Alert on the presidential pronouncement for Covid 19 tax relief measures

27 March, 2020
The president of the Republic of Kenya, Uhuru Kenyatta, delivered a speech on 25th March 2020 in which he outlined fiscal measures that are intended to be taken to cushion tax payers and the general populace from the impact of the economic slowdown and financial difficulties that will likely be seen in the wake of the Covid 19 pandemic. Covid 19 presents an unprecedented health and financial crisis and the government has shown its willingness to support Kenyans confront and deal with this crisis.

The changes proposed by the president are as follows:

**INCOME TAX**
- The top tax rate for PAYE will be reduced from 30% to 25%. PAYE is charged on a graduated scale from 10% to 30%. It is unclear whether there will be any changes in the tax bands and we expect this to be clarified once the tax amendment bill is issued.
- Individuals earning up to KES 24,000 will be exempt from PAYE. It is unclear whether the tax exempt limit for employment income will result in a cascade of the income tax bands for individuals and thus provide tax relief for all persons across all income levels or whether the person earning above KES 24,000 and are below the top tax band of 30% will remain without any relief.
- The corporate tax rate will be reduced from 30% to 25%.

**TURNOVER TAX**
- The rate for turnover tax has been reduced from 3% to 1%. TOT is paid by unincorporated businesses that fall below the VAT threshold of taxable sales exceeding KES 5 million per annum.

**VAT**
- The VAT rate will be reduced from the current of 16% to the rate of 14%. This is intended to be effective from 1 April, 2020.
- The president further directed the release of pending approved VAT refund claims amounting to KES 10 billion shillings.
OTHER MEASURES

The president announced other non-tax measures to stimulate the economy, improve cash flow and provide relief to Kenyans as outlined below:

• Ministries and government entities were directed to ensure that they release pending payments amounting to no less than KES 13 billion within the next 3 weeks. This will be a welcome measure for suppliers whose cash flow has been compromised by delayed payments from the government and government related entities.

• Voluntary wage reduction for senior government workers.

• Suspension of listing from the CRB for borrowers whose loans fall in arrears from 1 April 2020.

• Appropriation of KES 1 billion to go towards the recruitment of additional health workers.

• Appropriation of KES 10 billion to be disbursed to the elderly, the orphans and other vulnerable members of society.

• The Central Bank took further measures to lower the central bank rate from 8.25% to 7.25% as well as lowering the cash reserve ratio to 4.25% from 5.25%. These measures should increase liquidity as well as allowing banks the leeway to reduce the interest rates on loans.

IMPLEMENTATION

Legal Notice number 35 of 2020 - the Value Added Tax (Amendment of the rate of Tax) order, 2020 was published on 26th March 2020. The order varies the VAT rate from 16% to 14% and it is effective from 1 April, 2020. This measure will reduce the cost of living for tax payers at these difficult times. The KRA will have to move swiftly to update the new tax rate on the i-Tax platform and suppliers of electronic tax registers will have much work to reconfigure the ETR machines so that the can use the new rate of 14%.

Whereas a legal notice has already been issued to address the proposed change in the VAT rate, there has, so far, been no legislative instruments that have been prepared to address and implement the other changes.

Mazars will continue monitoring the implementation of the tax relief measures and will issue additional tax alerts once the necessary statutory instruments have been published.
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