



Bringing expert tax knowledge to your environment

Electricity expense rebate for manufacturer

The Finance Act 2018 introduced a 30% electricity expense rebate (the rebate) allowable against taxable profits for manufacturers in addition to the normal electricity expense. The incentive is a reflection of the Government's commitment to Manufacturing as one of the pillars of the Big Four Agenda through lowering the cost of production for manufacturers.

The incentive was however subject to conditions set out by the Cabinet Secretary in charge of Energy. The Cabinet Secretary for Energy has gazetted the criteria for determination of the rebate through Legal Notice 132 of 2019.

Criteria for the determination of the rebate

The criteria provides for Key Performance Indicators (KPIs) in determining applicability of the rebate for a manufacturer. The KPIs are annual increase in: Electricity Consumption (Demand), Capital Investment and Sales Revenue.

The rebate entitlement is based on an Actual Overall Performance (AOP) in accordance with the formula below.

$$AOP = \frac{\sum (W_D * D) + (W_C * C) + (W_R * R)}{\sum (T_D * W_D) + (T_C * W_C) + (T_R * W_R)}$$

Where:

W_D is weight allocated to the Demand of 0.30

W_C is weight allocated to increase in Capital Investment of 0.30

W_R is weight allocated to increase in Sales Revenue of 0.40

D is actual percentage increase in Electricity Consumption

C is actual percentage increase in Capital Investment

R is actual percentage increase in Sales Revenue

T_D , T_C and T_R is the target growth of 10% in Demand, Capital Investment and Sales Revenue respectively.

Application of the Rebate

The rebate is based on an AOP of up-to a maximum of 100% and a minimum of 0%. A manufacturer with an AOP of 100% qualifies for the entire rebate for purposes of computation of taxable income. In effect, a minimum of 10% growth for each KPI is required for one to be able to claim of the entire 30% rebate:

- In the first year, an automatic 20% of the cost of electricity will be allowable and the remaining 10% to be determined by the weighted KPIs. The Rebate for subsequent years will be determined solely by the KPIs
- The electricity rebate program **will not** apply to manufacturers involved in the generation, transmission and distribution of electrical energy
- The electricity rebate is based on the expense of electricity from the national grid

Supporting evidence required for claim of the rebate

- Electricity bills for the entire year;
- Books of accounts;
- VAT returns for the entire financial period and/or customs entries (for export sales)

Further compliance requirements

The manufacturer will be required to submit the following documents together with the claim:

- A valid Tax Compliance Certificate;
- Baseline report certified by an external auditor submitted to the Ministry of Energy as a self-declaration form;
- Quarterly financial reports submitted to the Kenya Revenue Authority; and
- The Cabinet Secretary may request the Kenya Revenue Authority to conduct an audit and evaluate the rebate.

Caveat

This newsletter has been prepared for general guidance, and does not constitute professional advice. Accordingly, RSM (Eastern Africa) Consulting Ltd, its associates and its employees and agents accept no liability for the consequences of anyone acting, or refraining from acting, in reliance on the information contained herein or for any decision based on it. No part of the newsletter may be reproduced or published without prior written consent. RSM (Eastern Africa) Consulting Ltd, is a member firm of RSM, a worldwide network of accounting and consulting firms. RSM does not offer professional services in its own name and each member firm of RSM is a legally separate and independent national firm.