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2013/2014 National Budget Analysis

Change: Joining the dots
June 2013

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Agenda

Section one: Economic Analysis

Section two: Devolution

Section three: Revenue Measures

Section four: Panel Discussion (*Polycarp Igathe, Kuria Muchiru, Alphan Njeru…moderated by Benson Okundi*)

Economic Review

Results Must Be Seen

Simon Mutinda

Economic growth lower than it should be

- GDP grew by only 4.6% despite :
  - Turbulent global economy
  - Delayed long rains
  - Weak shilling
- What supported this growth?
  - Stable macroeconomic environment
  - Increased domestic demand
  - Modest growth in credit
  - Growth in agriculture, wholesale and retail and transport and communication

Key sectors indicate stable but not prosperity leading performance

- Agriculture - budget investing in food security and agribusiness
- Manufacturing reduced due to high cost of production, competition from imports, high cost of credit, political uncertainty
- Job creation not adequate to have impact in the aggregate demand for goods and services. – a factor of value of the jobs (68k only in the modern sector out of 659.4K)

Sources of GDP growth (%)

	2009	2010	2011	2012
Agriculture	23.5	21.4	24	25.9
Wholesale, retail	9.8	10.2	10.6	10.2
Manufacturing	9.9	9.9	9.6	9.2
Financial intermediation	5.4	5.6	6.4	5.2
Education	6	6.2	5.8	5.5
Construction	4.1	4.3	4.1	4.1
Transport & Comm	9.9	10	9.7	9.3
	68.6	67.6	70	69.4

Macroeconomic policies remain unchanged

- The inflation rates for the Eastern African countries are expected to remain stable, between 5-10 %.
- Exchange rates have stabilised and interest rates have declined considerably creating access to credit and encouraging trade.
- Budget deficit of 7.9% of GDP up from 4.9% (2012) is drastic but not alarming given a supply driven economy.
- Need to boost economic growth – cutting spending, tax increases may be counter productive

Budget aimed at improving business environment

- Spending on infrastructure to continue
- Transformational procurement process – boost to development expenditure
- Focus on employment creation
- Financing of large social programmes such in education and health to increase disposable income for discretionary spending
- Devolution to improve governance and public service delivery that will directly benefit rural and marginalized populations.
- Kshs 74 billion allocated to national security and a large proportion of the Kshs 149.12 billion in public administration will contribute to security enhancement

Focus should be on economic growth and efficiencies

- Focus by government should be on sustained economic growth – not just the preoccupation with the debt to GDP ratio.
- Social services and governance sector spending will enhance investor confidence
- Smart business - review and streamlining of business process and diversification
- Opportunities for agile businesses

Devolution

Contributing to the transformation for shared prosperity

Alphan Njeru

Definition and the place of devolution in the constitution

Article 6 of the Constitution stipulates that Kenya will be divided into 47 counties. It therefore introduces the National and the County governments that are distinct but interdependent.

The First schedule further lists the names of the 47 established under the county government.

Budget allocations and the role of the Transition Authority

Kshs 210 billion has been allocated to counties

With the signing of the Division of Revenue Act and the intrigues that came with it;

1. Do we have adequate funding for the running of counties?
2. What activities are covered by the National government and which are covered by the County government?
3. Is there chance of duplication of the functions?

The continuing role of the Transition Authority (TA)

The TA entered the scene with a lot of publicity that quickly fizzled out. Is the TA still viable with a three year mandate in the Transition to devolved Governments Act?

Endangered momentum in the constitutional reforms

Constitution implementation

The cancellation of the constitution implementation proposed funding of Kshs 4bn by the National Assembly, begs the questions:

1. Is the Executive and Legislative arms pulling in different directions?
2. What's the impact on devolution?

The benefits

Are we reaping the benefits?

1. Will we achieve equity in resource distribution?
2. Will there be improved funds absorption capacity?
3. Will we improve revenue collection?
4. Will 'self' governance result in better results?

Emerging challenges

Matters that need to be addressed

1. Is there a problem with the Legal framework?
2. Were budget deficits designed or are they real? How will they be financed?
3. What happens if counties charge for the resources considered National Assets?
4. Do we have a monitoring framework for the effectiveness of devolution?
5. What of counties being insolvent?

