



BRACING FOR IMPACT: KENYA'S  
FISCAL & TAX RESPONSES TO  
COVID-19 PANDEMIC

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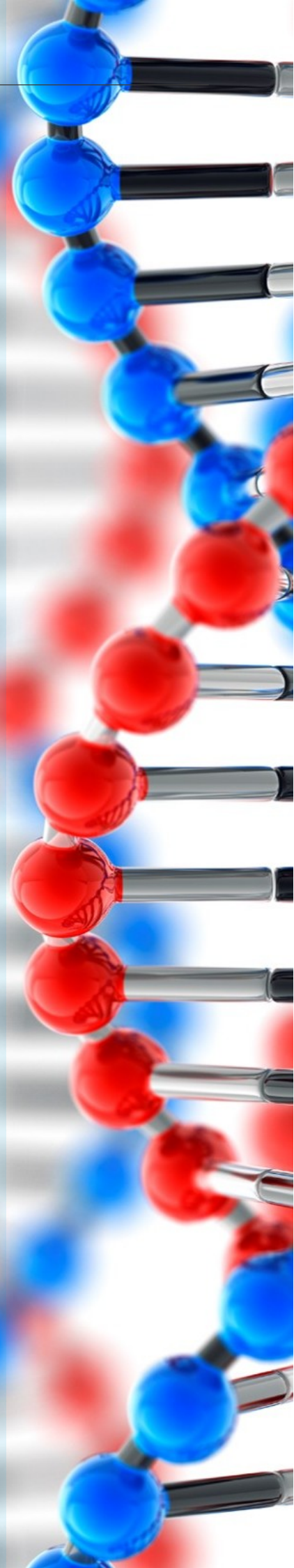
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# TAX MEASURES

Tax Measures	Practical Implication	BDO Insight
<p><b>PAYE relief :</b> 100% tax relief for persons earning gross monthly income of up to KES 24,000</p>	<ul style="list-style-type: none"> <li>PAYE computations to be revised to effect the lower band after the implementational Amendment Act is enacted to facilitate the Presidential Directive of 25<sup>th</sup> March 2020</li> <li>The current bands remain effective until the enactment of the proposals. This is projected to be undertaken by April</li> </ul>	<p>The increased take home pay to low-income earners is likely to increase consumer goods consumption at a time when the economy is expected to face a crunch</p>
<p><b>PAYE rate reduction:</b> Reduction of the upper tax band rate from 30% to 25%</p>	<ul style="list-style-type: none"> <li>Payroll computations to be adjusted effective from the date of enactment</li> </ul>	<p>Increased disposable incomes will enhance consumer spending and cushion the middle class from the expected economic shocks. The population category are also critical in supporting less fortunate family members and some may face pay cuts.</p> <p>KRA tax collections are expected to drop and the deficit may lead to additional borrowing by the government</p>
<p><b>VAT rate reduction:</b> The rate is lowered to 14% from 16% effective from 1<sup>st</sup> April vide legal notice no 35/2020</p>	<ul style="list-style-type: none"> <li>VAT rates to be adjusted in invoicing and in fiscal devices once the rate is enacted</li> <li>This will reduce overall VAT payments for businesses with VAT credits</li> </ul>	<p>This measure will increase cashflow to businesses and marginally reduce the prices of consumer goods and services</p>
<p><b>Corporation Tax Rate:</b> The rate is to be reduced to 25% from 30% for resident companies</p>	<ul style="list-style-type: none"> <li>Installment tax payments and final tax payments for the year of income 2020 to be adjusted to reflect the new rate effective from the date of enactment. Companies will not benefit for the years ended 31 December 2019.</li> <li>The rate for branches remain at 37.5%</li> </ul>	<p>The reduced tax payments will offer cashflow relief to business. Profit making companies to enjoy higher after-tax profits for 2020.</p>
<p><b>Turnover tax:</b> The rate is to be lowered to 1% from 3%</p>	<ul style="list-style-type: none"> <li>TOT filers to effect a lower tax rate</li> </ul>	<p>This proposal would offer some cashflow relief to the Micro and Small enterprises.</p>
<p><b>Purchases from EPZ:</b> Sale to local market limit lifted</p>	<ul style="list-style-type: none"> <li>The restriction of sales by Export Processing ones to the local market at 20% of total sales is lifted for 90 days from 20<sup>th</sup> March. VAT and import duty at normal rates to apply on the sales.</li> </ul>	<p>This is expected to increase supply of essential commodities into Kenya at the time when global supply chains are constrained.</p>

