the basis of volatile interest rates.

Infrastructure Development

- The construction of the Standard Gauge Railway (SGR) from Mombasa to Nairobi, has also is now over 80% complete and expected to be launched by June 2017. An additional allocation of Shs 154.4 billion has been made for the SGR (Shs 118.2 billion is external financing from China and Shs 36.2 billion is the GOK's contribution). Construction of Phase II that will run from Nairobi to Naivasha is expected to start in the FY 2016/17.
- Commission the new terminal 1E and commencement of work on the second runway at the JKIA expected to be completed by the end of 2018. In addition, expansion of Eldoret International Airport will enable large cargo planes to land and position it as a transport hub.
- Shs 0.5 billion has been allocated for the acquisition of two ferries for the Likoni Channel; Shs 5.5 billion for Mombasa Port Development Project and Shs 10 billion for the LAPSSET project.
- With respect to the energy sector, Shs 120.2 billion has been allocated to cater various energy development initiatives i.e. Geothermal Development, Rural Electrification Programme; Exploration and Distribution of Oil and Gas.

Agricultural Transformation for Food Security

- The Government has completed the pilot phase of 10,000 acres in Galana-Kulalu and is therefore seeking to embark on covering at least 100,000 acres as its commitment to reducing dependence on rain fed agriculture. To this extent, Shs 20.8 billion has been allocated to the above initiatives.
- In order to improve yield and output for our farmers, Shs 4.9 billion to subsidize fertilizer and seeds. In addition, Shs 8.4 billion has been allocated for the acquisition of the Offshore Patrol Vessel for the fisheries sub sector; the modernization of the Kenya Meat Commission; the revival of the pyrethrum sector; Livestock & Crop Insurance Scheme; Livestock value chain support; and the mechanization of Agriculture.

Education

- To further support the on-going programmes within the education sector the following allocations have been made:
  - Shs 32.4 billion for Free Day Secondary Education;
  - Shs 14.7 billion for Free Primary Education;
  - Shs 9.1 billion for Higher Education Loans Board; and
  - Shs 57.8 billion for University Education.

FINANCIAL PROJECTIONS FOR 2016/17

	Shs Billion
Ordinary revenue	1,376.4
Ministerial: Appropriation - in - Aid	124.2
Grants	72.6
	1,573.2
Recurrent expenditure	852.8
Development expenditure	809.0
County allocation	284.8
Interest payment and pensions	311.0
Net lending	2.1
Contingencies fund	5.0
	2,264.7
Overall budget deficit	(691.6)
Financed by:	
Net external borrowing	462.3
Domestic borrowing	229.3
	691.6
Unfunded expenditure	0.0

Note: The Budget is still in the final stages of the approval process.

DIRECT TAXATION

PERSONAL TAX

Personal Relief

- Personal relief increased from Shs 13,944 p.a. to Shs 15,360 p.a.
- There have been no changes to the tax bands since 2005.
- Tax free income, therefore, increased from Shs 11,135 per month to Shs 11,921.

Exempt Income

- Bonuses, overtime and retirement benefits paid to low income earners (i.e. those earning Shs 121,969 p.a.) are exempt from income tax.

ADMINISTRATIVE MATTERS

Ordinary Revenue

- 2015/16 - Shs 1.184 trillion (18.0% of GDP)
- 2016/17 - Shs 1.376 trillion (18.6% of GDP)

Taxing the Informal Sector

- KRA to explore ways of taxing the informal sector with the possible introduction of presumptive tax.

iTax

- KRA to have additional powers to collect information in advance of the return dates for the purposes of pre-populating the information in the iTax system.

Revised Income Tax Act

- Plans to table this in the next financial year.

REVENUE MEASURES

Tax Amnesty

- Tax amnesty to be granted on income tax for taxpayers who own assets and businesses outside Kenya and reinvest in Kenya, provided the taxpayer submits the 2016 tax return and accounts by 31st December 2017.
- Principal taxes, penalties and interest, for and up to 2016, to be remitted on submission of return.
- Government shall not follow up on the source of income and assets.

Residential Rental Income Tax Rules, 2016

- Rules cover:
  - Submission of returns and payment of tax.
  - Penalties and interest.
  - Disallowing expenses and capital deductions.
  - Disputes.
  - Transitional provisions including non-deduction of losses brought forward from 31st Dec 2015.
  - Election for exemption procedures.

