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WHAT ARE THE TAX INCENTIVES ATTRIBUTABLE TO A SPECIAL ECONOMIC ZONE?

A tax incentive is defined as a provision that grants a person or activity an exemption, deduction or exclusion that deviates from the normal provisions of tax legislation. Kenya offers tax incentives for a variety of reasons. In the past, Kenya has given tax incentives to attract and retain foreign direct investment, to create employment opportunities for its citizens, increase the flow of investments into the country, increase foreign exchange earnings, to advance technology and to promote trade. Tax incentives can be issued either directly through investment deductions and capital expenditure deductions or indirectly through exempting and zero-rating of taxable supplies and services.

In Kenya, tax incentives have previously been issued to different players in the economy. This year, 3 special economic zones (hereinafter referred to as an “SEZ”) have been created with applications for many others already made with the SEZ Authority.

A SEZ may be designated as a single sector or multiple sector and the following activities can be set up therein;

- i. Free trade zones,
- ii. Industrial parks,
- iii. Tourist and recreational zones,
- iv. Business service parks,

- v. Free ports,
- vi. Agricultural zones,
- vii. Science and technology parks, and
- viii. Information communication technology (ICT) parks.

The government has provided a host of tax incentives to SEZ developers, enterprises and operators to enable their goods and services gain a competitive edge in both the local and international platform. They pay corporate tax of ten percent for the first ten years from the date of their first operation and thereafter they are charged at a rate of fifteen percent for the next ten years. After the lapse of twenty years the corporate tax rises to thirty percent. Such players are also allowed to withhold tax on dividends to non-residents at the rate of five percent. They are exempted from paying Value Added Tax for supplies of goods and services to the enterprises. They are further exempted from payment of stamp duty on the execution of any instrument relating to their business activities. The goods they purchase for direct use in their operations are exempt from import declaration fee when imported or purchased before clearance through customs.

The SEZ Authority is yet to license an enterprise to set up in the already established SEZ. We are all curious to see how these companies will perform once they are licensed and what benefit such institutions will bring to Kenya as compared to the already existing Export Processing Zones.



For more information on this, please write to Ms. Gladys Ngugi at GNgugi@vivaafriCALLP.com or write to us at info@vivaafriCALLP.com

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