

The Kenya Revenue Authority (KRA) Board of Directors effected the following leadership appointments in the year:



Mr. Githii Mburu  
Commissioner General



Mrs. Elizabeth Meyo  
Commissioner, Domestic Taxes



Mr. Kevin Safari  
Commissioner, Customs & Border Control



Mr. Paul Matuku  
Commissioner, Legal Services & Board Coordination



Dr. David Kinuu  
Commissioner, Corporate Support Services



Dr. Terra Saidimu  
Commissioner, Intelligence & Strategic Operations



Dr. Fred Mugambi  
Commissioner, Kenya School Revenue  
Administration



# REVENUE COLLECTION

## Revenue collection grew by 11.3% in 2018/19 FY

In the Financial Year 2018/2019, revenue collection reached a new record with cumulative collection totalling to **Kshs. 1.580 Trillion** compared to **Kshs. 1.435 Trillion** collected in FY 2017/2018. Revenue grew by **11.3%** compared to the previous year's

**5.1%** growth. Of this, domestic revenues accounted for **Kshs. 1.050 Trillion** while Customs revenue accounted for **Kshs. 525.337 billion**. For the first time, Domestic Taxes collection, which constitutes the bulk of the taxes that

KRA collects, hit the one trillion mark while the Customs taxes collected were above the half a trillion mark. Meanwhile, KRA has put in place strategic revenue enhancement initiatives to help it meet its revenue target in the 2019/2020 financial year.

# STAKEHOLDER ENGAGEMENT

KRA held several stakeholder engagement initiatives aimed at addressing challenges while implementing tax laws amongst stakeholders.

## 5th Tax Roundtable

KRA held the 5th Tax Round Table at Serena

Hotel, Nairobi. The forum attracted over 200 business leaders. Speaking during the forum, KRA Commissioner General Mr Githii Mburu called upon all taxpayers to pay their fair share of taxes. He encouraged the stakeholders to report any malpractices including tax evasion to KRA for action in

a bid to level taxation playing field for all taxpayers. The KEPSA Chairman Mr. Nicholas Nesbit called on the government to spend the raised revenue responsibly and broaden tax base as a motivator to tax payment.



Mr. Nick Nesbitt (L) Chairman, KEPSA and Mr. Githii Mburu, Commissioner General, KRA during the 5th Tax Roundtable meeting held in Nairobi.

# 72 Engagements



Participants at the 5th Tax Roundtable held in Nairobi.

KRA held 72 engagements at Commissioners and Technical levels, among them, 12 public participation forums on selected tax legislations, programmes and policy regulations. Following these engagements, several system and process enhancements were implemented while some of the proposals were part of legislative and policy changes effected during the year.





Mr. Hilary Mutyambai, MGH, nsc (AU), Inspector General - National Police Service on a courtesy meeting with Mr. Githii Mburu, Commissioner General, KRA.



Hon. Amb. Ukur Yatani, Ag. Cabinet Secretary (C), National Treasury & Planning with Amb. Francis Muthaura, KRA Board Chairman (2nd R), Board of Directors and senior management during the launch of the Taxpayers' Day celebrations.



Hon. Amb. Ukur Yatani, Ag. Cabinet Secretary, National Treasury & Planning, addressing stakeholders at Moyale One Stop Border Post.



Stakeholders at a public participation forum.



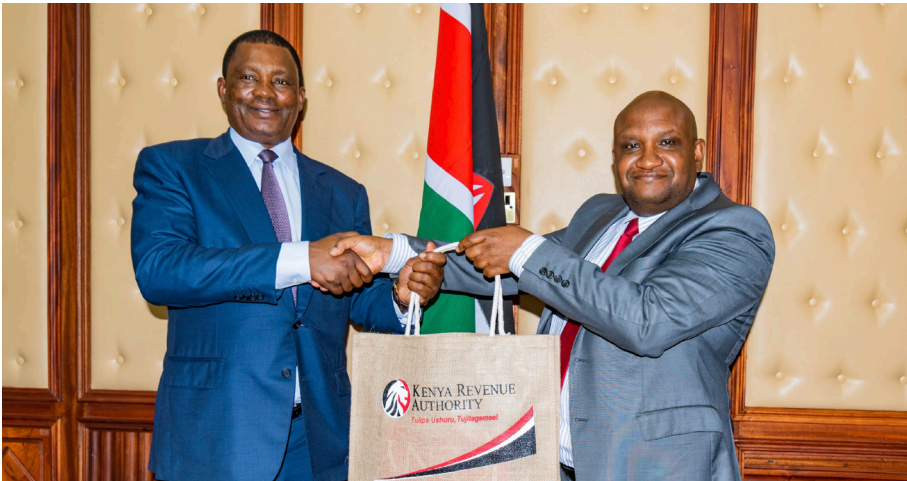
Ms. Beatrice Gichohi, Deputy Commissioner - Corporate Data Office addressing stakeholders at a meeting.