Interest on EADB Bonds

- Bonds issued by the East African Development Bank and traded on the NSE to be exempted from tax.
- Conversely, any costs related to exempt income will not be allowed for tax.

Reduced Rate of Corporation Tax

- Rate of tax for a developer who constructs 1,000 housing units annually to be reduced from 30% to 20%.

Tax Incentive from Hiring of Apprentices

- An additional rebate to be claimed on 50% of the salaries paid by employers who engage at least 10 apprentices who are university graduates for 6 to 12 months. Rebate to be claimed within 3 years.

Low Rental Income

- Residential rental income of Shs 144,000 and below per annum per person will be exempt from income tax.

Capital Gains Tax

- Transfer between spouses, as well as to a company where either or both of the spouses and immediate family members hold 100% of the shareholding shall be exempt from CGT.
- Immediate family members is defined to include children of the spouses or former spouses.

Withholding Tax On Rental

- Finance Act 2015 had introduced a provision for the deduction of withholding tax at a rate of 12%, but this had not been codified in Section 35 which sets out the provisions for deduction of tax from certain types of incomes.
- The Bill now proposes to amend Section 35 to empower the Commissioner to appoint tenants and agents to deduct withholding tax from payment of rent to landlords.
- The withholding tax rate has reduced from 12% to 10%.

INDIRECT TAXATION

VAT - ADMINISTRATIVE MEASURES

- Withholding VAT regime is re-introduced. Government agencies and appointed agents will be required to withhold 6% of the taxable value and remit to KRA directly. 10% of the taxable value will be paid to the suppliers.
- Instead of the Cabinet Secretary for Treasury, Kenya Film Commission ("KFC") will be the authority to recommend exemption of goods imported or purchased locally by local film producers and local filming agents.
- Procedures are proposed for appointment of tax representatives by non-resident persons with no fixed place of business in Kenya.

VAT - REVENUE MEASURES

Imports from EPZ

- Purchases of made-up garments and leather footwear manufactured in an EPZ at the point of importation is VAT exempt.

Animal Feeds

- Specific raw material used in the manufacture of animal feed is now exempt, thereby making the final products more affordable to farmers.
- The exempted raw materials include maize bran, wheat pollard or wheat bran, cotton seed cake or sunflower seed cake.
- The current VAT treatment favoured integrated manufactures of oil, flour and animal feed to those specifically producing only animal feeds.

Tourism

- Park entry fees are now exempted from VAT.
- Commissions earned by tour operators are now exempted.
- Previously taxed at 16%.

Petroleum Products

- Petroleum products to remain VAT exempt for an additional year from September 2016.
- These products (including oils, motor and aviation spirits, white spirits, kerosene and gas oil) were to become vatable at 16% on the expiration of the 3 year transition on introduction of the VAT Act, 2013.
- LPG will remain exempted.

Service Charge

- Service charge paid in lieu of tips is excluded from taxable value of supplies by hotels.

Official Aid Funded Projects (Vehicles)

- Motor vehicles for use in official aid funded projects are now exempt, similar to other taxable goods used in that regard.

Military Supplies

- Military supplies, equipment and machinery, including specialized motor vehicles imported or purchased locally for official use by Kenya Defence Forces (“KDF”) or National Police Service are now exempted from VAT.

Aviation

- Direction finding compasses, instruments and appliance for aircraft are now exempted.

Exemptions for National Museums

- Museum and natural history exhibits, specimens and scientific equipment for public museums.
- Chemicals, reagent, films, filmstrips and visual/aids equipment imported or purchased the by National Museums.
- The repatriation of Kenyan artefacts.

Newly Exempted Items

- Goods for direct and exclusive use in the construction of recreational parks upon recommendation by Cabinet Secretary responsible for matters relating to recreational parks.
- Goods for direct and exclusive use in the construction of specialized hospitals with accommodation facilities upon recommendation by the Cabinet Secretary for Health.
- Wheat seeds are now exempted. This aligns the tax treatment with other seeds.

Newly Zero Rated Items

- Medicaments containing antibiotics of tariff 3003.20.

MISCELLANEOUS VAT CHANGES

- Definition of the word “export” is enhanced to include (sales to) Special Economic Zones Enterprises (SEZs). Supplies to SEZs were previously exempted but now they will be zero rated.
- Definition of the word “importation” is enhanced to include (purchases from) Special Economic Zones Enterprises.
- Special Economic Zones Enterprises, just like EPZs, are now not to be registered for VAT purposes.

