

KENYA 2022/2023 BUDGET REVIEW

Experience total support and an innovative approach underpinned by the right specialist skills; from a partner you can trust.

Date: 8 April 2022

BDO GLOBAL STATISTICS 2021¹



GLOBAL REVENUE

US\$ 11.8 billion

+ 10.8%* ↑ REVENUE INCREASE

* (at constant exchange rates)

15% BSO

21.5% TAX

21.5% ADVISORY

42% A&A

FEE SPLIT BY SERVICE LINE



95,414
PEOPLE

1,713
OFFICES

164
COUNTRIES &
TERRITORIES

PERCENTAGE REVENUE BY REGION

12%

ASIA PACIFIC

35%

EMEA

53%

AMERICAS

¹ Financial data 1 October 2020 to 30 September 2021 (including alliance firms). Countries & territories, Offices and People data as at 14 March 2022.

Our Services

Audit and Assurance

- ✓ Statutory Audits of Financial Statements
- ✓ Audit of Donor-funded Projects
- ✓ Special Purpose Audits & Reviews
- ✓ Internal Controls Audits
- ✓ IFRS Training and Technical Assistance
- ✓ Other Assurance Services
- ✓ Assurance Related Services

Business Services & Outsourcing

- ✓ Accounting and bookkeeping
- ✓ Compilation of statutory annual reports
- ✓ Management reporting
- ✓ Financial Management Agent services
- ✓ Fiscal Management services
- ✓ Payroll services
- ✓ IFRS Advisory services
- ✓ Company Secretarial services
- ✓ Administrative and accounting services



Taxation services

- ✓ Tax compliance services
- ✓ Tax advisory services
- ✓ Tax reviews (Audits and health checks)
- ✓ Transfer pricing
- ✓ Employment tax & Expatriate tax
- ✓ Corporate International planning
- ✓ Indirect taxes and customs duty
- ✓ Tax Opinions

Advisory Services

- ✓ Risk Management
- ✓ Management Consulting
- ✓ Corporate Recovery
- ✓ Corporate Finance
- ✓ Transaction Advisory Services
- ✓ Forensic
- ✓ Technology Advisory

