BUDGET 2009/10

e-brief – June 2009

DCDM

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BUDGET BRIEF 2009/10

Our Esteemed Business Partners, Associates, Colleagues and Friends,

DCDM Kenya and Githongo & Co present the key policies, fiscal and monetary changes featured in this year's Budget Speech, in the attached e-brief, delivered by the Finance Minister, Hon. Uhuru Kenyatta, on June 11th, 2009 including the highlights of some key economic indicators and sector analysis.

Against a backdrop of the worst global recession since the Global Depression and a slowed down Kenyan economy, largely due to the adverse effects of the unfortunate post-election events, rise in food and oil prices, reduced revenue from exports, tourism earnings and remittances from the Kenyan Diaspora, the Finance Minister had the tough task of delivering a budget that would fuel economic growth and provide hope and opportunity to the wananchi.

The Budget projects a modest recovery with Economic Growth forecasted at 3% in line with maintaining long term growth and development objectives of vision 2030. Our key concern is that with an expenditure of Kshs 865.6 billion, the highest Kenya has ever had since independence, partly funded by additional domestic borrowing of Kshs 109 billion, interest rates are likely to go up and private sector growth may be squeezed out due to lack of liquidity in the market. On the other hand the Minister does recognise that the Private Sector represents one of the key building blocks of the Country, and has provided various incentives to the IT, Agriculture, Tourism and Export/ Manufacturing sectors.

As with all things, the true effects of the Budget and the question of whether both the public and private sectors will have sufficient funding for growth, will only be realised during the coming year.

We caution that the Budget proposals are subject to amendments during the parliamentary debates on their adoption and there may also be finer points that will require detailed comments once they are incorporated within the Finance Act 2009. We therefore recommend that you seek specific advice on matters concerning your industry. My colleagues and I are available to provide clarifications should you have any questions on the Budget. Kindly email your queries to admin@dcdmkenya.com and we will revert with our responses as soon as possible.

We trust this brief will be important to you in assessing the likely impact of the Budget measures on the economy and on your business in particular. Wishing you all the best for the new economic year.

Deepa Doshi
Country Managing Partner – DCDM Kenya
Budget Night
11th June, 2009

Budget 2009/2010

Stimulating growth despite the global recession

When his predecessor was reading last year's budget statement, Kenyans rightly expected a budget statement that was aimed at helping the country recover from the adverse effects of the post-election crisis that the country experienced in early 2008. Hon Uhuru Kenyatta's first budget reading was against the backdrop of another major and also unexpected challenge – a global recession.

Even before the country's leading foreign exchange earner – tourism, had begun to see any signs of recovery, the global credit crisis saw efforts by the local tourism industry to lure international visitors back, stopped in their tracks as those visitors watched banks collapse with their savings and major businesses collapse in staggering numbers. And it was not just the credit crunch that was contributing to reduced tourist arrivals; the oil price shocks of 2008 made international travel expensive virtually overnight.

Remittances to Kenya by workers in the diaspora fell rapidly as many of those workers lost jobs or sought to shore up their own livelihoods. Sales by the floriculture sector also fell sharply as European buyers cut down on luxury spending. Across Africa, collapsing producer prices for commodity exports as demand slowed in Western Economies, slashed revenues forcing the continent's governments to take drastic budgetary measures as growth across the continent slumped to an estimated 1.7% in 2008 from 5.5% in 2007.

"Overcoming today's challenges for a better Kenya tomorrow".

The 2009/10 Budget recognised these challenges, as well as the ongoing drought patterns that have forced food prices to remain high. The Finance Minister re-iterated his desire to stimulate growth urgently while still retaining the objectives stated in Vision 2030. He defined five principles in his speech with this objective under the above theme:

1. Maintaining a stable macroeconomic environment and creating an enabling environment for business
2. Developing key infrastructure facilities and public works countrywide to stimulate growth, create employment and reduce poverty.
3. Promoting equitable regional and social development for stability.
4. Investing in environment and food security.
5. Strengthening governance not because we have to, but rather, because it is the way forward in improving public service delivery.

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Stimulating growth despite the global recession

The Finance Minister proposed a fiscal stimulus package focusing on sectors that will generate maximum benefit, terming these priority pro-growth and pro-poor measures.