## STIMULUS MEASURES

Measure	Particulars	BDO Insight
VAT refunds	<ul style="list-style-type: none"> <li>Pending verified VAT refund claims to be paid by KRA within 3 weeks from 25th March. Alternatively, they would be set off against withholding VAT. KES 10 Billion is allocated for this exercise</li> </ul>	<p>Payment of pending claims will be a big boost to the cashflow position of affected companies especially for the exporters who are facing sluggish demand for their products considering COVID-19 impact on the global economy.</p> <p>A greater impact would be achieved with the fast-tracking of all refund claims and a ballpark settlement be made.</p>
Pending bills	<ul style="list-style-type: none"> <li>Ministries and Departments to effect payment of pending bills amounting to at least KES 13 Billion</li> </ul>	<p>This measure will boost support suppliers who are already affected by delays in settlement of bills for work already undertaken.</p> <p>The bulk of eligible pending bills amounting is KES 58.7 Billion is owed by the County Governments who undertake business with SME's. No package is announced in this regard.</p>
Demonetization windfall transferred to Consolidated Fund	<ul style="list-style-type: none"> <li>Central Bank of Kenya ("CBK") has released KES 7.388 Billion worth of the older notes which were rendered illegal tender in the demonetization exercise that was concluded in 30<sup>th</sup> September 2019</li> </ul>	<p>The amount is listed by CBK as its contribution to government resources at the time when it is needed to combat the pandemic.</p>
Universal Health Converge Kitty	<ul style="list-style-type: none"> <li>KES 1 Billion to be appropriated from the fund towards recruitment of additional health workers</li> </ul>	<p>The additional health workers are to come in handy at the time when the healthcare system is set to be challenged by COVID-19</p>
Cash transfers for the vulnerable	<ul style="list-style-type: none"> <li>KES 10 Billion is approved to be disbursed to the elderly and vulnerable members of the society through the Ministry of Labor and Social Protection</li> </ul>	<p>This measure is would offer relief to the vulnerable who may face a severe cash crunch if the support they receive from well wishers drops due to the economic impact of the virus.</p> <p>The cash disbursed will stimulate local economies particularly in the rural areas where most of the amounts are to be spent.</p>
Paycuts and Austerity Measures	<ul style="list-style-type: none"> <li>Senior government officials have taken a pay-cut and the funds released are to be mobilized to respond to the pandemic.</li> <li>The President and the DP have taken an 80% pay-cut while CSs and CASs have taken a 30% cut. PSs have taken a 20% cut.</li> <li>Other government departments to cut expenses for funds to be availed to respond to the pandemic</li> </ul>	<p>The funds released are to be used to respond to the pandemic.</p>

# FISCAL INITIATIVES

Initiative	Particular	BDO Insight
CBR Rate	<ul style="list-style-type: none"> <li>CBR rate is reduced to 7.25% from 8.25%</li> </ul>	This is intended to prompt banks to lower the interest rates. A lower cost of capital improves the rate of return from investors. This may reduce the earnings of banks.
Reserve Cash Ratio (CRR)	<ul style="list-style-type: none"> <li>CRR is lowered to 4.25% from 5.25%</li> </ul>	This is intended to provide additional liquidity of KES 35 billion to commercial banks to support borrowers during this time and increase credit in the market.
Provisioning and classification of loans	<ul style="list-style-type: none"> <li>CBK to relax regulations on loan classification and provisioning for loans</li> </ul>	This is to offer room for banks to extend repayment periods for facilities restructured due to the COVID-19 pandemic without the same affecting classification and provisioning for banking regulations perspective.
Currency measure	<ul style="list-style-type: none"> <li>CBK to continue to use its foreign exchange reserves to stabilize KES</li> </ul>	<p>This is expected to provide a buffer against short term shocks in foreign exchange market.</p> <p>CBK is desperate to shore up the shilling in the short term to counter the effects of stalled exports to traditional markets for tea, flowers, vegetables, and textile which have been affected by cancellation of international flights. Tourism sector a major foreign income earner for the country is also greatly affected.</p>
Maximum REPOS	<ul style="list-style-type: none"> <li>CBK to extend the maximum tenor of repurchase agreement (REPOs) to 91 days from 28</li> </ul>	This will enable banks to access longer term liquidity secured on their holdings of government securities. This window is to facilitate greater liquidity to banks.
CRB suspension	<ul style="list-style-type: none"> <li>Listing of defaulting debtors with the credit reference bureau is suspended effective 1<sup>st</sup> April</li> </ul>	This is to facilitate access to credit to more businesses and individuals during this time.
Relief for the common man	<p>CBK has announced a raft of measures to apply for borrowers whose loan repayments were up to date as at 2<sup>nd</sup> March 2020 as outlined:-</p> <ul style="list-style-type: none"> <li>Banks to provide relief to borrowers based on circumstances. This included extension of repayment periods</li> <li>MSMEs to negotiate with banks for restructuring of facilities with banks based on circumstances</li> <li>Banks to waive all charges for balance inquiries to facilitate mobile digital platforms usage</li> <li>All charges for transfers between mobile money wallets and bank accounts are eliminated</li> <li>Mobile money charges are removed for transactions not exceeding KES 1,000</li> <li>Mobile money transaction limits increased to KES 150,000 up from KES 70,000</li> <li>Daily limit for mobile money transactions increased to KES 300,000</li> <li>Mobile wallet limit increased to KES 300,000</li> <li>Monthly mobile money transaction limit removed</li> <li>Current tariff for mobile money for KES 70,000 to apply for transactions up to KES 150,000</li> </ul>	<p>Current market conditions may appear to be a 'distress sale' but if such conditions exist broadly in market, then those factors should be incorporated into a fair value measurement. It would generally be inappropriate to adjust a measure for expected 'rebounds' in value.</p> <p>For financial instruments with level 1 prices (quoted on an active market), even if there is a significant decline in activity on that market this does not mean that the price has become unobservable.</p>

