2016/2017 BUDGET HIGHLIGHTS
AS READ ON 8 JUNE 2016

Budget Highlights

The theme of the budget is 'Consolidating Gains for a Prosperous Kenya'. This theme is against the backdrop of an economy performing quite well with a 5.6% growth in 2015 compared to slower growth in Sub – Saharan Africa of 3.5% and global 3.1%.

The growth rate is projected at 6% in 2017 and 7% in the medium term while inflation rate has been contained at 5% in May 2016 the lowest since 2013. The Treasury bill rate has been on the decline and currently stands at 7.5%

According to Bloomberg, Kenyan economy is among the top fastest growing in the world, the seventh best country for investment and the second biggest market for retail investors in Africa.

During the year 2015 over 840,000 new jobs were created with a target of one million in 2016. The proposals made in the budget are aimed at strategic interpretation of transforming the economy into a fully fledged middle income country in the not too distant future. The 2016- 2017 budget focuses on six key priority areas

1) Promoting growth of industries and employment creation;
2) Facilitating infrastructure development;
3) Equity and fairness in the tax system;
4) Cushioning households' spending budgets;
5) Strengthening financial sector stability; and
6) Promoting private sector growth.

Budget estimates for 2015-2016 and 2017 – 2017

	2016-2017 (Ksh billions)	2015-2016 (Ksh billions)
Expected revenue	1,500.6	1,295.4
Overall expenditure	2,264.5	1,842.7
Deficit	763.9	547.3

SECTOR POLICIES AND EXPENDITURES

Modernizing security

Owing to security challenges including the emerging terrorist threats the Government has invested heavily in the security sector with resultant significant improvement especially in counterterrorism strategies in the last one year.

To Further enhance security modernization programmes a total of Ksh 264.6 billion has been allocated to defence, intelligence and Internal security department.

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Improving governance and facilitating business

To address corruption cases, inefficiencies in Government, low productivity and cost of doing business, there will be focus to strengthen the various institutions that are mandated to fight these vices including the Ethics and Anti Corruption Commission (EACC), Director of Public Prosecutions (DPP), Kenya Revenue Authority (KRA), the Criminal Investigations Department (CID), Assets Recovery Agency (ARA)and Financial reporting Centre (FRC).

This anti graft multi - agency team will be funded to the tune of Ksh 5.2 billion to effectively execute their mandate.

Efficiency and effectiveness in public service delivery

To further improve effective use of our scarce resources, a Government Owned Entities Bill is currently before cabinet and subsequently to Parliament. This Bill will address wastage and enhance efficiency in the State owned parastatals and Government agencies and departments.

In addition strategic Government owned entities Like Kenya Airways, Telkom Kenya, Mumias Sugar Company and Pan Paper Mills are targeted for restructuring to ensure a turnaround in their financial positions.

Use of ICT to enhance efficiency

Access to ICT is critical for the country's productivity and competitiveness in a knowledge based economy. All payments to Government are being moved to digital platforms. To date over 1.7 million residents have registered on the e-Citizen payment platform and are able to access over 115 services from different Government agencies including some from County Governments.

This is greatly supported by 40 Huduma Centres (service centres) across the country and the target is to spread these centres to all the 47 Counties.

Financial Sector Stability

Kenya's financial Sector development continues to support economic growth through mobilization of large scale savings to finance investment needs. Kenyans is ranked number 42 in the world out of 140 countries for financial markets Development and its capital market industry was voted the most innovative in Africa by Africa Investor.

In 2015 Kenya was ranked position one in the world for leveraging technology to drive financial inclusion by Brookings Financial and Digital Inclusion Project (FDIP).

To further strengthen the financial sector and prevent the negative occurrence experienced recently in the financial sector the Central Bank of Kenya Bill is currently before the cabinet and the necessary regulatory measures are being considered to ensure best banking practices are applied.

Infrastructure development

To achieve world class infrastructure, investments in roads, rail ports, energy, and water supplies will be accelerated in order propel Kenya's economy to attain a middle income status.