❑ Recognising that raising taxes is not an option the Minister opts for **cost rationalisation** focussing on cutting non-priority spending. He tightens ceilings on several categories of ministerial expenditures, introduces a moratorium on new cars and limits senior public servants to a single official vehicle with engine capacity of 1,800cc - all other cars will be sold by September 2009.

❑The Budget proposes a huge fiscal stimulus funded by increasing **domestic borrowing to** Ksh 109 Billion, with the Minister assuring Kenyans that even at close to 40% of GDP, (expected to peak at 44.5%) national debt is still manageable.

❑Recognition is made of the significant problem of poor **utilisation of donor funds**, particularly on development expenditure – which has in recent years averaged 50% and proposes measures aimed at increasing this to 80%.

❑The Minister highlights measures aimed at promoting a conducive business environment and reaffirms government commitment to the reforms under **Agenda 4** of the National Accord (Ksh 2Bn) and **Judicial reforms**, (Ksh 3.1 Bn).

❑The government shows continued prioritisation of **infrastructure investment** including efficiency efforts at Mombasa Port; a new standard gauge railway line from Mombasa to Western Kenya (Ksh 3Bn) and a light rail system in Nairobi and its suburbs.

❑Ksh 7Bn is allocated towards the expansion of access to **affordable energy** supplies including investment in renewal energy as well as upgrading of existing transmission infrastructure, and a further Ksh 0.5Bn on alternative, (clean) energy sources.

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Stimulating growth despite the global recession

- ICT benefits from massive stimulus investments with allocations of Ksh 1.3Bn to purchase **mobile computer labs** in each constituency, support for **Digital Villages** jointly with the World Bank and launch of a **Million computer** country-wide campaign.
- In seeking to ensure equity in regional development, the Minister allocates Ksh 12Bn to the **Constituency Development Fund** (CDF) (up from Ksh 10.1Bn) and amends the **Road Maintenance Levy Fund** to allow 22% of its collections (about Ksh 4.7Bn) to be channeled through the Constituency Fund Board. A further stimulus package of Ksh 22 Bn is allocated through the **CDF framework** towards financing of infrastructure development covering education and healthcare and other development projects.
- Constituencies also benefit from substantial additional allocations for development of **fresh produce and wholesale markets** (Ksh 1.8Bn), **fish-farming ponds** (Ksh 1.1Bn), construction of **jua-kali sheds** (Ksh 0.5Bn) and 1 Bn to be shared by the **Youth development** and **Women enterprises** funds.
- More than 18 months since hundreds of thousands of Kenyans were displaced in the post election violence, the settlement process is allocated Ksh 2.7Bn to support **IDP resettlement** and **reconstruction** efforts.
- In the **Arid and semi-arid regions of Northern Kenya**, a total of Ksh 7.5bn is allocated to support road construction, solar-power and water infrastructure.
- The **Tourism sector** benefits from Ksh 0.8Bn in loans through KTDC and a further 0.4Bn for marketing.
- The **Health Sector** received Ksh 4Bn to build and equip health centres in every constituency; Ksh 0.65Bn to recruit 4,200 nurses, and 0.5Mn for motorcycles and bicycles in each constituency.
- The free **primary and secondary education** programmes receive a total of about Kshs 12 Bn to cater for escalating costs, the upgrade of schools, the recruitment of primary and secondary school teachers and the purchase of digital laboratory buses.
- To enhance **food security** and **social security**, Ksh 3Bn is allocated towards the rehabilitation and expansion of irrigable land in semi-arid zones; Ksh 1Bn for the **food subsidy scheme** and a further 0.3Bn for the aged and physically challenged.

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Stimulating growth despite the global recession

Financial Projections

- The budget has a **gross revenue target** of Ksh 569Bn (22.4% of GDP) made up of Ksh 522.8 Bn in ordinary revenue and Ksh 46.8 Bn in appropriations-in-aid. External grants of Ksh 35.3Bn are expected to finance development projects.
- **Gross recurrent expenditure** is Ksh 606.7 Bn and Ksh 258.9 Bn for development expenditure.
- After taking into account direct project financing from grants, Appropriations-in-aid and loans, there is an **overall fiscal deficit** of Ksh 168 Bn of which the budget proposes to finance Ksh 109.5 Bn through **domestic borrowing**.