Mr. John Bisonga of Customs & Border Control sensitizing stakeholders in Kisumu on iCMS.



# 19 Parliamentary Engagements



Hon. Justin Muturi, EGH MP, Speaker of National Assembly with Mr. Githii Mburu Commissioner General, KRA during a courtesy meeting.

KRA held nineteen (19) meetings with National Assembly and Senate Committees in bid to share and provide relevant information on tax matters.

# 11 County Engagements



Council of Governors (CoG) Chairman Mr Wycliffe Oparanya (2nd L) with Bungoma Governor Mr Wycliffe Wangamati (3rd L) in a meeting with the KRA Senior Officials deliberating on partnership and collaboration in revenue mobilization in Counties.

# 4 Judicial Engagements



Commissioner General, Mr. Githii Mburu (L) met with Chief Justice Mr David Maraga (R), on matters of mutual interest at the Judiciary Offices.



# HIGHLIGHTS OF KEY EVENTS

## 1. The 5<sup>th</sup> Annual Tax Summit



**K**RA held its 5th Annual Tax Summit on 16th and 17th October in Nairobi. The tax summit was part of the Taxpayers Month activities aimed at providing a platform to dialogue and come up with innovative solutions and actionable insights

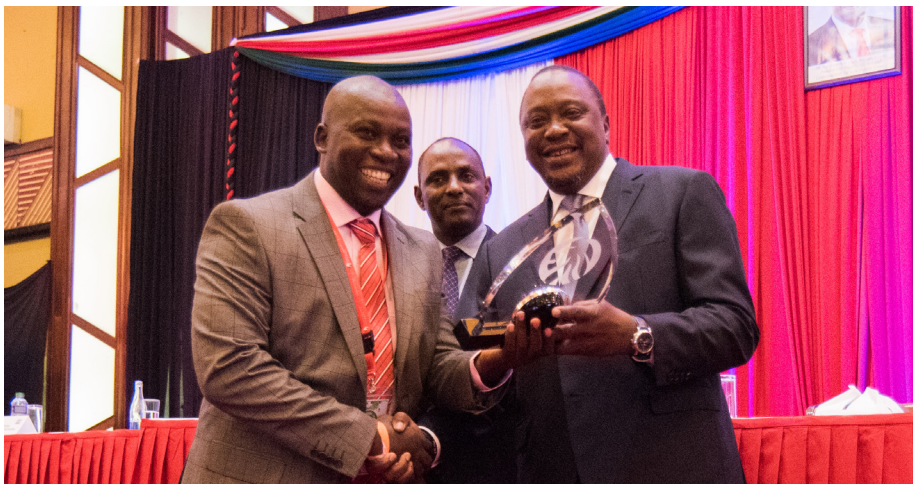
to promote efficiency and effectiveness in tax administration. This year's theme was 'Tax simplification and inclusivity to facilitate trade and economic transformation.'

The Summit discussions focused on among others, tax simplification through technology optimization; tax base expansion through taxation of emerging sectors; trade facilitation and tackling tax crimes. The two -day event attracted over 1,500 participants. The speakers were drawn from both public and private sector, international experts, academia, professionals and the KRA among others.

## 2. KRA fetes Compliant Taxpayers during Taxpayers Month

**K**RA awarded distinguished taxpayers for the 2018/19 Financial Year for their contribution in revenue collection efforts during the Taxpayers Day presided over by H.E. President Uhuru Kenyatta on 5th November 2019 at a Nairobi Hotel. A total of **24 compliant taxpayers** were awarded, where **Safaricom PLC** emerged the top taxpayer.

The Taxpayers Day was part of the Taxpayers Month activities in the KRA's calendar of events that took place from 1st – 31st October 2019 countrywide under the theme '**Redefining Service Delivery in Tax Administration.**' KRA has over the years dedicated the month of October to taxpayers and the public by organising activities and events that honour and appreciate them for their invaluable contribution in paying taxes. The activities held during the Taxpayers' Month also act as a platform to encourage citizens to pay



taxes and spur Kenya's economic growth. Among the activities held during the month included taxpayer appreciation visits; taxpayer education; a tax summit and CSR activities,

which culminated in the Taxpayers Award Ceremony and Luncheon hosted in honour of distinguished taxpayers.