## HEALTH & SAFETY MEASURES

Measure	Particulars	BDO Insight
7pm to 5am Curfew  (Ref to Legal Notice No 36/2020)	<ul style="list-style-type: none"> <li>Effective from Friday 27<sup>th</sup> March, a daily curfew to be in effect from 7pm to 5am in Kenya</li> <li>No person shall be allowed to move or travel from his place of dwelling unless is a provider of critical and essential services.</li> <li>Essential services include KRA, KQ plc, KCAA, KPA, port service providers, water service providers, medical and health workers, security, administration and coordination officers, pharmacies and drug stores, broadcasters and media houses, KPLC staff, food dealers, distributors, wholesalers and transporters of farm produce, supermarkets, minimarkets and hypermarkets, dealers in petroleum products, telecommunication service providers, banks, financial institutions and payments services, security firms, fire brigade and emergency response services. Ferry services to be managed by the National Government and the Coast Guards.</li> </ul>	<p>These measures are to reduce evening social activities which present greater risk for the transmission of the virus and enable the health facilities to be availed for the affected in a more organized fashion.</p> <p>Businesses that operate in evenings will experience a severe downturn and this will affect jobs in those sectors.</p> <p>Given the crisis' effect on hospitality, floriculture and EPZ companies, the economy is suffering far more from global shutdown than local partial-lockdown.</p>
Mandatory quarantine and suspension of international flights	<ul style="list-style-type: none"> <li>Effective from Friday 25<sup>th</sup> March, all international flights are suspended until further notice with the exception cargo flights.</li> <li>Incoming passengers to be mandatorily quarantined in government approved facilities</li> </ul>	<p>These measures are to reduce further introduction of new infections in the country. As at 26<sup>th</sup> March, there are 31 confirmed cases.</p> <p>Restriction of travel into the country will affect the economy.</p>
Suspension of schools, religious gatherings and other social events and social distance rules	<ul style="list-style-type: none"> <li>Schools, churches, mosques, other religious gatherings, weddings, funerals and other social gatherings are suspended. Only close family members to attend funerals and directive to be implemented by the NGAO</li> <li>Social distancing and sanitation advocated for</li> <li>Government officials of Job Group S and below above 57 years to take leave or work from home, except those of essential services</li> <li>Hotels are shut down and restaurants can operate on a take-away basis</li> <li>Private sector is encouraged to facilitate working in shifts and working from home where applicable</li> <li>Instead of cash, mobile money and bank card transactions are encouraged</li> <li>Business premises to facilitate sanitation measures at workplaces.</li> </ul>	<p>The measures are aimed at reducing infections by escalating social distance.</p> <p>The social distance rules are expected to affect the hotel and restaurant industry and their supply chain.</p> <p>Productivity may be impacted.</p> <p>Work-from home may not be feasible for the informal sector.</p> <p>Government services are severely impacted on scale. This has also affected courts and the Ministry of Lands which are essential for borrowing transactions.</p>

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# BDO East Africa Kenya

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