KPMG

Tax alert

Government Interventions to Cushion Kenyans against COVID-19

Good Morning,

The coronavirus (COVID-19) presents an alarming health and economic crisis that Kenya and the world is grappling with. As businesses respond to the impact and uncertainties arising from the virus, it is important to stay on top of the economic relief programs that governments are instituting to cushion affected persons from the economic and social disruption caused by the virus.

On 25 March 2020, the President of the Republic of Kenya outlined the tax interventions the government intends to make to cushion the country against the economic effects of the COVID-19:

100% Tax Relief for "low income earners"

The government has proposed a 100% tax relief for persons earning gross monthly income of up to ***KES 24,000***. This category of people is generally classified as "low income earners" and the proposal will channel additional disposal income to this group. The additional income for a person earning a monthly income ***KES 24,000*** is approximately ***KES 1,700*** per month.

Reduction of highest PAYE band

The government has also proposed to reduce the top Pay-As-You-Earn (PAYE) rate from 30% to 25%. This incentive is expected to align with the 100% tax relief for low income earners, allowing the government to channel additional resources to cushion the affected individuals from the impact of the virus.

It is however not clear from the statement whether persons earning between ***KES 24,000*** and the top tax rate threshold of ***KES 47,059*** will get a tax relief on their income. In our view, the best way to provide the tax incentive would be to apply the 5% PAYE rate reduction across all the PAYE tax bands.

Reduction of corporate tax

On 23 March 2020, the Central Bank of Kenya (CBK) noted that due to the pandemic, it expected the economy to grow by a lower rate of 3.4%. While this rate appears optimistic considering recent events, it is still the lowest economic growth that the country has achieved since 2008.

It is for this reason that the government has proposed a reduction of the resident corporate income tax from 30% to 25% to allow companies additional resources to sustain their operations in this difficult time. For a number of businesses that have lost their key markets or been forced to shut down operations, the proposal may not yield immediate results unless it is sustained for a number of years after the end of the current crisis to assist the businesses with the recovery process.

Reduction of Turnover tax

The government has also proposed to reduce the rate of turnover tax from 3% to 1% for all Micro, Small and Medium Enterprises (MSMEs). This will provide a cushion to the small businesses which will be negatively impacted by the lockdowns the government is implementing to contain the spread of the virus.

Reduction of Value Added Tax (VAT)

Another proposal which takes effect from 1 April 2020 is the reduction of VAT from 16% to 14%, effectively placing Kenya's standard rate of VAT 4 percentage points lower than the rest of East Africa.

The rate of VAT influences consumer behaviour as it has a direct impact on the price consumers pay for goods and services. It is expected that suppliers will pass on the reduction in the VAT rate to consumers through reductions in the price of goods and services.

VAT Refunds

In his brief, the President directed the Kenya Revenue Authority (KRA) to expedite the payment of verified VAT refund claims amounting to ***KES 10 Billion*** within the next 3 weeks or in the alternative, allow for offsetting of withholding VAT to improve cash flows for businesses.

While it is the expectation that VAT refunds should be settled promptly upon application for the refund, many businesses especially exporters wait for several months and sometimes years to receive their refunds. With the global shutdown, exporters are some of the worst affected and the disbursement of the VAT refunds will provide some welcome respite for these businesses.

Other changes

Apart from the tax changes, the president also proposed several other measures to protect businesses and the general public. These include:

a) Settlement of KES13Billion of verified pending bills within the next three weeks;
b) Flexible provisioning requirements for banks for loans that were performing as at March 2020 but subsequently go into distress as a result of the pandemic;
c) Appropriation of KES 10Billion through cash transfers to the vulnerable members of society;
d) Temporary suspension of listing with credit reference bureaus for persons who default on their loan obligations with effect from 1 April 2020;
e) Disbursement of KES 1Billion for the recruitment of additional medical personnel; and
f) Voluntary reduction of salaries for top public servants.

The above proposals add to measures recently rolled out by the CBK to lower the Central Bank Rate from 8.25% to 7.25% and the Cash Ratio Reserve (CRR) from 5.25% to 4.25%. These measures are expected to increase liquidity in the banking sector, allowing banks to channelling additional credit of KES 35B at lower interest rates to businesses.

Effective date

Under the Constitution of the Constitution of Kenya, the President's proposals can only be implemented after obtaining approval from the National Assembly through the deliberation and approval of a relevant bill.

We expect that the National Treasury will draft the appropriate recommendations to be included in an omnibus Bill to be presented to the National Assembly for approval and subsequent assent by the President before they take effect. Given the urgency of the matter at hand, we expect that the enactment of the relevant legislation will be expedited.

If you have any specific queries, require a comprehensive analysis of the impact of the above proposals, or need assistance with any tax, regulatory or advisory services resulting from the same, please reach out to us.

Regards

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