## 3. Customs clear Kenya's Historic Crude Oil Consignment for Export



**T**he Customs and Border Control in August 2019 cleared the first consignment of crude oil for export. The consignment was a turning point for the country as 210,000 barrels destined for Malaysia was cleared. Kenya joined the ranks of oil producing and exporting nations in the world. President Uhuru Kenyatta flagged off the consignment worth Kshs1.2 billion. The oil exportation is not only historic for Kenya, but also the East African region.

# SERVICE DELIVERY AND TAX COMPLIANCE

## 1. Roll out of the second Phase of Excisable Goods Management System (EGMS)

KRA rolled out a system for affixation of excise stamps on non-alcoholic beverages with effect from 17th November 2019. The affected commodities include among others water, juice, and soda. The roll out of the initiative followed a series of stakeholder sensitisations countrywide, which targeted manufacturers, importers, retailers

and distributors from different companies and business associations.

The main objective of EGMS is to prevent production of illicit products and create a fair trade environment. Imported goods will be fixed with excise stamps within five days of importation while those manufactured locally

will be affixed at the production facility before being released to the market. This effort will raise additional Kshs3.6 billion from excise tax

Traders were given upto 31th January, 2020 to ensure all the products within this category found in the market bear the excise stamp

## 2. Integrated Customs Management System (iCMS) rolled out

In a bid to enhance efficiency in cargo clearance, KRA rolled out implementation of the Integrated Customs Management System (iCMS) for Cargo Clearance. ICMS

is now operational for airfreight, both imports and exports at JKIA (Nairobi), MIA (Mombasa) and EIA (Eldoret). For marine cargo, the system has been rolled out for motor

vehicles and bulk cargo except remissions and wet cargo. Preparatory work for piloting on containerized cargo is ongoing.

## 3. iTax enhancements

To enhance operations of the iTax system, and to facilitate implementation of legislative changes KRA put in place 14 system enhancements among them; online application of withholding VAT Credits Refund, setting off Current Taxable Income against Losses b/f from previous periods, enhanced validations for payments being declared in a return, generation of missing VAT Withholding Certificates for some

IFMIS Reconciled PRNs, and reduction of Withholding VAT rate to 2%.

Others include implementation of VAT Auto-Assessment (VAA), a module introduced in iTax to enable cross-matching of different data sets from returns filed and raise inconsistency thereto.

VAA enables cross-validation of data from invoice declarations made in the buyers' VAT returns with those made in the corresponding

sellers' returns. Some of the inconsistencies identified through VAA include:

- Over declaration of input taxes: evidenced by increase in credit filers and significant increase in input tax claims over time
- Under declaration of sales/output tax
- iIdentity theft
- Missing traders

## 4. Lamu Port ready for Operations

KRA has made all the necessary preparations for Customs operations to kick off at the Port of Lamu that is expected to be commissioned by the President and begin operations as a transshipment hub for global shipping lines.

KRA Commissioner for Customs and Border Control gazetted the Port of Lamu on 7th October, 2019 as a place for loading and offloading import and export cargo as required by the East African Customs Management Act. The port is considered the heart of Lamu Port South Sudan Ethiopia Transport (LAPSSET)

corridor. The first berth, which is 400 metres long and 17.5 metres deep, was completed in early August this year. The port will have 32 berths in total. KRA has already deployed 12 staff to manage Customs clearance operations at the port.



KRA Board of Directores during a briefing at the Lamu Port.

## 5. Over Ksh 18 billion paid in VAT refunds

KRA paid over Ksh 18 billion in VAT refunds out of which **Ksh 11.9 billion** was paid during the period between April and June 2019, and **Ksh 6.5 billion** was paid during the period between

July and October 2019 processed. Among the initiatives put in place to enable faster processing of VAT refunds include implementation of a **green channel framework** for low risk VAT refund

claimants, and the ongoing integration of DTD's iTax system and Customs' ICMS system to facilitate ease of exports confirmation.



# KEY TAX LEGISLATIVE CHANGES

## 1. Changes introduced through Finance Act 2019

The Finance Act, 2019 came into effect on 7<sup>th</sup> November 2019. Following the enactment, KRA conducted stakeholder sensitisation forums countrywide on the Act from 20<sup>th</sup> – 28<sup>th</sup> November 2019. The Act introduced the following key changes among others;

### Clarification on taxation of transactions in the digital economy

The Finance Act, 2019 amended section 3 of the Income Tax Act by listing **income accruing through a digital marketplace**, as income chargeable to tax. The Act further amended section 5 of the Value Added Tax(VAT) Act and inserted a new section 7 that reads, the provisions of subsection (1) shall be applicable to supplies made through a digital market place. The term ‘**digital market place**’ is defined to mean a platform that enables the direct interaction between buyers and sellers of goods through electronic means. The law also gives the Cabinet Secretary, powers to provide mechanisms for implementing these provisions, and to guide on the means of collection and enforcement of taxes for the sector through a **subsidiary legislation**.