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Economic Indicators

1. **Population** continues to grow at about 3% rising from 36 Million in 2007 to 37.2Mn in 2008
2. **GDP growth rate** declined from 7.1% in 2007 to 1.7% in 2008. (*This is the lowest reported growth rate since 2003*). In 2009, GDP is forecast to record a growth of 2.5%.
3. **GDP at market prices** increased from Ksh 1.8 Trillion to Ksh 2.1 trillion in 2008.
4. **Average annual Inflation** increased from 9.8% in 2007 to 26.2% in 2008 and is estimated at 27.15 in April 2009 .
5. **Total Wage Employment** increased from 1.9 Million in 2007 to an estimated 1.94M in 2008
6. **Gross Savings to GDP** increased from 13.1% in 2007 to 14.8% in 2008.
7. **Gross Revenue** forecast at Kshs. 569.6 Bn
8. **Recurrent & Development expenditure** for 2009/10 estimated at Kshs. 606.7 Bn & Ksh 258.9 Bn
9. **Budget Deficit** for 2009/10 is projected to peak at 44.5% of GDP.
10. **International Trade** deficit widened by 28.8% from Ksh 330.5Bn in 2007 to Ksh 425 Bn in 2008
11. **91-day Treasury Bill** rate increased from 6.8% in 2007 to 8.6% in 2008

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Sectoral Highlights

Sector (or Sub-sector)	2008 / 09	2007/ 08
Agriculture & forestry Sector **Growth**	(5.1%)	2.0%
Maize production	26.0 Mn bags	32.5 Mn bags
Horticultural produce (exports)	193,100 tonnes	192,200 tonnes
Coffee production	42,000 tonnes	53,400 tonnes
Tea exports	345,000 tonnes, Valued at Kshs. 55.38 Bn	369,600 tonnes, valued at Kshs. 43.14 Bn.
Dairy produce	Kshs. 8.3 Bn	Kshs. 8.5 Bn
Fishing (landed)	142,500 tonnes	135,100 tonnes
Manufacturing Sector Growth	3.8%	6.5%
Electricity & Water Sector Growth	5.2%	9.1%
Building & Construction Sector Growth	8.3%	6.9%
Transport & Communication Sector Growth	3.1%	14.9%
Hotels & Restaurants Sector Growth	(36.1%)	16.3%
Financial Intermediation Sector Growth	3.1%	6.5%
Mining & Quarrying Sector Growth	14.5%	12.9%

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Salient Features

- **Financial Sector:** Reforms covering areas of Insurance, Banking and the Capital Markets. Regulatory role of the Capital Markets Authority (CMA) to be strengthened and enhance investor confidence. Critical reforms include:
  - ✓ Banking Act amended to allow for branchless banking. This will allow banks to extend their services through agencies with wide distribution networks.
  - ✓ Kenya Post Office Savings Bank Act has been amended to allow POST Bank to transact in foreign exchange business in accordance with CBK rules and regulations Act.
  - ✓ The amendment of the Penal Code to outlaw the operations of pyramid schemes including non genuine multi level marketing operations.
  - ✓ Amendment of Capital Market Regulation to increase the share capital for stock brokers and investment banks from Kshs 5 million and Kshs 30 million to Kshs 50 million and Kshs 250 million respectively and a requirement for Kshs 20million for dealers and this should be complied with on or before 31 December 2010.
  - ✓ Further amendment of the Capital Market Regulations requires entities under the capital markets that collect money from the public to secure professional indemnity insurance to cover for losses that may arise from default or negligence to ensure investors are adequately covered. The said amount should not be less than five times their daily average turnover.
  - ✓ The Capital Markets regulation has also been amended to reduce the listing fee from 0.3% to 0.15% for new public offers of equity
  - ✓ Financial services of non banking and non financial institutions are now also exempt from VAT.
  - ✓ To reduce withholding tax from 15% to 10% on interest arising from long term bonds with maturity of 10 years and above and on the same note to grant capital deduction to any person entering into a concessioning arrangement with the government.

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Salient Features Contd/2

- **Financial Sector (cont'd)**
  - ✓ The Retirement Benefit Act has been amended to increase the minimum funding for defined benefit schemes allowed under the law of accrued liabilities from 80% to 100%. The Act has also been amended in that it now requires new investments by pension schemes that receives statutory contributions (NSSF) to be invested in government securities and infrastructure bonds issued by public institutions only.
  - ✓ To amend the Insurance Act to restrict the shareholding of insurance companies by a single person either directly or indirectly to 25%. A further amendment to bar any person who directly or indirectly owns, controls or is beneficially entitled to more than 20% of the shares of an insurance company, from participating in the day to day management of the company. .