Specifically LAPPSSET, northern corridor transport gateway, decongesting major urban areas, Nairobi metropolitan mass transport system, the standard gauge railway (SGR) and construction of 3,800 low volume roads across the country's rural and farmlands will be prioritised. The SGR is 80% complete and is expected to be officially launched in June 2017 with an extension to Naivasha expected to commence during 2016-2017 financial year.

Income tax changes and proposals

Tax rebate to encourage employment of graduates

The finance act 2015 introduced a tax rebate scheme for employers who engage and train at least ten fresh graduates for a period of six to twelve months.

In the 2016/2017 budget, the cabinet secretary has further proposed an extra 50% cost of the apprentice as tax rebates (making the allowable tax rebate rate @ 150%). This tax rebate is applicable to employers who engage at least ten graduates. Regulations to facilitate this proposal will also be gazetted.

Employment Income

The cabinet secretary proposes to exempt from tax bonuses, overtime and retirement benefits paid to workers who fall under the lowest income tax band (kshs 29,316 per month and below). He has also proposed to expand the tax bands and increase the personal relief by 10%. These measures are to cushion workers against the high cost of living and share in the benefits of economic growth. More details on these are expected when the finance bill is released to the public.

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Rental Income Taxation

The finance act 2015 introduced tax @ 10% on gross rental income on a monthly basis from residential property whose earning do not exceed Kshs 10 million per year so as to simplify the taxation regime.

In the budget 2016-2017 the cabinet secretary proposes to gazette rules to facilitate the implementation of this law. The other proposals made are minimum taxable rent income will be Kshs. 12,000 per month and the commissioner will also be given powers to appoint withholding tax agents for rental income. All these measures are in a bid to encourage rent income earners to comply.

Real Estate incentive

Corporate tax rate is to be reduced to 20% from the standard rate of 30% for developers who construct at least 1000 decent low cost housing units per year. This is to encourage investments in this sector and bridge the gap between supply and demand of housing units.

Investments outside Kenya

To encourage reinvestment back in Kenya, the Cabinet Secretary proposes to declare tax amnesty for taxpayers who own assets and businesses outside the country and are willing to reinvest in Kenya. To qualify for this amnesty, the taxpayer is required to submit their income tax return and accounts for the year of income 2016 between 1st January 2017 and 31st December 2017.

The tax amnesty will cover principal tax, interests and penalties for 2016 and prior years of income. Additionally, there will be no follow ups on sources of income and assets declared.

Online returns filing

The Cabinet Secretary proposes to amend the Tax Procedures Act to empower the Kenya Revenue Authority to collect information in advance from selected persons in order to populate it in the I-tax system. This is to make it easier for taxpayers to submit their returns online. The current system does not allow provision of information in advance but rather all information is submitted via one very bulky excel sheets.

Income Tax Act review

The income tax act (Cap 470) review will incorporate numerous proposals from various stakeholders. The cabinet secretary intends to table the bill to amend the act in the next financial year. A comprehensive overhaul of the Act is expected.

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VAT changes and proposals

The cabinet secretary through the budget speech has proposed to exempt the following items from VAT:

- Made up garments and leather footwear procured from Export Processing Zones to enable Kenyans to acquire affordable clothes and shoes.

- Raw materials used in manufacture of animal feeds in order to make animal feeds affordable to farmers and to attract more manufacturers to invest in the animal feeds manufacturing sector.

- Entry fees charged into National parks and commissions earned by tour operators in order to boost the tourism sector and encourage local tourism.

- Liquefied petroleum gas so as to give Kenyans access to clean, safe and efficient household energy, protect forests and reduce health risks associated with use of firewood.

  Note: Transition period for the imposition of VAT on petroleum products which was to expire in September 2016 has also been extended by one year.

Custom duty changes and proposals

Under customs, the cabinet secretary through the budget speech proposed the following changes:

- Introduction of a specific duty of USD 200 per Metric ton on imported iron and steel products to cushion local manufactures and create job opportunities for the youth in the iron and steel sector.
- Remissions of import duty on aluminium plates and sheets used in the manufacture of aluminium cans so as to allow local manufactures to import the inputs under the duty remission scheme at a rate of 0% instead of 25%.

