

GMK Accountants Finance Act 2018 Highlights

Income Taxes Cap 470 Laws of Kenya

Capital Gains

Section 19 of the Income tax Act has been amended to clarify taxation of capital gains in regards to general insurance companies. The amendment effectively brings to an ends disputes and controversies that has ensued between the KRA and the insurance companies.

Effective date

1st July 2018

Manufacturers to benefit from additional 30% deduction for electricity

The finance Act 2018 amended Section 15 of the income tax to provide for deduction of 30% of the electricity bill incurred in addition to electricity expense. Manufactures cost production is likely to decrease by respective additional tax benefit. Implementation will be based on condition set by Ministry of Energy.

Effective date

1st January 2019

Introduction of Presumptive Income Tax

The income tax act has been amended by introducing a presumptive tax through repealing section 12c of the income tax which provide for turnover tax. Taxation will be at a rate of 15% of the business license fee issued by the county government.

Effective date -1st January 2018

Introduction of 20% withholding tax on demurrage charges

The Finance Act 2018 has introduced withholding tax at the rate of 20% on demurrage charges paid to a non-resident ship operator. The amendment brings to end protracted tax battles between the KRA and shipping operators on imposing withholding taxes on demurrage charges.

Effective date-1st July 2018

Introduction of 20% withholding tax on demurrage charges

The income tax act was amended to introduce a withholding tax at a rate of 5% on insurance premiums paid to non-residents, Local insurance industry is likely to benefit from increased business as import of insurance services becomes more expensive.

Effective date-1st July 2018

VAT Act of 2013

Petroleum Products

Finance act 2018 has amended section 5(2) of the VAT act to introduce a new VAT rate of 8%. Previously petroleum products have been exempted under transition since enactment of the VAT Act 2013. The new change is likely to affect the economy negatively prices of most commodities will increase. Oil markets are likely to be hit by cashflows problems since withholding tax rate remain at 6%.

Effective date-1st July 2018

Food Security

Maize flour has been zero-rated from previous status of exempt. Effect is reduced prices and increased food accessibility.

Effective date-1st July 2018

Administration

Administrative penalties have been removed from VAT Act 2013 and moved to the Tax Procedures Act 2015. Amendment will help in harmonizing administration of tax laws.

Effective date-1st July 2018

Postal Services

Postal services have been added to the list of exempt products. The move is aimed at salvaging the diminishing fortunes of the Posta a government parastatal whose business model has been impacted by information technological changes.

Effective date-1st July 2018

Cross -border Transactions

Cross-border transportation has been removed from exempt status to taxable status. Amendment will lead to increased transportation cost and negatively impact exports.

Effective date-1st July 2018

Exemption for hearing aid devices

Hearing aids excluding parts and accessories under tariff No 9021.40.00 added to the list of exempt goods. The change is likely to benefit respective consumers.

Effective date-1st July 2018

Supply of Cellular services

The VAT Act 2013 has been amended to change base used for computation of VAT on supply of mobile cellular services Taxable value now includes value of excise charged.

Effective date-1st July 2018

The Tax Procedures Act 2015

Late Payment

Tax procedures Act has introduced a late payment penalty at the rate of 5% of the tax not paid in time. Change is likely to lead to increased cashflows pressure to many businesses.

Effective date-1st July 2018

Extension of time to file returns

Extension of time to file tax returns clarified, It shall be at least fifteen days and thirty days before due dates in case of monthly return and annual returns respectively. Respective penalties applicable applies normally.

Effective date-1st July 2018

Amendment of Self-assessment

Commission is now required to accept or reject amendment of self-assessment return within a period of 30 days giving reasons for such rejections. The Act does not prescribe consequence to commissioner for failure

Effective date-1st July 2018

Notice of Objection

Taxpayers have the opportunity to lodge an objection without having to settle the total debt provided they apply for an extension of time to pay tax not in dispute.

Effective date-1st July 2018

Responsibilities of tax agents

Amendments to allow for agents to only take responsibility for the specific tax obligations appointed for. The changes benefit tax agents as they will not be expected to take a collective responsibility.

Effective date-1st July 2018

The Employment Act of 2007

The Act was amended to introduce a housing levy at the rate of 1.5% on an employee's gross salary to be paid by both employer and employee provided that total contribution does not exceed ksh 5,000 p.m. Implementation has been characterized by disputes including court cases. The government has however issued a notice to the effect that employers should start remitting contributions for the month of April which is due by 9th of May 2019

By

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