- **Miscellaneous Sectors:** There are several reforms covering areas of general industry, tourism and film making industries, ICT and infrastructure development, promoting oil and energy and power generation, growth of agricultural sector, and promoting road safety.

  Critical reforms include:

- **Incentives for Growth**
  - ✓ To remove the Sugar Development Levy on refined industrial sugar imported by gazetted manufacturers under the duty remission scheme.
  - ✓ To grant exemption of import duty on all industrial spare parts which will be managed through the duty remission scheme.
  - ✓ To exempt all import duty on raw materials for the manufacture of sanitary towels to make them cheaper and available locally, considering that imported sanitary towels and tampons are already duty free

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Salient Features Contd/3

- **Incentives for Growth (cont'd)**
  - ✓ To grant a remission of duty on inputs for use by paper and paperboard mills.
  - ✓ To remove import duty on asbestos fibres used in the manufacture of brake linings and pads.
  - ✓ To reduce import duty on all synthetic yarns, acrylic yarn, polyester yarn and high ferocity yarn from the current rate of 10% to 0%. And further to zero rate VAT on locally produced and ginned cotton.

- **Tourism and Film Industry**
  - ✓ To grant an exemption of import duty on all four wheel drive motor vehicles specially designed and built for tourism purposes.
  - ✓ To remove the current import duty of 25 percent and VAT of 16 percent on television cameras, digital cameras and video camera recorders.
  - ✓ To zero rate for VAT taxable goods and services offered to film producers.
  - ✓ To grant a one hundred (100%) per cent investment deduction on capital expenditure incurred by a film producer on purchase of any filming equipment.

- **Growth of ICT and Deepening Infrastructure Development**
  - **Fibre Optic communication**
  - ✓ To allow the internet service providers to offset against their taxable income the cost incurred in acquiring the right to use the fibre optic cable over a period of twenty years;
  - ✓ To increase wear and tear on telecommunication equipment including the fibre optic cable from 12.5% to 20%;
  - ✓ To provide tax deduction of 5% on computer software.

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Salient Features Contd/4

- **Growth of ICT and Deepening Infrastructure (cont'd)**
  - **Infrastructure**
  - ✓ To exempt from VAT, all telephones for cellular networks or other wireless networks.
  - ✓ Investment allowance of one hundred and fifty (150%) per cent to any investor who makes substantial investment in any satellite town around the major cities of Nairobi, Mombasa and Kisumu.
  - ✓ To include construction of training institutions in the list of buildings, which qualify for capital deduction. This measure will allow investors to put up such training facilities and claim capital deduction at the rate of 50 percent per annum, thereby allowing them to recover cost of construction within two years and reinvest in expansion to profile our country as a training hub in the regions.

  - **Oil and Energy Exploration and Power Generation**
  - ✓ To grant import duty exemption on equipment and inputs excluding motor vehicles imported by a licensed company for direct and exclusive use in oil, gas or geothermal exploration and development.
  - ✓ To impose a ban on exportation of scrap aluminum, steel and copper wires and cables.
  - ✓ To zero rate VAT on power generators and generating sets.
  - ✓ A Green Energy Facility will be established to offer interest free long-term loans to firms that opt to replace conventional high cost energy generation with low cost green energy alternatives. The facility will be funded by the government and managed by a consortium of selected banks.
  - ✓ Completion of five power generation projects will also be fast tracked.

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Salient Features Contd/5

- **Growth of Agricultural Sector**
  - To raise the current import duty rate on wheat from 10% or 50 US$ per tonne whichever is higher to a rate of 25%.
  - To grant an exemption of import duty and to zero rate for VAT, heat insulated milk tanks, to help dairy farmers in preserving their milk.
  - To zero rate for VAT taxable supplies for the construction of grain silos.
  - To zero rate for VAT, refrigerated trucks and parts for agricultural, horticultural and forestry machinery.
  - A four per cent (4%) levy has been imposed on the ex-factory price for locally produced sugar and the landed entry point price for imported sugar.

