ARE THERE TAX INCENTIVES IN LISTING?

At a high level, listing is having a company's financial instrument included and traded on a stock or securities exchange. Globally, stock exchange markets play a significant role in growing economies.

In Kenya, the Nairobi Securities Exchange (NSE) presents various platforms on which these securities can be traded including the Main Investments Market Segment (MIMS), the Alternative Investments Market Segment (AIMS), the Fixed Income Securities Market Segment (FISMS) and the recently introduced Growth Enterprise Market Segment (GEMS).

Qualification for listing and continuous listing on any of these markets is upon fulfilment of specific set requirements which can broadly be classified into: -

- Capital Markets Authority (CMA) obligations,
- Nairobi Securities Exchange (NSE) listing obligations, and
- Kenya Revenue Authority (KRA) obligations.

Compliance with Kenya's tax legislation is of importance to the growth of any entity operating in Kenya. The Kenyan Government has ensured that listing does not create any additional tax burden and has instead offered a number of tax incentives aimed at encouraging listing.

An immediate tax benefit companies enjoy upon listing is the preferential corporate tax rates depending on the percentage of shares listed. Ordinarily, the corporate tax rate in Kenya is

30% for residents and 37.5% for non-residents. Listed companies however, benefit from lower corporate tax rates as follows: -

Percentage of Shares Listed	Tax Rate	Duration of Incentive
20%	27%	3 years
30%	25%	5 years
40%	20%	5 years
Listing by introduction (regardless of portion of shares listed)	25%	5 years

In addition to the above, other tax advantages that a listed entity enjoys include: -

- Tax deductibility of costs, including those of a capital nature, incurred during the listing process.These costs include all legal and incidental costs encompassing all listing and advisory fees paid in implementing the listing,
- Exemption from stamp duty upon creation of new and increase of authorized share capital,
- Stamp duty exemption on transfer of shares and other securities,
- Exemption from capital gains tax (CGT) arising from trading in listed securities held for a period not exceeding 24 months, and
- Exemption from income tax for Employee Share Ownership Plans (ESOPs).

Over and above the overall tax benefits companies enjoy upon listing of their shares, the taxman has provided tax incentives that are specific to other entity types and securities that are listed. These are summarized in the table below: -

Security	Incentive
Real Estate Investment Trusts (REITs)	• REITs are exempt from income tax. • Transfer of units of the REIT are exempt from stamp duty. • Gains on REITs are exempt from capital gains.
Asset Backed Securities (ABSs)	• ABSs are exempt from income tax.

Infrastructure Bonds	• Interest income received from infrastructure bonds with a maturity of at least three years is tax exempt.
Venture Capital Companies	• Dividends paid are ordinarily tax exempt. • Gains arising from trade of shares are exempt from CGT.
Investment Companies	• Income from disposal of investment shares traded in any securities exchange operating in Kenya are exempt from income tax and CGT.

Based on the foregoing, it is evident that listing on the NSE has a number of tax advantages. It is worth evaluating these incentives, together with other commercial advantages that come about from listing when making a decision on whether to list.

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