- Rate of import duty on aluminium cans has been increased from 10% to 25% to protect local cans manufacturers.

- Exemption of heating, ventilation and air conditioners (HVAC) from duty in order to make them affordable to pharmaceutical products so as to comply with good manufacturing practices.

- Stay of application of import duty for the export processing zones scheme so as to protect it from imports from COMESA countries and enhance its role in growing the economy and creating employment.

- Reduction of import duty on stoves from 25% to 10% in order to align them to similar stoves and cookers that use gas, electricity and other fuels that attract import duty at 10%. This is to encourage use of energy efficient stoves that support environment conservation.

Excise duty changes and proposals

The cabinet secretary proposed the following changes under excise tax:

- Re-introduction of excise duty on kerosene at Kshs 7,205 per 1,000 litres so as to reduce adulteration of fuel which has negative impact on car engines.
- Amendment of the Excise Duty Act 2015 by introducing ad valorem rate of 20% based on the value of the Vehicle. Excise duty on motor vehicles is currently based on the age of the vehicles at a specific rate.
- Re-introduction of excise duty on cosmetics and beauty products at the rate of 10% in order to harmonize the excise duty regime in the EAC region. This is to take effect beginning July 1, 2016.

Changes in miscellaneous taxes

Road maintenance levy

Increase of Road Maintenance Levy from Kshs 12 per litre to Kshs 18 per litre as a result of increase in the cost of maintaining roads.

Tea and sugar development Levy

Removal of tea and sugar development levies in order to improve the earnings of farmers. The institutions that were funded from these levies will now be funded from the exchequer. The cabinet secretary also intends to remove all other levies including levies charged by National Environmental Management Authority and National Construction Authority in order to reduce the cost of doing business.

Other provisions affecting financial institutions

The cabinet secretary made the following miscellaneous provisions:

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- Proposal to Introduce three landmark financial sector legislations namely the Financial Services Authority Bill, the Nairobi International Financial Centre Bill and the Moveable Property Security Rights Bill in order to grow and stabilize of the financial sector.

- Increase in the capitalization of banks, this is in light of the recent developments in the banking sector.

- Increase in the maximum penalty for violation of the Banking Act or Prudential guidelines from 5 million to 20 million and allow for additional penalties for each day the violation continues.

- Proposal to amend the Credit Information sharing framework in Kenya and 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 CIS framework.

- Amendment of the SACCO Society Act to provide that only SACCOs that are licensed for deposit taking can use the acronyms deposit taking SACCO Society (DTS) or DT-SACCO to differentiate them from the other SACCOs and also to provide legal restrictions for the usage of these acronyms by other non-deposit taking SACCOs.

- Regulation of online trading of foreign currency by amending the Capital Markets Authority Act following which the cabinet secretary will be gazetting relevant regulations for effective and secure online forex trading by Kenyans.

- Extension of perpetual licenses framework to institutions licensed by Retirement Benefit Authority and review the Investment Guidelines for retirement benefits schemes to facilitate their investment in new products approved by the Capital Markets Authority including exchange-traded derivatives and listed Real Estate Investment Trusts.

- Establishment of separate medical funds by amending the retirement benefits occupational and individual regulations to allow members to contribute during their working life and the same be used to purchase medical cover upon retirement.

- Proposal to reduce the maximum time in which a claim should be settled from 90 days to 30 days in order to protect insurance policy holders from long delays in settlement of their claims.

- To amend the Public Private Partnership Act to recognize the County Government as independent procuring entity so as to confirm Governments commitment and support for devolution.

- Amendment of the Competition Act so as to make it obligatory for stakeholders to provide information to the Authority when requested to do so.

- The CS also proposed to amend the Competition Act to specify the financial penalty to be a maximum of 10% of the gross annual turnover which is in line with the international best practices and also with regional competition agencies in order to create certainty in determination of penalty.

- Cs also proposed to amend the Competition Act to set a threshold in order to exclude mergers whose effect has no great impact on competition on restrictive trade practices from the provisions of the Act. This will also reduce the administrative burden on the Authority, and facilitate investment.