- **Equity and Protecting the Poor and Vulnerable**
  - To reduce the current import duty on second hand clothing (mitumba) from the current rate of US$0.3 per kg or 45% whichever is higher to US$0.20 per kg or 35% whichever is higher.
  - To zero-rate bicycles (boda- bodas).
  - To reduce excise duty on cosmetics and skin care products from ten per cent (10%) to five per cent (5%). Further to remove excise duty on jewellery products.
  - To reduce excise duty on water from 10% to 5%, and that on carbonated soft drinks and juices from 10% to 7%.
  - To change the excise duty regime from alcohol by volume to a hybrid type of specific and ad valorem as was the case before, in the following manner.
    - To change the excise duty on spirit from Ksh 7/= per 1% of alcohol per litre to Ksh 120 or 65% whichever is higher, and that of wines from Ksh 7/= per 1% of alcohol per litre to Ksh 70 or 50% whichever is higher.

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Salient Features Contd/6

- **Equity and Protecting the Poor and Vulnerable (cont'd)**
  - To increase the tax exempt limit for monthly pension from Kshs 15,000 to Kshs 25,000.
  - To exempt goods including materials, supplies, equipment and motor vehicles for official use in the provision of relief services imported by the Kenya Red Cross Organization and further to zero rate taxable goods and taxable services supplied to the Kenya Red Cross.

  - **Compliance with the Tax Laws**
  - To extend the application for claim for relief of tax paid of goods in stock from thirty days to six months.
  - To gazette known exporters who will qualify for zero rated supplies to get supplies zero-rated to ease the VAT refund process.

- **Road Safety**

  - Importers of commercial vehicles to now have them inspected and registered within 30 days of release by Customs Office.
  - Minor traffic offenders who plead guilty before the traffic policeman to be fined on the spot and allowed to proceed on their journey

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Fiscal Proposals

INCOME TAX

- **BUSINESS TAXATION - CAPITAL ALLOWANCES**

1. **Film industry**

- Licensed film production industry investors to qualify for a 100% investment deduction on capital expenditure incurred in the purchase of filming equipment. Effective 12 June 2009.

2. **ICT sector**

- Telecommunication operators capital expenditure incurred in acquiring right to use a fibre optic cable will qualify for tax capital deductions at the rate of 5% per annum. Effective 12 June 2009.
- Wear and tear on telecommunication equipment including fibre optic cables is increased from 12.5% to 20%. Effective date 12 June 2009.
- Capital deduction on computer software has been set at 5% per annum.

3. **Investment outside major urban centers**

- Qualifying investments (manufacturing and hotel sector) in satellite towns outside Nairobi, Mombasa and Kisumu will be granted investment allowances of 150% of the qualifying expenditure. Effective 12 June 2009
- Investment deduction has also been extended to capital investment of shs 200 million and above. This will apply to capital expenditure on buildings and machinery.

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Fiscal Proposals Contd/2

INCOME TAX

5. Training institutions

- Buildings in use for training, hostels and educational buildings approved for these purposes to qualify for capital deduction at the rate of 50% per annum. Effective 1 January 2010.

6. Concessional arrangements

- Capital expenditure under a concessionairing arrangement shall be spread and claimed evenly over the concessional period. This will cover cost of purchase or of improvement of any machinery during this period. Effective 12 June 2009

Budget 2009/2010

Fiscal Proposals Contd/3

INCOME TAX - OTHER BUSINESS TAX MEASURES

1. **Loans defined** to include “loans, overdrafts, ordinary trade debts, overdrawn current accounts or any other form of indebtedness for which the company is paying a financial charge, interest, discount or premium”. This is for the purpose of determining a thinly capitalised companies and the respective tax treatment of loan interest and forex losses. Effective 12 June 2009.
2. **The import duty tax set off** investment incentive facility has been removed. Previously this facility allowed for the set off of duty payments against income tax liability. Effective 12 June 2009.
3. **The period for carrying forward business losses** will now be limited to five years – the current year plus four subsequent years. Previously losses were carried forward indefinitely. Effective 12 June 2009.
4. **Where the commissioner of income tax** has reason to believe that any tax payable by any person is at risk of non-payment he can bring forward the due date of payment of tax as he deems fit. This will apply to cases where tax collection is at risk due to imminent departure or cessation of business.

