



Cash saving ideas for the manufacturing industry

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Introduction

The manufacturing industry is among the hardest hit by the COVID-19 pandemic. It is, therefore, imperative for companies in the manufacturing sector to rethink their way of doing business to ensure that they are sufficiently equipped to weather the current economic storm and the attendant disruptions resulting from the pandemic.

Factors to consider include, among other things, restructuring of manufacturing operations to cut on costs as well as identifying and taking advantage of cash saving opportunities.

In this document, we highlight some cash saving options provided within the various Kenyan tax laws that the manufacturing industry may consider.

If any of the areas below concern your business, please do not hesitate to get in touch with us so that we can work together in finding the best solutions to save cash for your business.

General cash saving options

Voluntary Tax Disclosure Program: Are you aware that you can obtain a 100% waiver of penalties and interest for unpaid tax liabilities accrued in the five-year period prior to 1 July 2020 if the unpaid tax liabilities are declared and paid in the year 2021 under the Voluntary Tax Disclosure Program ("VTDP")? We can assist you by carrying out a review of your tax

affairs over the qualifying period with a view to identifying and quantifying any potential tax liabilities and thereafter supporting you in the application process for the waiver of penalties and interest under the VTDP (subject to the specified conditions).

Alternative Dispute Resolution: Do you have an ongoing tax dispute with the revenue authority? If so, have you considered the Alternative Dispute Resolution (ADR) mechanism as an avenue for resolution of the tax dispute? We can support you in the ADR process towards quick resolution of the dispute with potential savings on penalties and interest.



Value Added Tax (VAT)

1. **Input tax recovery:** Does your business have any VAT credits on the KRA legacy system that have not been migrated to the current KRA system, iTax? If so, there may be an opportunity to offset these credits against future VAT liabilities.
2. **VAT on business costs:** Are you confident that your business has maximised its VAT recovery on business expenses? Does your business incur VAT on entertainment and other staff related business costs such as staff travel and entertainment costs? Does your business claim input VAT on these expenses correctly?
3. **VAT incurred on pre-registration costs:** If your business is newly registered for VAT, do you have pre-registration VAT incurred on setup costs and other expenses in your ledgers? Have you considered recovering these pre-registration VAT costs from the KRA?
4. **Multiple supplies:** Does your business make mixed supplies i.e both taxable and exempt supplies? Are you confident that your business is recovering the maximum input tax possible on the taxable supplies?
5. **VAT paid on bad debts:** Has your business made supplies and failed to receive payment for the supplies? Or perhaps, your customer has become legally insolvent? Have you considered a bad debt relief application for the refund?
6. **VAT refund on exported services/goods:** Does your company supply services to non-resident entities e.g marketing and promotion services,

acting as a liaison office? Is your company in a VAT refundable/credit position? Do you know that you may be eligible for a VAT refund from the KRA?

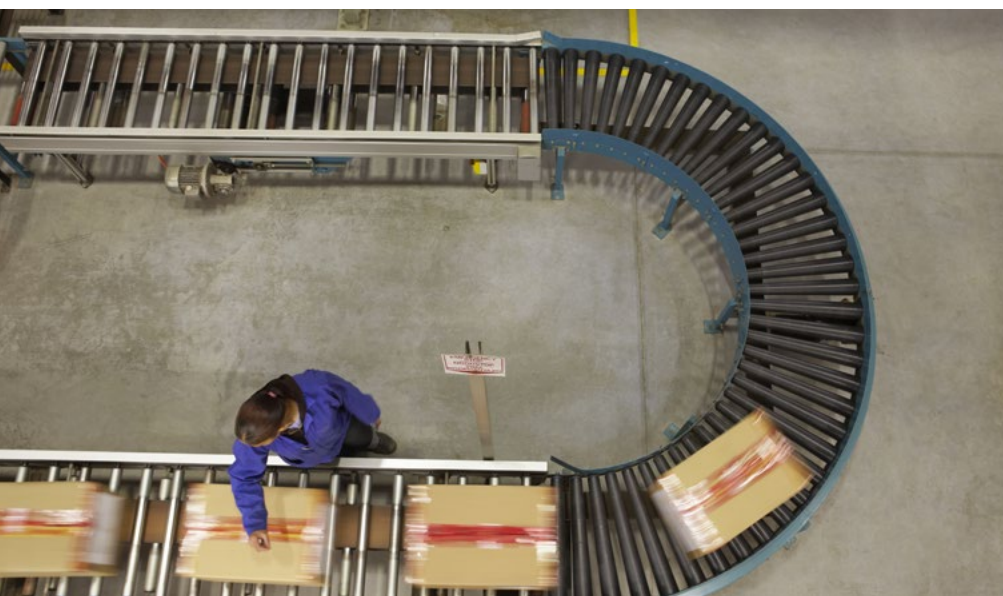
7. **VAT on sales:** Do you find your business to be in a position where it is constantly funding the VAT on sales due to customers paying late? If so, have you considered ways of minimising this cash outlay?

Customs and International Trade

1. **Deferment of duty payment by way of bonded warehousing:** Do you import goods that require a significant cash outlay in payment of duties? If so, and depending on the goods, did you know that you may clear your goods into a bonded warehouse and defer payment of relevant duties up until the goods are cleared from the warehousing facility?
2. **Tariff optimization:** Do you intend to import an item of plant and machinery that cannot be shipped in a single consignment? If so, did you know that you may be entitled to utilise a part-shipment facility available for machinery and equipment of Chapters 84 and 85 which also enables you to clear the goods under a single optimal tariff subheading with one customs duty rate being applicable?
3. **Free Trade Agreements ("FTA") and preferential tariff concessions on import duties and other levies:** Are you second guessing the qualification of your goods for preferential treatment? Have you considered what the Africa Continental Free Trade Area ("AfCFTA"), which came into effect

on 1 January 2021, means for your business?

