



## TAX RELATED INTERVENTIONS IN THE FACE OF THE COVID-19 PANDEMIC



- The Government of Kenya has proposed various tax measures to temper the damaging impact of the COVID-19 Pandemic on the economy. The purpose of the measures, as can be deduced from the measures themselves and as pointed out by the President, is to reduce the tax burden for taxpayers, thereby increasing their disposable income. This will reduce cash flow stress for businesses and enable individuals to meet their needs more effectively.



Grant of full tax relief to persons earning monthly income of up to KShs.24,000.

Reduction of the rate of tax for the top income band from 30% to 25%.

Reduction in the resident corporate tax rate from 30% to 25%.

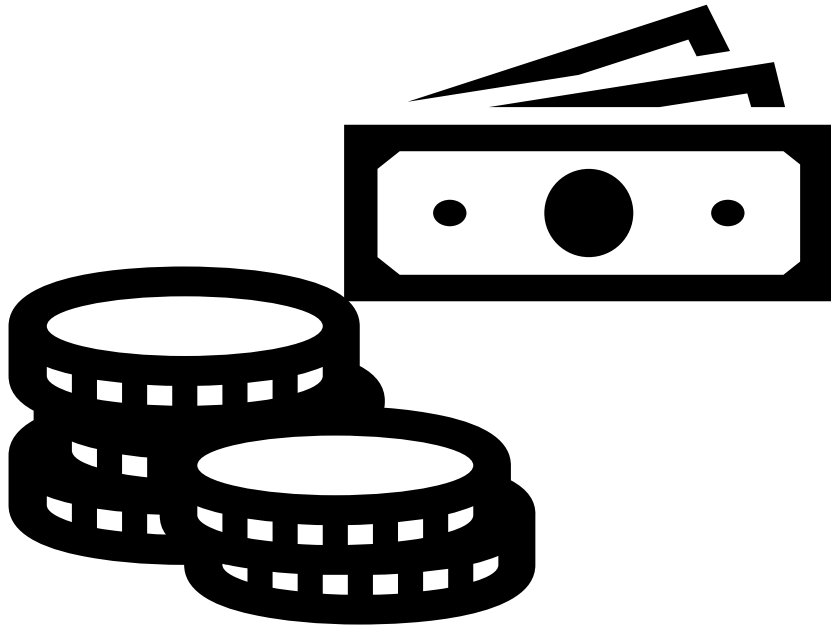
Reduction in the turnover tax rate from 3% to 1%.

Reduction in the VAT rate from 16% to 14%.

Expedited VAT refund payment for all verified claims, including permitting offset against other taxes.



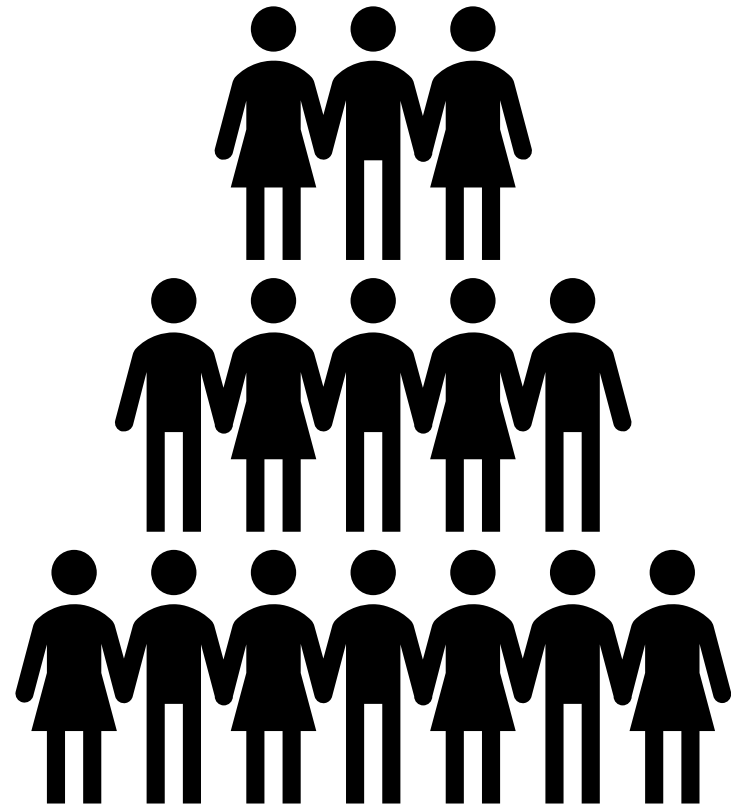
## 1. Relief for individuals earning KShs.24,000 and below