BDO Presence Across the East Africa Region



250+

Partners, Directors and staff



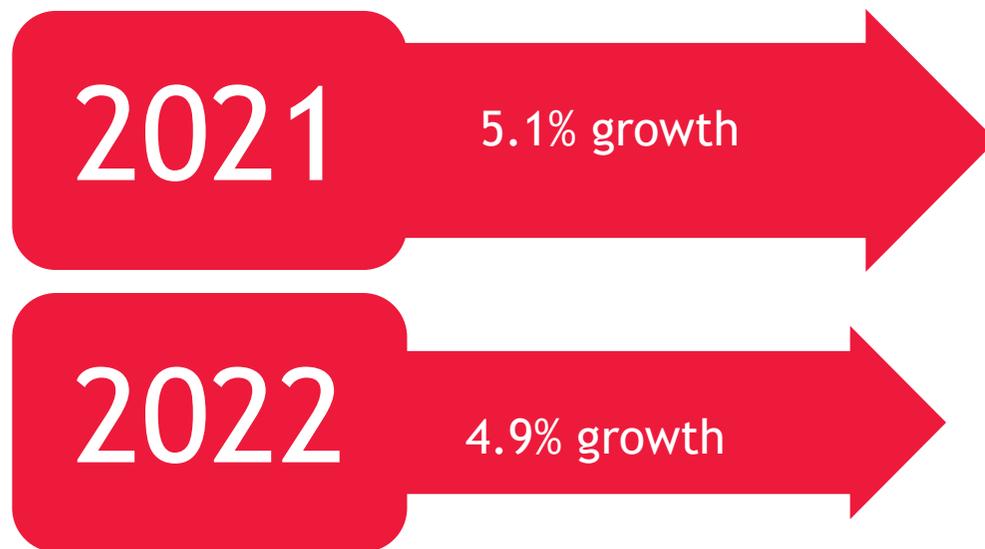
Presence

Kenya, Tanzania, Uganda ,
Rwanda & Ethiopia



Kenya's GDP

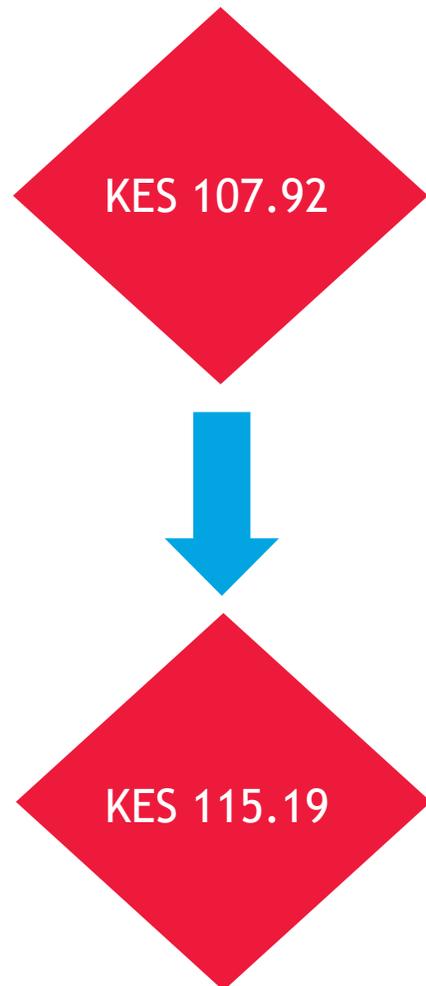
Kenya's GDP is expected to grow by 4.9% in 2022 compared to 5.1% in 2021 according to the World Bank, being one of the faster recoveries among Sub-Saharan African countries.



- This will mainly be driven by the services sector and continued government spending on infrastructure.
- However, poverty has increased, and the buffers and coping mechanisms of households, firms, and the public finances have been depleted. Recent KIPPRA survey shows poverty increasing from 53% in 2018 to 63% in 2021.

Exchange rate

The Kenya shilling has depreciated against the US dollar to close at 115.19 as of 6th April 2022 up from 107.92 as of 30th June 2021. This represents a change of 6.7% over the last 9 months.



- A wide trade and fiscal deficit piles pressure on the exchange rate, more so with the rise in the global crude prices, one of Kenya's largest imports. Debt payments by the government coupled with decreased exports of horticulture will increase pressure of the Kes.
- The shilling is projected to depreciate in the short term driven by election jitters. However, it will regain some ground gradually due to a stable monetary policy by the government and lower Covid-19 infections persist.

Inflation

- Inflation rate has fluctuated **between 6.32% in June 2021 to 5.56% in March 2022**, with the main driver of the inflationary pressure towards the end of Q1 2022 being food inflation and fuel prices.
- Government's response is through subsidy of **fuel and agricultural** inputs such as fertilizers to contain it.
- Imported inflation due to the supply chain disruptions around the globe is expected to put an upward pressure on the prices of imported goods especially on raw materials. However, this is expected to ease in the medium term.

Other Factors

- **Interest rates:** Kenya has remained stable with an annual rate of 7%. Ensures that cost of borrowing/lending funds is balanced to ensure access to credit.
- **Sustainability:** Kenya's ambition is to become a continental leader in sustainable development by scaling up usage of low carbon transportation systems and practicing smart agriculture.

VALUE ADDED TAX

Reclassification of VAT Supplies

Item/Supply	Current VAT Status	Proposed VAT Status	Proposed Effective Date
Plant and machinery for use by manufacturers of pharmaceutical products.	Vatable - Standard rate	Exempt	TBD
Medical oxygen supplied to registered hospitals, urine bags, adult diapers, artificial breasts, and colostomy or ileostomy bags for medical use	Vatable - Standard rate	Exempt	TBD
Inputs and raw materials used in the manufacture of passenger motor vehicles	Vatable - Standard rate	Exempt	TBD
Locally manufactured passenger motor vehicles	Vatable - Standard rate	Exempt	TBD

EXCISE DUTY

Proposed excise duty

Powers to exempt certain products from annual inflation adjustment

The Cabinet Secretary through the Budget Speech indicated empowerment of the Commissioner through amendment to the Excise Duty Act to provide the Commissioner with powers to exclude specific products from inflation adjustment based on the prevailing economic conditions.