4. **Customs duty refunds and rebates:** Have any of your goods been damaged or destroyed while in voyage or under customs control, or have you paid any duties in error? If so, did you know that you may be entitled to duty rebates and/or refunds subject to meeting certain conditions?
5. **Customs duty drawbacks:** Do you import goods for use in the manufacture of goods for export, or goods to be transferred to an export processing zone? You may be entitled to claim duty drawback provided you meet certain set conditions.
6. **Customs exemptions for qualifying goods:** Do you import items for specific use or projects which make them eligible for exemption? Have you taken advantage of the available exemptions?
7. **Customs duty remission schemes:** Are you in the business of manufacturing essential goods for local consumption or export? If so, did you know that you could potentially save on duty on imported raw materials/ intermediate goods for use in your manufacturing process under the duty remission scheme?
8. **Customs valuation:** Are your imported goods being valued in accordance with the set legal requirements? Could there be certain costs that ought not to form part of the customs value in relation to which you are currently paying more duties? You may want to consider the customs valuation of your goods from the outset to avoid costly valuation disputes with the tax authority arising from under-declaration of customs value.
9. **Inward processing relief and outward processing relief:** Are you a toll manufacturer? Did you know that inward processing relief allows you to bring in goods for manufacturing duty free? Do you wish to export an item for repair outside the country? Do you know that you may do so under outward processing reliefs to avoid unnecessary duty payments upon reimportation?



10. **Manufacture under bond, Export Processing Zones and Special Economic Zones ("SEZ"):** Do you produce goods principally for export markets and desire to save duties on imported raw materials? Have you considered the incentives offered in relation to manufacture under bond, Export Processing Zones and Special Economic Zones?

Excise Duty

1. **Excise duty relief on raw materials:** Are you a manufacturer of excisable products? Do you purchase or import excisable goods/raw materials as inputs to your production process? Did you know that you could be entitled to offset the excise duty incurred on such inputs against excise duty payable on the finished product?
2. **Excise duty refunds for damaged, stolen or returned goods:** Have you imported or locally purchased any excisable goods and paid excise duty thereon? Were the goods subsequently damaged or stolen while being transported to Kenya or destroyed while stored in your factory, before you were able to use or consume them? Have you returned the goods to the seller in accordance with a contract of sale? Are you aware that you may be eligible for a refund of excise duty paid in relation to such goods?
3. **Excise duty refunds in relation to spirits and illuminating kerosene ("IK"):** Do you, being a licensed or registered manufacturer of excisable goods, use spirits or IK in your manufacturing process? Are you aware that you are eligible for a refund of excise duty paid on acquisition of the two products?
4. **Excise duty refunds in relation to bad debts:** Have you accounted for and paid excise duty on supplies of excisable goods and/or services and are yet to receive payment from your customers? Has it been three years since you made the sale? Or perhaps your customer has become legally insolvent? Have you considered a bad debt relief application for the refund?
5. **Excise duty drawback on exports:** Have you imported excisable goods which you

subsequently exported? If so, you may be entitled to claim duty drawback in relation to such goods provided you make an application within 12 months.

6. **Remissions:** Are you a beer manufacturer? Are you aware that subject to certain set conditions, you may be entitled to remission of excise duty on Kenyan-grown sorghum, millet, cassava or any other agricultural product, except barley, used in the manufacturing process?
7. **Exemptions:** Do you manufacture sanitary towels? Are you aware that goods imported or purchased locally for direct use in the manufacture of sanitary towels are exempt from excise duty?

Income Tax

1. **Acquisition of assets:** Has your business recently acquired or constructed a building(s) for manufacturing? Has your business increased its manufacturing capacity by acquiring additional manufacturing machinery? Are you confident that you have claimed the applicable capital/investment allowance?
2. **Expansion:** Are you considering expanding your manufacturing operations? Do you desire the flexibility of supplying your products within and outside Kenya without restrictions while enjoying reduced tax rates? Have you considered setting up in a Special Economic Zone?
3. **Donations:** Have you been making donations? Are you aware that cash donations are exempt from tax to the extent that they are made to charitable organizations registered under the Societies Act

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or the NGOs Co-ordination Act or charitable organisations that are exempt from registration? Are you aware that donations to the Kenya Red Cross, County Governments or any other institution responsible for the management of national disasters, towards the alleviation of the effects of a national disaster declared by the President, is an allowable deduction for tax purposes?

4. **Expenditure on social infrastructure:** Are you aware that expenditure incurred on the construction of social infrastructure (road, public school, hospital, etc.) or sponsorship of sports is an allowable deduction for tax purposes, subject to obtaining the necessary approvals?
5. **Investment income:** Have you been investing? Are you aware that interest income accruing from all listed bonds, notes or other similar securities used to raise funds for infrastructure and other social services is exempt from tax, provided that such bonds, notes or securities shall have a maturity of at least three years?
6. **Payments to non-residents:** Have you been making payments for services to non-residents? Are you aware that Kenya has concluded Double Tax Agreements (DTA) with various countries and most of the DTAs provide a favourable rate of withholding tax subject to some conditions?
7. **Restructuring:** Are you considering restructuring your business? Are you aware that the Income Tax Act contains Capital Gains Tax exemption clauses subject to certain conditions?
8. **Overpaid taxes:** Are you aware that there is a five year window to apply for tax refunds for overpaid taxes?

We are here to help

At PwC, our purpose is to build trust in society and solve important problems.

Our in-depth knowledge and understanding of the tax environment in the region enables us to put ourselves in our clients' shoes and offer truly tailored tax solutions to unique business challenges.