

2015/2016 EY BUDGET HIGHLIGHTS

“Enhancing Economic Transformation for a Shared Prosperity”



Building a better
working world

A photograph showing the silhouettes of several fishermen on a beach at sunset. They are pulling a large fishing net that is draped across the wet sand. The sun is low on the horizon, creating a bright orange and yellow glow that reflects on the water and the wet sand. The sky is a pale, clear blue. The overall mood is serene and industrious.

Who we are

EY – the most integrated African firm

- ▶ The most integrated professional services firm in Africa;
- ▶ We have 246 Partners and over 5,000 staff around Africa;
- ▶ We have four offices in Northern Africa;
- ▶ We have 39 offices in Sub Saharan Africa, with new offices in Cameroon and South Sudan;
- ▶ In Sub Saharan Africa, we have more than 150 Business Advisors, 650 Tax Advisors and 15 partners;
- ▶ In Eastern Africa which includes Ethiopia, we have a team of 40 Business Advisors, 100 Tax Advisors and 13 partners ;
- ▶ Most offices are locally staffed resulting in deep regional understanding, robust local knowledge and focused insights



Our Services

Assurance

- ▶ Accounting Compliance and Reporting
- ▶ Audit and Accounting Services
- ▶ Financial Accounting Advisory Services
- ▶ Fraud, Investigation and Dispute Services

Advisory

- ▶ Finance management
- ▶ Operations management
- ▶ Integrated actuarial risk management
- ▶ Risk management and regulatory compliance
- ▶ Information Technology & Risk Advisory
- ▶ Customer & Growth
- ▶ Data analytics and predictive modeling

Tax

- ▶ Transaction Tax Advisory
- ▶ Business tax compliance
- ▶ Human capital
- ▶ Indirect tax services
- ▶ International tax services
- ▶ Tax accounting and risk advisory services
- ▶ Transfer pricing and tax-effective supply chain management services

Transaction Advisory

- ▶ Restructuring
- ▶ Transaction Support
- ▶ Transaction Real Estate
- ▶ Project Finance
- ▶ Capital & Debt Advisory
- ▶ Transaction Tax
- ▶ Mergers and Acquisition
- ▶ Valuation & Business Modelling
- ▶ Public Private Partnerships
- ▶ Transaction Integration

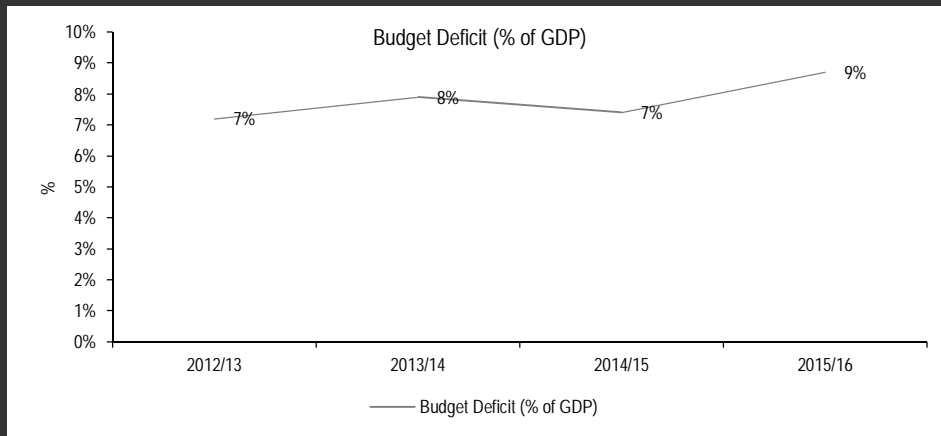
Key Areas of Budget Allocation

Main Areas of Analysis (KES 'Billions)		2012/13	2013/14	2014/15	2015/16
1	County Shareable Revenue*	148	210	227	258
2	Agriculture	53	39	60	79
3	National Security	84	89	91	113
4	Tourism (State Department of Tourism)	3	2	5	5
5	Energy, Infrastructure & ICT	268	202	194	405
	<i>Standard Gauge Railway</i>	2	22	19	144**
	<i>Energy</i>	80	79	44	55
	<i>Other Infrastructure (Roads, ICT, Airports)</i>	187	102	131	207
6	Consolidated Fund Reserves	346	377	379	442
	<i>% of Total Budget for areas of analysis</i>	62%	56%	60%	59%
	Total Budget for the Financial Period	1,460	1,641	1,580	2,200

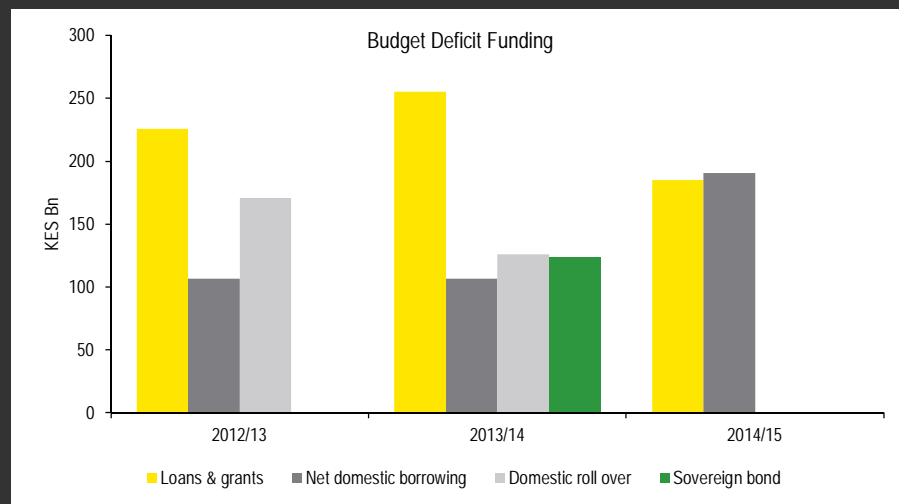
*2012/13 was for Preparedness for Devolution