### Re-introduction of Turnover Tax

The Act re-introduced Turnover Tax at the rate of 3% of the gross receipts of the business payable monthly. The tax is payable by any resident person whose turnover from business does not exceed or is not expected to exceed **five million shillings** during any year of income. The Finance Act, 2018 introduced presumptive tax, levied at 15% of the single business permit/license fee. The presumptive

tax has been maintained as a minimum tax. The amendment intends to enhance taxation of the informal sector and thus expand the tax base.

### Reduction of Corporation Tax Rate for Plastic Recycling

The Act provides a reduced corporation tax rate of 15% for plastic recycling companies for the first five years from the year of commencement of operations. The Act further exempts from VAT plant, machinery and equipment used in the construction of a plastic recycling plant. These changes are aimed at encouraging recycling of plastics and thus reducing the harmful effects they have on the environment.

### Excise duty on betting services

The Act imposed a **20% rate of excise duty on betting services**. The amendment is aimed at expanding the revenue base.

### Tax Amnesty for companies listed on growth segment of the securities exchange in Kenya

The Act amended section 37 (c) of the Tax Procedures Act 2015 to provide a 3 year amnesty for penalties and interest for companies that list on the growth segment of the Nairobi Stock Exchange. The amendment is an incentive for small and medium enterprises to list in the securities exchange.

### Reduction of Withholding VAT

The Act amended Section 42 A of the Tax Procedures Act to reduce the **WVAT rate**

**from 6% to 2%**. Zero rated supplies were also excluded from the application of WVAT. The Amendment provides relief to taxpayers as the lower rate of WVAT and exclusion of zero rated supplies will significantly reduce WVAT credits.

### Import Declaration Fee (IDF) and Railway Development Levy (RDL)

The Act amended section 7 of Miscellaneous Fees and Levies Act to increase the IDF rate from 2% to 3.5%. The amendment also introduced a lower IDF rate of 1.5%. **Further, the Act amended section 8** of Miscellaneous Fees and Levies Act to increase the RDL rate from 1.5% to 2%. It also retained a lower RDL rate of 1.5%. The lower IDF and RDL rates were for:

- **Raw materials and intermediate products** imported by manufacturers approved by the Cabinet Secretary National Treasury on the recommendation of Cabinet Secretary Industrialization, and
- **Input for construction of houses** under affordable housing scheme approved by the Cabinet Secretary National Treasury on the recommendation of Cabinet Secretary, Housing.

The increase of the rates is a revenue raising measure while the lower rate is an incentive to support the Big Four Agenda initiatives, specifically, manufacturing and affordable housing.

## 2. Changes introduced through Statute Law (Miscellaneous Amendments) Act, 2019

1. The Act amended the **Public Finance Management Act** – and provided for new timelines for submission, consideration and passing of the Finance Bill. The Bill will now be submitted to Parliament by 30<sup>th</sup> April and passed by 30<sup>th</sup> June.
2. The Act amended the **Value Added Tax Act** to provide for offset or refund of excess VAT credits arising out of

- Withholding VAT. Following the amendment, registered taxpayers with excess credits arising from Withholding VAT will be recognized as follows:
- Last thirty-six months prior to 23<sup>rd</sup> July 2019 - or subsequent periods when such excess credits arise, may apply for offset/refund of the excess tax within twelve months from 23<sup>rd</sup> July 2019 for the excess arising prior to

- the amendment.
- After the commencement of the amendment, a registered taxpayer may apply for an offset/refund within a period of 24 months from the date the tax becomes due and payable in all subsequent periods.
- Applications for the offset/refund are made through the iTax system and are subject to verification and approval by the

## 3. Subsidiary legislations

The following draft regulations were developed in the year, and taken through public participation as stipulated in the Constitution of Kenya:

1. Draft Excise Duty Regulations 2019

2. The Value Added Tax (Electronic Tax Invoice) Regulations, 2019
3. The Tax Procedures (Alternative Dispute Resolution) Regulations, 2019
4. The Tax Procedures (Tax Agents)

Regulations, 2019  
The regulations among others, are set to be finalized in the next half year.

# Announcement

The Income Tax Filing season for the year 2019 begins on 1<sup>st</sup> January 2020 and ends on 30<sup>th</sup> June 2020. Employers are requested to release the P9 forms to their employees to facilitate early filing.