- The term “hotel” has now been clarified to “include premises commonly referred to as service flats, service apartments, beach cottages, holiday cottages, game lodges, safari camps, bandas, or holiday villas and other premises or establishments used for similar purposes.”

CUSTOMS - ADMINISTRATION MEASURES

Imports

- Imports into Kenya to be on Cost and Freight basis (CFR) and the insurance component to be insured locally.
- KRA will work with the stakeholders to ensure implementation of the Insurance Act in this matter
- KRA to use Certificate of Conformity (CoC) while valuing imported goods.
- New legislation to be proposed to streamline the training, licencing and regulation of clearing agents. Proposals are to harmonise the approach at the EAC level.

Iron and Steel Products

- A specific import duty of 25% of USD 200 per metric ton introduced on a number of imported iron and steel products available in the regional markets for one year.
- Duty is increased from 0% to 10% on the iron and steel products of the following HS codes: 7208.52.00, 7208.53.00, 7208.54.00 and 7208.90.00.
- Duty is increased from 10% to 25% on iron and steel products of HS Codes 7213.10.00, 7213.20.00, 7213.99.00, 7227.10.00, 7227.20.00, 7227.90.00.
- Duty is increased from 10% to 25% on finished iron and steel products of 7308.10.00, 7308.20.00, 7308.40.00, 7318.15.00. 9406.00.90.
- Specific duty is introduced on iron and steel products at 25% or USD 200/MT.

Made Up Fishing nets

- Duty increased from 10% to 25%.

Smart Cards and SIM Cards

- Duty increased from 10% to 25%.

Worn Clothes and Other Worn Articles

- Specific duty increased from USD 0.20per Kg to USD 0.40per Kg.

Aluminium

- To promote the manufacture of aluminium cans, the duty on plates and sheets of aluminium alloys not available in the region reduced from 25% to 0% under the duty remission scheme
- Import duty on aluminium cans increased from 10% to 25%.

Stoves

- Import duty on energy saving stoves is reduced from 25% to 10%. This is to encourage the use of energy efficient stoves that support conservation of the environment. The reduction will align the energy efficient stoves with similar stoves and cookers that use gas, electricity and other fuels that attract import duty at 10%.

Oil or Petrol Filters for Engines

- Duty increased from 10% to 25%.

Duty Remissions

- Inputs for the manufacture of matches: Duty remitted at a rate of 0%.This is aimed at protecting the low forest cover in the region.
- Nylon yarn: Duty remitted at 0% instead of 25%.
- Trigger sprays and lotion pumps: Duty remitted at 10% instead of 25%.This measure is informed by the realisation that these products are not available locally.
- Inputs for manufacture of solar equipment's: Duty remitted at 0%.This will increase the use of solar energy.
- Bars and rods for manufacture of automobile accessories: Duty remitted at 0%.
- Aluminium plates and sheets for manufacture of cans: Duty remitted at 0% instead of 25%. This is to support the local industry.
- Motor cycle kits: Duty remitted at 10% for one year.
- Wheat grain: Duty remitted at 10% instead of 35%.
- Inputs for agricultural equipment's: Duty remitted at a rate of 0%.
- Raw sugar for refining into industrial sugar: Duty remitted at 0% for one year on condition that the refined sugar shall be sold only to manufacturers in the region except Tanzania.
- Industrial sugar: Duty remission is reduced from 90% to 85% for FY 2017/2018, 80% for FY 2018/19 and 75% for FY 2019/20.
- Palm stearin RBD: Removed from the remission scheme.

Stay of Application of CET

- Rice: Duty on rice to Kenya shall be at 35% or USD 200/MT, whichever is higher, instead of 75% or USD 345/MT.
- Iron and Steel Structures: Duty rate for the goods imported into Kenya to remain at 25% or USD 250/MT, whichever is higher, for FY2016/17.
- Screws, Bolts and Nuts: Duty remains at 25% or USD 250/MT, whichever is higher.
- Revenue Stamps: Duty rate on revenue stamps for Kenya to increase from 0% to 25%.
- Paper and Paper Board: Duty increased from 10% to 25%.
- Gas Cylinders: Duty increased from 0% to 25%.
- Made up garments and footwear manufactured in EPZ: Duty rate applicable to be 0%.