Currently, the inflation adjustment is undertaken on the entire schedule of supplies that are subject.

Excise duty exemption on neutral spirit used by pharmaceutical manufacturers

The Cabinet Secretary has indicated excise duty exemption on neutral spirits used by registered pharmaceutical manufacturers upon approval by the Commissioner.

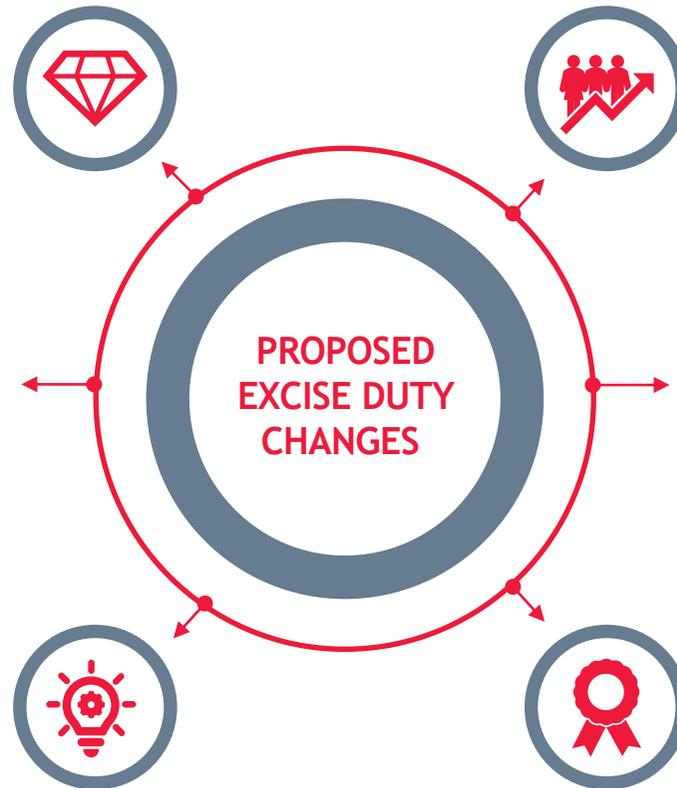
Neutral spirit is used as a raw material in the manufacture of pharmaceuticals.

Imported hatching eggs exempt from excise duty

The Finance Act, 2021 introduced excise duty on imported eggs as a measure to protect the local poultry industry.

The Cabinet Secretary in the Budget Speech has indicated the intention to exempt imported hatching eggs from excise duty upon amendment of the Excise Duty Act.

Imported eggs for consumption will still attract excise duty.



Introduction of excise duty on alcohol, betting and gaming advertisements

The Cabinet Secretary in the Budget Speech indicated the introduction of excise duty on advertisements for alcoholic beverages, betting and gaming at the rate of 15 percent on fees charged by all the television stations, print media, billboard and radio stations.

Will media entities be required to register for excise duty?

Excise increase of excise duty of

The Cabinet Secretary indicated in the Budget Speech an increase of excise duty for liquid nicotine to KES 70 per millimeter from the current rate of KES 1 per unit.

Liquid nicotine is used in making of e-cigarretes and which can be highly addictive and increases risk of chronic diseases.

Excise duty exemption on locally assembled passenger motor vehicles

Locally assembled motor vehicles are currently subject to excise duty upon sale to consumers.

The Cabinet Secretary in his speech indicated the Finance Bill, 2022 may propose for excise duty exemption on locally assembled passenger motor vehicles.

INCOME TAX ACT

Proposed Income Tax Changes

Deductibility of Donations Applicable to non-registered charitable organizations

- ▶ Currently, the Income Tax Act does not allow for deductibility of donations other than **cash** donations made to registered charitable organizations.
- ▶ The new proposed provisions as outlined by the Cabinet Secretary in the Budget Speech outline that cash donations made to charitable organizations, whether registered or not, will be allowed as expenses for corporation tax purposes.