WITHHOLDING TAX

1. **Withholding tax on interest** from long term bonds of 10 years and above has been reduced from 15 to 10%. Effective 12 June 2009
2. **Training fees defined** to include training services designed to enhance efficiency. It includes associated incidental costs. This attracts withholding tax at 5%. Effective 12 June 2009.
3. **Commissions paid to non resident agent** for securing international travel tickets shall be subject to withholding tax. Effective 12 June 2009.

Budget 2009/2010

Fiscal Proposals Contd/4

INCOME TAX - PERSONAL TAXATION

1. **Tax free monthly pension** income increased from shs 15,000 to shs 25,000- effective 1 January 2010.

2. **Partnerships and sole proprietorships** allowed claiming medical expenses of up to shs 1 million when determining taxable income of a partnership business. Effective 1 January 2010.

3. **Tax exempt lump sum withdrawals** or payment out of both registered pension and provident fund has been increased to shs 60,000 for each year of pensionable service up to shs 600,000. Withdrawals based on 1991 and prior contributions are exempt. Lumpsum payments to persons over 65 years are tax free. Effective 1 January 2010.

4. **PAYE tax quarterly returns.** Employers are now required to file quarterly PAYE tax returns on or before the 9th after the end of every calendar quarter. Effective 12 June 2009.

5. **Where directors' emoluments** have been accrued as at the end of a company's financial year the related PAYE tax shall be remitted to KRA four months after year end if the amount is still outstanding. Where the amount is paid earlier then the normal PAYE tax deadline applies. Effective 12 June 2009.

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Fiscal Proposals Contd/5

VALUE ADDED TAX PROPOSALS – effective 12 June 2009

Taxable supply value clarification. Value of supplies for VAT purposes includes any Customs duty paid goods. Previously, notional duty was required to be applied for VAT purposes even when remission for the same had been obtained. Going forward only duty that has actually been paid will count.

Time limit for stocks input VAT claim extended to six months. Previously newly registered businesses had only thirty days within which to claim input tax on stock in hand at the date of registration for VAT.

Withholding VAT agents certificates. The requirement that withholding tax agents issue withholding tax certificates (that facilitate suppliers to claim input tax) has been reinforced. Withholding VAT agents will be required to issue tax certificates promptly at the point of making payment. Failure to do so will attract a fine of Kshs. 10,000, or 10% of tax whichever is higher.

Relief supplies VAT remission expanded. The VAT remission facility available for emergency relief supplies has been expanded to include a wider range of relief supplies than hitherto applicable. This remission will be applicable upon application to the minister of finance under specified criteria.

Mobile phones get VAT exempt status. Mobile telephones, previously Vatable, will now be tax (VAT) exempt. Mobile air time however continues to attract 16% VAT.

Budget 2009/2010

Fiscal Proposals Contd/6

VALUE ADDED TAX PROPOSALS – effective 12 June 2009

- **Exempt banking services clarified.** Core banking services exempt from VAT have been clarified with the list including the usual banking services: accounts operation, money transfers, cards, ATM services, forex transactions, cheque handling, credit advances, money securities. These are exempt from VAT along with the following freshly added services: registered unit trust and collective investment management services, registered credit rating bureau services, and, banking services agency services.

- **Sale of buildings exempted from VAT.** Sale of buildings has been added to the list of VAT exempt services.

- **Tax invoice details clarification.** The requirement for valid VAT tax invoices to quote the suppliers and (if available) buyers VAT registration numbers has been removed. This also applies to credit and debit notes.

- **Credit sales tax invoices issuance clarified.** Tax invoices for supplies of Vatable goods and services made on credit will now require to be issued, like with cash sales, at the point of sale or supply. Up till now there has been a provision allowing for an invoice within a period of 14 days.

- **Supplies to gazetted exporters record keeping.** Suppliers of zero-rated goods and services (per the 5th schedule to the VAT Act) will be required to keep records of supplies made to registered exporters that should include: invoices, proof of payment, purchase certificates and gazette notice copies confirming the registered exporter status.

- **VAT refund audits returns.** Auditors are now required to file with the revenue authority monthly returns of VAT refund claims audited and lodged – by the 20th of the following month.

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Fiscal Proposals Contd/7

VALUE ADDED TAX PROPOSALS – effective 12 June 2009

Local supply of services defined (and by inference exported services).