RSM

Exemptions

- Incinerators for hospitals and Blood Collection Tubes: This is to make the items affordable to hospitals.
- Refrigeration equipment's for funeral homes. This is to ensure equipment for keeping dead bodies is affordable to mortuaries.
- HVAC Air conditioning equipment used manufacturers of pharmaceutical products. This is to support the local industry in meeting WHO standards.

Removal from Exemptions:

- Uniforms for hospital staff are no longer exempted.
- Spare parts and accessories for solar equipment are no longer exempted from duty.
- Inputs for agricultural equipment are also deleted from exemptions.

EXCISE - REVENUE MEASURES

Kerosene

- Excise duty on illuminating kerosene is now Shs. 7,205 per 1,000 litres up from Shs 5,755 per litres at 20° C.

Motor Vehicles

- A flat 20% duty introduced instead of the fixed duty based on the age of the vehicle.
- Previously the rates were:
  - Motor vehicle less than 3 years old - Shs 150,000.
  - Motor vehicles over 3 years old - Shs 200,000.

Cosmetics and Beauty Products

- Excise duty is imposed at 10% on perfumes, toilet waters, make-ups, pedicure and manicure products, hair care, and shaving preparations.

Plastic Bags

- Other plastic bags (of tariff 3923.21) will also now attract excise duty at Shs. 120 per Kg like plastic shopping bags. These two products may be used interchangeably.
- Vacuum bags for packing foods, juices, tea and coffee are not subject to the excise duty on plastic bags.

Water

- Ordinary water is now specifically excluded from excise duty. Mineral water and aerated water will continue to attract duty at Shs. 5 per litre.

Official Aid Funded Projects

- Materials, equipment and motor vehicles imported or purchased locally for the implementation of official aid funded projects are now exempted from excise duty.

Inflation Based Increase

- Based on the provision of the Act all specific duties will be adjusted by inflation from 1st July 2016.

MISCELLANEOUS AMENDMENTS

BANKING INDUSTRY

Measures to Strengthen Bank Supervision

The following measures are being implemented to strengthen bank supervision following the recent placing of three banks under receivership:

- Central Bank Bill, which has been approved by Cabinet, will shortly be presented to parliament.
- Enhancing oversight of commercial banks IT systems while improving skills of Central Bank supervisory staff on ICT and forensic audits.
- Strengthening Central Bank supervision function in terms of numbers and competencies.
- Strengthening corporate governance practices in banks.
- Review of quantum of penalties for regulatory violations.
- Publication of Central Bank's enforcement actions against institutions.
- Working with relevant agencies to investigate and prosecute cases of financial fraud promptly.
- Strengthen bank resolution process under the Banking Act as well as the Kenya Deposit Insurance Corporation Act.

Capital Requirements

- Re-introduction of measures to increase the minimum core capital requirements for banks to ensure a strong and stable banking system. The proposal in the 2015/2016 budget was to progressively increase the core capital requirements from the current Shs 1 billion to Shs 5 billion in about 3 years.

Increased Penalty for Violation of Banking Act and Prudential Guidelines

- Increase in penalty for violation with the Banking Act or the Prudential Guidelines from the current maximum of Shs 5 million to Shs 20 million with the allowance for additional penalties for each day that the violation continues.

Cross Border Information Sharing

- Additional amendments to the Banking Act as well as the SACCO Societies Act to facilitate cross border information sharing and to allow SACCOs and utility companies to more effectively participate in the Credit Information Sharing (CIS) framework.

Naming of SACCOs

- Only SACCOs that are licensed for deposit taking will be allowed to use the acronyms, deposit taking SACCO Society (DTS) or DT-SACCO. This is to differentiate them from the other SACCOs and also provide legal restrictions for use of these acronyms by other non-deposit taking SACCOs.

Online Forex Trading

- Measures taken to develop a legal framework for online trading of foreign currency which goes hand in hand with making Nairobi an International Financial Hub. There are therefore proposals to amend the Capital Market Authority Act and relevant regulations for effective and secure online foreign exchange trading.

RETIREMENT BENEFITS SCHEMES

- The Cabinet Secretary is proposing that institutions licensed by the Retirement Benefits Authority will be issued with non-renewable perpetual licences, on the same basis as banks are now licensed.
- The investment guidelines for retirement benefit schemes are to be reviewed to allow investment in new products, including exchange-traded derivatives and Real Estate Investment Trusts.
- The Retirement Benefits Occupational and Individual Regulations are to be amended to allow separate medical funds to be established, into which employees can contribute so that they can purchase medical cover on retirement.