Introduction of Capital Gains Tax (CGT) on Financial Derivatives

- ▶ The CS outlined in the Budget Speech indicated introduction of provisions through the Finance Bill, 2022 to tax capital gains accruing to non-resident persons on financial derivatives (hedging, futures and options).

Microfinance institutions exempt from interest expense restrictions

- ▶ Interest restriction provisions outline that deductible interest expense is capped at 30% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).
- ▶ Banks, financial institutions and micro and small enterprises registered under the Micro and Small Enterprises Act, 2012 are exempt from interest restriction provisions.
- ▶ With reference to the Budget Speech, the Finance Bill, 2022 seeks to amend the Income Tax Act and exempt microfinance institutions licensed under the Microfinance Act from interest restriction provisions.

Requirement for Reporting by Multinational National Entities (MNEs)

- ▶ Multinational enterprises with operations in Kenya will be required to report their activities within Kenya and other jurisdictions.

MISCELLANEOUS FEES AND LEVIES ACT



1

RDL and IDF exemptions on importation of raw materials used in the manufacture of pharmaceutical products

The Cabinet Secretary through the Budget Speech indicated the introduction of Railway Development Levy (“RDL”) and Import Declaration Fee (“IDF”) exemption on raw materials imported by manufacturers of pharmaceutical products.

The exemption seeks to encourage investment in the pharmaceutical industry.