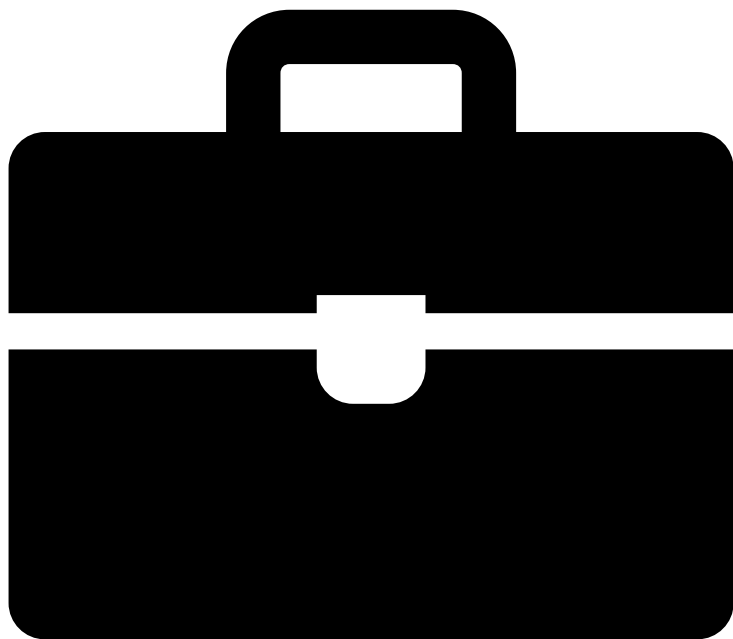
- The Government has proposed a 100% relief for persons earning monthly income of up to KShs.24,000. The effect of the relief is that these persons, who would have paid tax of up to KShs.1,583, will not be paying any tax. It is not clear how this measure will be implemented but one approach, which is already in use for lower levels of income, is to grant a personal relief equal to the tax payable on this level of income.
- Presently, the personal relief is KShs.1,408. Granting this relief has the effect of completely shielding income of up to KShs.13,486 from tax. To extend this shield to income of KShs.24,000, the Government would increase the relief by KShs.1,583.
- It is also not clear whether persons who earn more than KShs.24,000 will benefit, that is, whether the first KShs.24,000 of a person who earns for instance KShs.50,000 will be entitled to this relief, such that only the excess of KShs.24,000 will be taxable.
- Although the President indicated that this measure should be implemented immediately, there are questions on whether or not this means that it is effective from 25 March 2020, when the President communicated it. This measure requires legislation and when that legislation is in place, this will become clear.
- Since it will affect PAYE, employers will need to make changes to their accounting systems once legislation is in place and it is clear when the measure will become effective. If it is effective from 1 April 2020, it will only affect income earned from 1 April 2020.

## 2. Reduction in the top income tax band rate

- Most income of individuals is subject to income tax at progressive rates of 10%, 15%, 20%, 25% and 30%, for different income bands. The rates increase as income increases. The top tax band, which is for income exceeding KShs.47,059 per month is subject to tax at 30%. This is the rate that will be reduced to 25%. The effect is that persons who earn income exceeding KShs.47,059 will pay 5% less tax on the excess income. For instance, a person who earns KShs.200,000 will pay KShs.7,600 less.
- In this case also, it is not clear when the measure will take effect. Once it is made clear by legislation, employers will need to incorporate this change in their payroll systems.



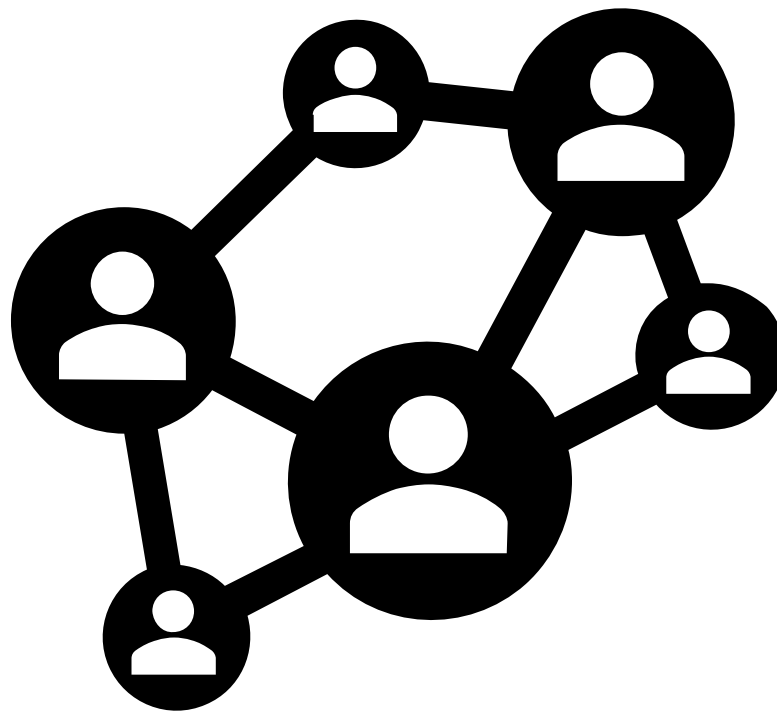
### 3. Reduction in the residential corporate tax rate