•Local supplies of services is defined under three criteria. The following are deemed to be locally supplied services for VAT purposes: 1) where a supplier of services is physically based in Kenya and the services are consumed in Kenya. 2) Where services are in relation to immovable property which is in Kenya. 3) For telecommunication services (television, radio, telephone and the like) where the signal recipient is in Kenya.

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Fiscal Proposals Contd/8

VALUE ADDED TAX CHANGES – effective 12 June 2009

The following have been zero-rated:

Supplies of Vatable goods and services to approved grain silo construction projects	The effects of VAT zero-rating are generally positive – and should lead to price reductions: 1. No VAT is chargeable, hence lowering project, supplies and other purchase costs 2. The suppliers are still entitled to claim input Vat paid on purchases hence lowering the costs of production and /or supplies 3. But these have to go hand in hand with speedy recovery of consequent VAT refunds.
Supply of taxable goods and services, including motor vehicles to the Kenya Red Cross	
Supply of Vatable goods & services to approved film producers	
Photographic film	
Video recording apparatus	
Transmission and receiving apparatus	
Generators	
Television, digital cameras, video and parts and accessories	

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Fiscal Proposals Contd/9

VALUE ADDED TAX CHANGES – effective 12 June 2009

The following have been zero rated

Special purpose vehicles (breakdown lorries, spraying lorries, mobile workshops, refrigerated trucks, garbage collection trucks, and insulated milk tanker)	Zero rated
Agricultural tractor parts	Zero rated
Locally produced and ginned cotton	Zero rated
Bicycles	Zero rated

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Fiscal Proposals Contd/10

Excise duty rates revisions (effective 13 June 2009):

Mineral and other bottled waters	Excise duty rate reduced from 10% to 5% or shs.3 per litre
Fruit juices and concentrates	Excise duty reduced from 10% to 7%
Sodas and other non-alcoholic beverages	Excise duty reduced from 10% to 7%
Cosmetics, hair and beauty products, petroleum jelly, perfumes and deodorants	Excise duty reduced from 10% to 5%
Jewellery and precious stones	Excise duty removed. Previously at 10%
Plastic shopping bags	45% excise duty rate
Non-malt beer	Shs.45 per litre excise duty rate
Malt and opaque beer and cider	Shs. 54 per litre excise duty rate
Wines	Shs. 70 per litre or 50% per litre
Spirits	Shs.120 per litre or 65% per litre
Plastic paper packaging	Proposal to be made to be made to allow for the refund of excise duty payments on plastic packaging

CONTACTS-KENYA

Please do not hesitate to contact any of the partners, directors and managers listed below for any assistance you may require.

Deepa Doshi	deepa.doshi@dcdmkenya.com
Peter Githongo	peter.githongo@dcdmkenya.com
Nixon Bugo	nixon.bugo@dcdmkenya.com
Sunil Lakhani	sunil.lakhani@dcdmkenya.com
Charles Muchuha	charles.muchuha@dcdmkenya.com
Sayyida Nusrath	sayyida.nusrath@dcdmkenya.com
Zachary Okungu	zachary.okungu@dcdmkenya.com
Neemita Dubal	neemita.dubal@dcdmkenya.com
Anne Waithera	ann.waithera@dcdmkenya.com

DCDM Kenya
12th Floor, Loita House, Loita Street
P.O. Box 10032 – 00100, Nairobi
Tel: +254 – 20 – 246314 / 246341 / 246422 / 248381 / 248384
Fax: +254 – 20 - 246345

REGIONAL CONTACTS- UGANDA AND TANZANIA

Please do not hesitate to contact any of the partners, directors and managers listed below for any assistance you may require.

Fawn Cousens	cousens@imul.com
Robert Busuulwa,	r_busuulwa@yahoo.co.uk
Dr William S Kalema	wskalema@utlonline.co.ug
Chanyera Lukombo	chanyera.lukombo@dcdmtz.com
Anand Heeroo	anand.heeroo@dcdmtz.com

DCDM Uganda
Plot 29, Luthuli Avenue, Bugolobi
P.O. Box 9113
Kampala, Uganda
Tel: +256 – 414 – 220371 / 3
Fax +256 -414-220373

DCDM Tanzania
4th Floor, Harbourview Towers
Suite # 427, Samora Avenue
P.O. Box 9912, Dar es Salaam, Tanzania
Tel: +255 – 22 – 2112291/2
Fax: + 255 – 22 - 2126848