KPMG ACOR TAX

African Tax Matters

Quarterly newsletter

Q2 2018 – 2nd edition

Dear reader

The summer holidays will soon arrive, and it is time to catch up on the African tax landscape as we present this 2nd edition of our quarterly African Tax Matters.

The African economies gained real momentum in 2017. Actual output growth increased by 3.6% in 2017 and is expected to raise to 4.1% throughout 2018. The growth appears backed by stable commodity prices, business reforms etc.

The East African Community (hereinafter EAC), however, remains the fastest-growing sub-region in Africa, with an estimated growth rate of 5.6% in 2017. Further, the growth rate is expected to improve and reach 5.9% in 2018 and 6.1% in 2019.

Below are the 2017 macroeconomic indicators for the EAC.

Item	Kenya	Tanzania	Uganda	Rwanda
GDP current prices (USD' Million)	76,642	52,453	35,068	9,133
GDP growth rate (%)	4.9	7.1	4.4	6.2
Population (Million)	46.6	51.6	44	11.8
GDP per capita (USD)	1,645	1,017	797	774
Overall inflation rate (%)	8.0	5.4	3.8	7.1
Treasury bill interest rate (%)	8.01	4.04	9.49	7.07
Budget deficit % of GDP	-7.2	-2.1	-4.8	-4.6
Total public debt (USD million)	45,195	21,933	10,530	4,129
Trade deficit as % of GDP	-9.7	-9.3	-4.8	-9.9
Tax revenues (USD million)	14,501	5,571	3,773	1,487

Followed by EAC's growth and ambitious development strategies, the Finance Ministers of the EAC countries recently presented their largest ever budgets.

We expect a good amount of upcoming legislative tax bills to uphold and ratify the proposed tax measures - we will of course follow the status of upcoming legislative bills closely.

In the following, we highlight the most relevant tax news across the EAC to capture an overview of the effects of the tax measures to be implemented as a result of the proposed budgets.

We wish you a pleasant reading and nice well-deserved summer holidays.

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= African countries covered in this newsletter

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Relevant tax news for Q2, 2018.

Kenya – Tax News

National budget 2018 – Investment allowances

The Cabinet Secretary (CS), National Treasury has proposed changes to its favourable investment allowances allowing manufacturers to enjoy an additional 30% deduction on their electricity bills, effectively getting a 130% tax deduction.

National budget 2018 – WHT on the ports

The Kenyan government has recognised the increasing importance of the port of Mombasa as a gateway to East and Central Africa. In a move to increase revenue collection, the government proposes to levy withholding tax at a rate of 20% on so-called demurrage fees paid to non-residents shipping lines.

National budget 2018 – 20% CGT proposal shelved

Moreover, much to the relief of many property investors, the government has dropped the former proposal in the Income Tax Bill to raise capital gains tax on disposal of property from 5% to 20%. Thus, capital gains tax on disposal of property remains for the time being at 5%.

National budget 2018 – Tax procedures

To increase the incentive for taxpayers to pay their taxes, the government has proposed to increase the interest rate on late payment of taxes from 1% to 2% per month. In addition, there is a proposed 20% penalty on late payment of taxes.

National budget 2018 – Tax procedures (cont.)

The government has also proposed to limit the time for application of extension for filing tax returns as well as the number of times a taxpayer can amend a filed return.

National budget 2018 – Excise Duty, VAT and Import Duty

The government has proposed a 0.05% Excise Duty on all financial transactions above KES 500,000.

Agriculture is the backbone of Kenya's economy. To promote this sector, CS has proposed to exempt all raw materials used in the manufacture of animal feeds from VAT. This complements the existing VAT exemption on animal feeds and cushions manufacturers who are not able to claim input VAT on the raw materials. The exemption is expected to reduce the cost of locally manufactured animal feeds and attract investors into the sector.

The CS has proposed higher duty rates to protect local manufacturing industries, specifically iron & steel, textile and footwear, paper, timber and vegetable oil. A table of the proposed import duty changes can be found in below link.

Read more about the budget for Kenya here.

Tanzania – Tax News

National budget 2018 – Reduced CIT in the pharmaceutical and leather industry

The budget speech pointed out aims to expand the tax base, formalise the informal sector and foster a conductive investment environment through simplification of the tax collection process.

The government proposed to reduce the corporate income tax rate from 30% to 20% for new investors in the pharmaceutical and leather industries for five years starting from 2018/19 to 2022/23.

National budget 2018 – Tax exemption of government projects

Further, the Minister can now approve extension of income tax as well as VAT exemption on government projects that are financed by non-concessional loans. The extension should only apply to government projects where such exemptions are provided in the agreements.

Finally, the Minister has proposed to exempt withholding tax on interest earned on government loans from banks and financial institutions to finance government projects. It is expected that this will encourage lending to government projects going forward.

National budget 2018 – Import duty changes

The government has proposed to increase imported duty rates on a number of goods, aimed at promoting local industries. Further, the government has proposed certain excise duties on imported goods, e.g. beverages etc. A table of the proposed duties can be found in below link.

Read more about the budget for Tanzania here.

Uganda – Tax News

National budget 2018 – Withholding under VAT

In Uganda's new budget proposal, the government has focused on attraction of new investments and broadening of the tax base.

It is expected that the below proposed amendments will be enforced on 1 July 2018.

The Minister is expected to designate taxpayers that will be required to withhold 50% of the VAT charged to them. This withholding VAT will apply to VAT registered suppliers or suppliers who are not VAT registered but ought to have been registered for VAT. For suppliers who are not registered for VAT, the withholding VAT will apply where the value of the taxable supply exclusive of VAT is at least UShs 37.5 million.

National budget 2018 – Tax incentive

The income of a developer of an Industrial Park or Free Zone whose investment capital is at least USD 200 million will be exempt for a period of ten years from the date of commencement of construction. In addition, the income of an operator in an Industrial Park or a Free Zone or other business outside the Industrial park or Free zone whose investment capital is at least USD 30 million in the case of a foreigner or USD 10 million in the case of a Ugandan citizen is exempt for five years from the date of commencement of business.

National budget 2018 – Capping of interest expense

Going forward, interest expenses exceeding 30% EBITDA will be restricted for deduction. The excess interest may be carried forward for up to three years. This amendment will replace the existing thin capitalisation provisions.

Read more about the budget for Uganda here.

Rwanda – Tax News

National budget 2018 – Tax measures

The Rwanda government has remained consistent in reducing its aid dependency and financing the national budget entirely from internal resources. Rwanda's external debt stock remains among the lowest in the region as a result of prudent macroeconomic and debt management.

The proposed 2018 budget has set a revenue target of FRW 1.353 billion for the fiscal year for the Rwanda Revenue Authority.

Some of the key domestic proposed tax measures include implementation of transfer pricing guidelines which will help the RRA conduct proper audits of multinationals companies and revision of the property tax law.

Another tax measure is to amend the excise duties on beer, wines and liquors etc. A table of the proposed duties can be found in below link.

Read more about the budget for Rwanda here.

Sources: KPMG Tax News Flash

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