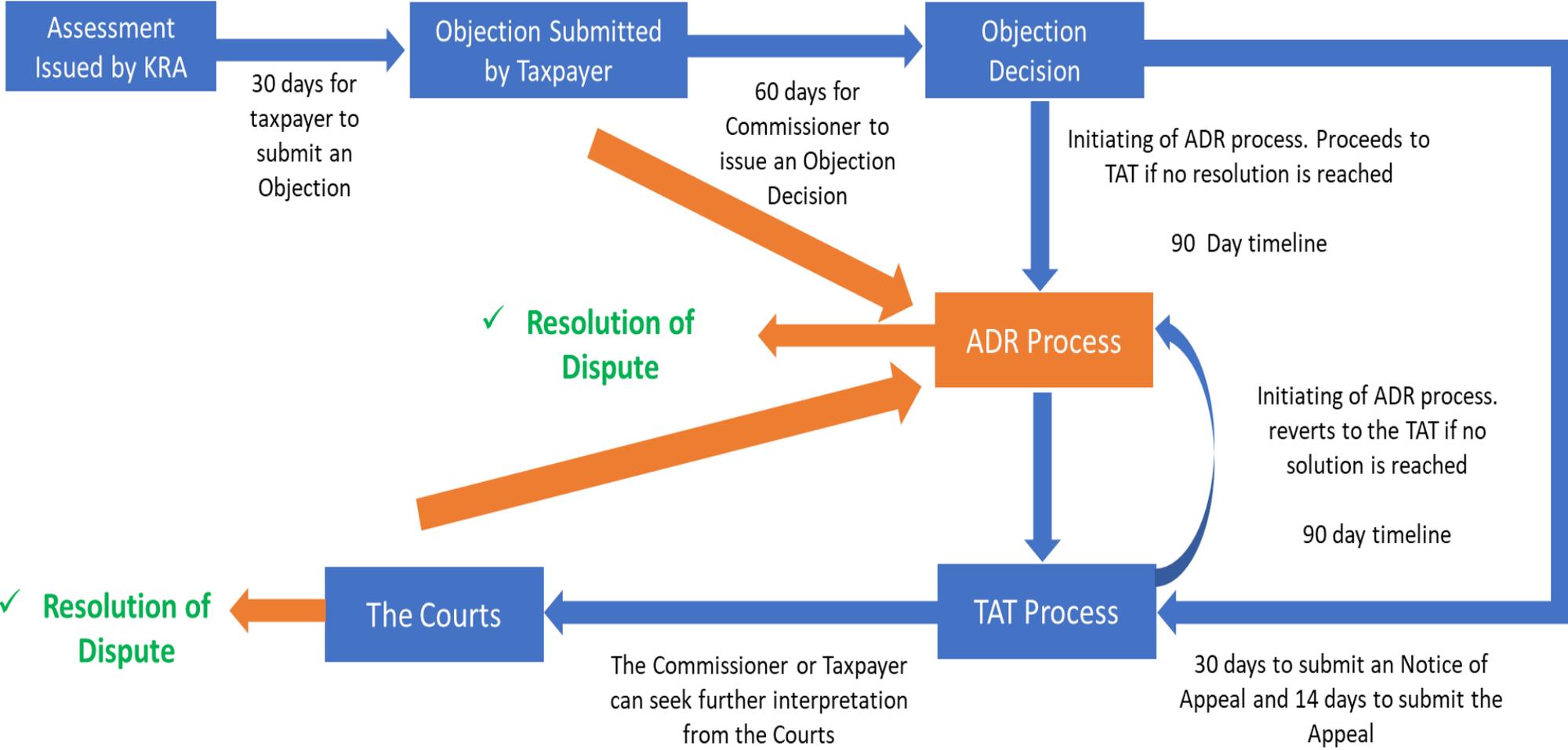
2

Reduction of export levy on raw hides and skin

Export levy on the sale of raw hides and skins is reduced from 80% or USD 0.5 per kilogram to 50% or USD 0.32 per kilogram as support to cattle rearing farmers and pastoralists.

MISCELLANEOUS
FEES AND LEVIES
ACT

TAX DISPUTE RESOLUTION PROCESS



TAX PROCEDURES ACT

Proposed Tax Procedures Act Changes

TAX PROCEDURES ACT

1

Introduction of caveats on property of taxpayers with arrears

The Cabinet Secretary in the Budget Speech indicated proposals contained in the Tax Procedures Act to increase the powers of the Commissioner to include the power to instruct the Registrar of ships, aircrafts, motor vehicle and other properties to register caveats restricting transfer of the respective properties for taxpayers with tax arrears.

The Commissioner currently has the powers to issue direction to the Land Registrar to put a caveat on land or restriction on transactions for Taxpayers with tax arrears.

The Commissioner can also issue an Agency Notice which restricts movement of cash from the bank accounts of a Taxpayer that has tax arrears.

2

Objection Decision

The Cabinet Secretary in the Budget Speech indicated the intention for the increase of powers of the Commissioner to request any additional information and make a decision within an additional sixty days.

Currently, the Tax Procedures Act provides the Commissioner with only sixty days to make an Objection Decision but does not strictly provide a timeframe to make an Objection Decision upon requesting for additional information.

TAX APPEALS TRIBUNAL ACT

INTRODUCTION OF NEW REQUIREMENT TO DEPOSIT 50% OF TAX NOT IN DISPUTE FOR CASES DETERMINED BEFORE THE TAX APPEALS TRIBUNAL

The Cabinet Secretary in the Budget Speech indicated amendment of the Tax Appeals Tribunal Act to introduce a new requirement requiring a Taxpayer proceeding to challenge the Commissioner's Objection Decision to deposit 50% of the tax in dispute in a special Central Bank of Kenya account.

In the event of a positive outcome for the Taxpayer upon final determination of the matter, the 50% deposit will be refunded within 30 days.

In the event of a negative outcome for the Taxpayer upon final determination of the matter, the 50% deposit will be legally transferred to KRA.



KENYA REVENUE AUTHORITY ACT

Amendment of the Kenya Revenue Authority Act

CHANGE OF NAME FROM KENYA REVENUE AUTHORITY TO KENYA REVENUE SERVICES

- Proposal to change rebrand the Kenya Revenue Authority (KRA) to the Kenya Revenue Service (KRS) to positively transform its public image.
- The current perception of KRA by the Taxpayers is that of an aggressive and ruthless tax collection agency rather than a facilitator of tax compliance.
- The rebranding is meant to improve the public image of the body and promote good public relations with Taxpayers.



OUR CONSIDERATION

Will the Change of Name also include a shift in interaction with the Taxpayer and sensitization in addressing contentious matters?



**FOR A CLEAR PERSPECTIVE
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