INSURANCE INDUSTRY

Solvency

- Insurance Act was amended in the last Finance Act to facilitate a risk based solvency approach. The current budget proposes additional amendments expanding the allowable forms of capital and reflecting the new gross premium valuation methodology across different classes of business.

Claim Settlement

- Proposal to reduce the maximum time in which a claim is settled from 90 days to 30 days.

Takaful Insurance Products

- Sharia compliant or Takaful insurance products to be anchored in the Insurance Act. Regulations will also be issued to govern Takaful Insurance.

OTHER MISCELLANEOUS AMENDMENTS

Air Passenger Service Charges

- For external travel these will be increased from $40 to $50, while for internal travel they will be increased from Shs 500 to Shs 600.The additional revenue earned will be used exclusively for the promotion of tourism.

Levies

- Road Maintenance Levy is to be increased from Shs 12 per litre to Shs 18 per litre on all petroleum products.
- Proposal to remove tea and sugar development levies. The institutions that were funded from these levies will now be funded from the exchequer.
- The Cabinet Secretary proposes to remove other levies including levies charged by the National Environment Management Authority and National Construction Authority in order to reduce the cost of doing business.

Clearing Agents

- Legislation will, subject to agreement at EAC level, be introduced that will streamline the training, licensing, and regulation of Kenyan clearing agents, with a view to strengthening controls on the import supply chain.

Public Private Partnership Act

- Currently County Governments are not recognised as potential procuring entities under the Act. The Act will be amended so that the private sector can participate in projects undertaken by County Governments.

Competition Act

- The Act is to be amended to:
  a) make it obligatory for stakeholders to provide information to the Authority when requested to do so, to enable the Authority to conduct market analyses more effectively;
  b) clarify that the penalty levied on companies that engage in restrictive trade practices is to be a maximum of 10% of the company's gross annual turnover; and
  c) remove from the scope of the Act, mergers whose effect has no great impact on competition or restrictive trade practices.

PROPOSED CHANGES IN LEGISLATION

The Cabinet Secretary proposes to make changes to the following legislations:

- The Central Bank Act by introduction of the Central Bank Bill to parliament.
- Development of the Moveable Property Security Rights Bill, 2016 which provides for borrowing using moveable assets as collateral, for enforcement of security rights by lenders and protection of borrowers using such collateral.
- The Nairobi International Financial Centre (NFIC) Bill which provides a framework to strengthen Kenya's position as a financial hub.
- The Financial Services Authority (FSA) Bill, which provides for much more than a simple merger of existing non-banking regulators to encompass issues of market conduct, financial services consumer protection and address existing regulatory gaps such as regulation of credit provision.

Contacts

Nairobi

1st Floor, Pacis Centre,
Slip Road, off Waiyaki Way, Westlands
P.O. Box 349, 00606, Nairobi, Kenya
Tel: +254 20 3614000,+254 20 4451747/8/9
Mobile: +254 706 347950 / 772 786111
Fax: +254 20 4451773
Email: info@ke.rsm-ea.com
Website: www.rsm.global/kenya
Contact: Ashif Kassam (Executive Chairman)

Mombasa

3rd Floor, Bayview Place, Moi Avenue
P.O. Box 87227, 80100
Mombasa, Kenya
Tel: +254 41 2311778/2312640/2224116
Mobile: (0)707 613329
Fax: +254 41 2222397
Email: infomsa@ke.rsm-ea.com
Website: www.rsm.global/kenya
Contact: Lina Ratansi (Group Chief Executive)

Dar es salaam

16th Floor, Golden Jubilee Towers,
Ohio Street
P.O. Box 79586
Dar es Salaam, Tanzania
Tel: +255 22 2137314/15
Fax: +255 22 2137316
Email: info@tz.rsm-ea.com
Website: www.rsm.global/tanzania
Contact: Lina Ratansi (Group Chief Executive)

Kampala

6th Floor, DTB Centre,
Plot 17/19
Kampala Road
P.O. Box 31704,
Kampala, Uganda
Tel: +256 414 342780
Email: info@ug.rsm-ea.com
Website: www.rsm.global/uganda
Contact: John Walabyeki (Managing Partner)

Follow us for news and more updates on:-

in : /Company/RSMEasternAfrica

: @RSMEastAfrica

: /RSMEasternAfrica

RSM