**KES25.7Bn is from RDLF and KES118.1 is foreign-funded

Budget Deficit



- ▶ Averages 8% for the periods shown alongside



- ▶ The budget deficits are mainly funded by domestic borrowing, external loans and grants.
- ▶ In 2013/14, the GoK forecasted to raise KES123.9bn from issue of sovereign bonds as part of the deficit funding

VAT Proposals

- ▶ VAT exemptions:
 - Aircrafts engines and engines
 - Infrastructure works in industrial and recreational parks of 100 acres
 - Parts for assembly of primary school laptops
 - Taxable services in implementation of official aid funded projects
- ▶ Zero-rating:
 - Services in respect of goods in transit
 - Goods purchased from duty free shops by passengers departing from Kenya
- ▶ Time of lodging VAT claims limited to 12 months from when tax is payable
- ▶ Commissioner empowered to decide whom to appoint as withholding VAT Agent

Custom Duty

Rates of import duty increased as follows:

Products	From	To
Imported sugar	Higher of USD 200 per MT or 100% of customs value	Higher of USD 460 per MT or 100% of customs value
Rice	Higher of USD 200 per MT or 75% of customs value	Higher of USD 345/MT or 75% of customs value
Plastic tubes for packing toothpaste and cosmetics	10%	25%
Aluminium cans	10%	25%
Gas cylinders	0%	25%
Raw hides and skins	20% of FOB value	Higher of 80% on FOB value or USD 0.52 per kg

Customs Duty

Rates of import duty reduced as follows:

Products/Item	From	To
Nylon yard and synthetic twins for manufacture of fishing nets under the duty remission scheme	10%	0%
Paper and paperboard products	25%	10%
SEMOLINA (raw material) for making pasta under the EAC duty remission scheme for gazetted manufacturers	25%	0%
Import Declaration Fee	2.25%	2.0%

Excise Duty

Rates of excise duty changed as follows:

Products/Item	From	To
Fruit juices/water & non-alcoholic beverages	7%	Shs 10 per litre
Food supplements	7%	10%
Beers ciders and with alcoholic strength not exceeding 10%	Shs 70 per litre	Shs 100 per litre
Electronic Cigarettes	N/A	Shs 3,000 per unit
Wines	Shs 80 or 50%	Shs 150 per litre
Motor vehicles less than 3 years	20%	Shs 150,000
Motor vehicles over 3 years old	20%	Shs 200,000

Business Tax

- ▶ Modernization of the Income Tax Act – similar to the VAT Act – on recognition that the commercial environment has developed faster than the ITA; to support the positioning of Kenya as an international business hub.
- ▶ Period of automatic carry forward of losses - increased from 5 to 10 years. In response to the many applications for extension and capital intensive projects. Extension of this period still at the CS's discretion. In turn, 150% ID expected to be scrapped.
- ▶ Tax rebates for apprenticeship – training of at least 10 fresh university graduates for 6 – 12 months.
- ▶ Capital Gain Tax (CGT) – removed on shares and turnover tax of 0.3% introduced. The tax to be collected through withholding system.

Business Tax

- ▶ Incentive for companies introducing shares through listing or by introduction – 25% corporate rate
- ▶ Indications of collection of rent income through withholding system
- ▶ Introduction of elective turnover tax of 12% on income from residential property. In addition, tax amnesty in respect of past non-compliance
- ▶ Boost to film industry - scrapping of WHT on payments to foreign actors and crew members
- ▶ Investment deduction on ships – increased from 40% to 100%
- ▶ Withholding tax in gaming and extractive industry

Other relevant provisions

- ▶ Stamp Duty Act -
 - ▶ Exemption from stamp duty of registration of assets transferred to REITS

- ▶ Tax Procedure Bill –
 - ▶ Proposes lifting of corporate veil to catch tax representative – jointly and severally liable
 - ▶ Tax liabilities of a transferor company can trail the transferee company in an asset hive-out

Banking Sector

- ▶ CBK reforms to ensure alignment with international best practices;
- ▶ Implementation of the Nairobi International Financial Centre to safeguard against financial instability;
- ▶ Increase the minimum core capital for a bank from KShs 1 Billion to 5 Billion by December 2018; and
- ▶ Removal of annual licensing of banks and empowerment of CBK to issue non-renewable perpetual license.

Insurance Sector

- ▶ Increase of minimum core capital by June 2018:
 - ▶ General insurance companies from KShs 300 million to KShs 600million,
 - ▶ Life insurance from KShs 150 million to KShs 400.
- ▶ Investment provisions to be amended in the Insurance Act from rule based investment framework to principle based investment.
- ▶ Remove the requirement to obtain recommendation from an insurance company by an Insurance Agent before being licensed by the Insurance Regulatory Authority.

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