Revenue Measures

A recurrent theme

Steve Okello

Taxation & Tax Tables

Budget 2013

Overview- recurrent theme

Simplify the tax code

Rationalise tax incentives

Reduce tax leakages

Continue with tax adminstration reform

Expand the revenue base

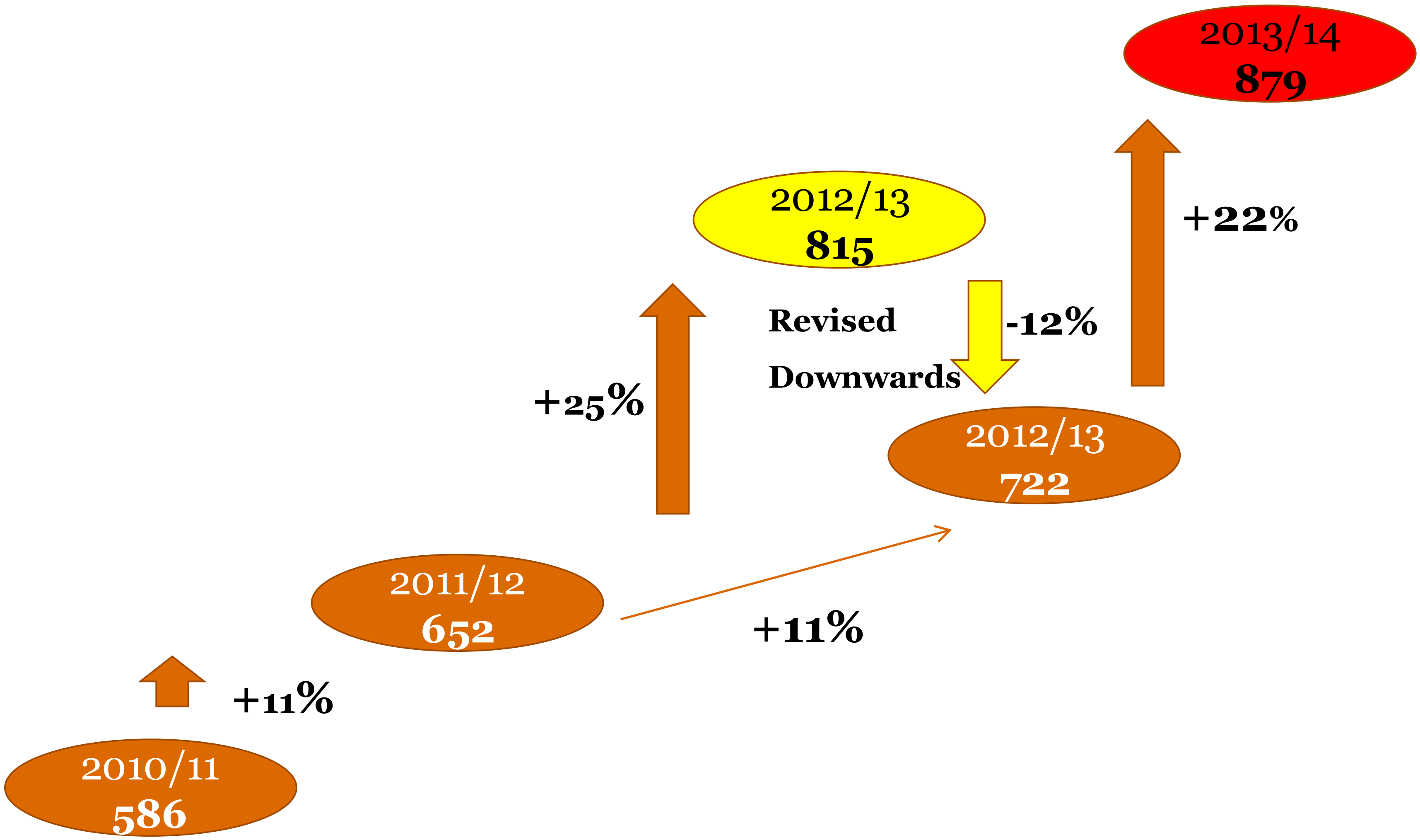
Headline issues

1. Enhanced focus on customs and excise duty
2. Capital Gains Tax is looming
3. Minimal changes to the Income Tax Act
4. New Bill for a One-Stop-Shop for Tax Appeals Tribunal
5. Continued empowerment of the KRA
6. VAT Bill to be re-tabled

A game of numbers

Taxes	2010/2011	2011/2012	2012/2013 Budget	2012/2013 Projected	2013/2014	2014/2015
Income tax	259	313	383	359	454	491
increase		21%	22%	-6%	26%	8%
VAT	172	176	232	185	211	288
increase		2%	32%	-20%	14%	36%
Excise	81	79	90	85	107	111
increase		-2%	14%	-6%	26%	4%
Customs	67	76	99	84	97	115
increase		13%	30%	-15%	15%	19%
Other taxes	7	8	11	9	10	16
Total	586	652	815	722	879	1021

A numbers game- plodding forward



Customs duty- proposed changes

- Common external tariffs reforms to reduce distortion and expand trade within the EAC focus on rules of origin and Non-Tariff Barriers.
- Inputs into railway sector to enjoy duty free regime
- Railway Development Levy introduced at 1.5% of value of imported goods
- Some protection for local manufacturers through targeted duty increases
- Decongestion rents to be charged by customs warehouses on cleared goods

Excise duty- proposed changes

- Gazette notice to be released to prescribe procedures and guidelines for the excise goods for licensed manufacturers for better accountability in terms of type and quantity.
- Senator Keg beer remission to be phased out down to 50%
- Beer derived from millet, sorghum and cassava to now enjoy a 50% remission
- New Excise Duty Bill in the offing- hopefully should deal with lack of clarity for terms used after the introduction of Excise Duty on money transfer and other services and in the 2012 Finance Act.

Personal Taxation- possible changes

- Group life and Group personal accidents premiums not a taxable benefit if benefit is not conferred to the employee.
- Gaming and betting tax back on
- Tax Exemption certificates for persons with disabilities extended to five years .
- Urban landlords to face greater scrutiny.

Corporate Tax- possible changes

- Review of Income Tax Act for Capital Gains Tax underway.
- Betting and winning companies to withhold tax
- Tax evading corporate bodies' liabilities to be extended to company officials
- Compounding framework to be improved by an empowered Commissioner.
- Commissioner to be granted more powers to access books of account.