- The general rate of corporate tax for resident corporates and other bodies of persons is 30%. This will be reduced to 25%, with effect that resident corporates have 5% less to pay to the taxman.
- For corporates that are paying instalment tax based on prior year basis (instalment tax based on 110% of prior year liability), it will be necessary to make adjustments to factor the reduced rate. For corporates that expect their profitability to be significantly impacted by the COVID-19 Pandemic, it may be advisable to base the instalments on the forecasted tax liability for the current year.
- No similar pronouncement has been made with respect to non-resident companies, that is, branches of foreign companies in Kenya, whose tax rate is 37.5%. This might have been an oversight which may be addressed when legislation is enacted to effect the measure.
- This measure was expressed to be implemented immediately and like the others, we will await legislation to be know with certainty when it is takes effect. It is noteworthy that it will not affect the tax relating to a year which has already ended, although that tax is not yet due for payment and has not been paid.

## 4. Reduced turnover tax rate

- Turnover tax is a form of income tax levied on business profits to the exclusion of corporate tax or personal tax. It applies to persons whose business turnover is not more than KShs.5,000,000 in a year. It is targeted at netting Micro, Small and Medium Enterprises (MSMEs). The rate of turnover tax, which has been 3% of turnover, is proposed to reduce to 1% of turnover. This reduction will reduce the tax burden for MSMEs.
- The exact effective date was not specified for this reduction. It will be clear when legislation is created to give it effect. The reduction will affect tax periods ending after it becomes effective.



## 5. Reduction in the VAT Rate

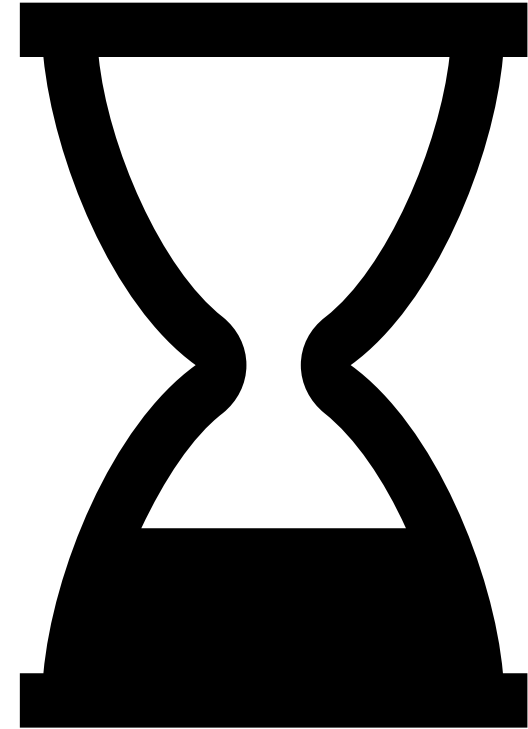


- The Government will reduce the standard rate of VAT from 16% to 14% effective 1 April 2020. This will be the rate applicable to all goods and services subject to VAT, except those that are zero rated and petroleum, which is subject to VAT at 8%.
- The Cabinet Secretary for National Treasury has already issued a Legal Notice to give effect to the proposal. The Notice needs to be tabled in the National Assembly to become effective and can be annulled by Parliament, but we do not expect it to be annulled. With the effective date being 1 April 2020, the new rate will be applied in invoices issued or payments and supplies made (whichever of the three is earlier) from 1 April 2020. Thus, the VAT for March, in relation to which tax is payable by 20 April 2020, will not be affected.
- Noting the above, VAT registered taxpayers need to start making changes to their accounting systems to reflect the new rate.



## 6. Expedited VAT Refunds

- The Kenya Revenue Authority was directed to speed up the payment of all VAT refund claims which have been verified within 3 weeks from 25 March 2020. In the alternative, the Kenya Revenue Authority may allow taxpayers entitled to refunds to set off the amount refundable against withholding VAT payable to the Authority.
- In mid-2019, the President gave a similar order and it resulted in the Kenya Revenue Authority making payment of a significant value of refund claims. It is expected, therefore, that the order will actually result in money going to taxpayers' accounts. This is an administrative matter that does not require legislation to be effected.



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Should you have any queries or require clarification on the information provided, please feel free to contact us on [info@vivaafriCALLP.com](mailto:info@vivaafriCALLP.com)