

Understanding Kenya's 2014/2015 National Budget

Consumption taxes

PwC insight and analysis

Proposal to deal with the historic VAT refund burden

Challenges faced under the VAT Act, 2013 hopefully will be dealt with by the yet to be published VAT Regulations

Consumption taxes

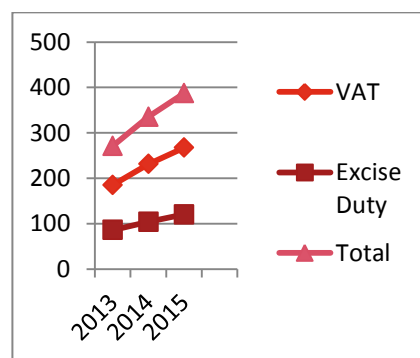
Value Added Tax and Excise Duty

Introduction

Consumption taxes such as Value Added Tax (VAT) and Excise Duty contribute significantly to government revenue.

These taxes have been on an increasing trend with VAT recording actual revenues of KES. 185B in 2013, 231B estimated to be generated in 2014 and projected revenue of 267 in 2015.

On the other hand, actual revenue generated from excise duty in 2013 was KES. 86B, 104B expected to be generated in 2014 and projected revenues in 2015 are estimated to be KES. 120B.



Summary of consumption taxes

Budget Proposals

From the Cabinet Secretary's Budget Statement, there was little mention about specific changes for VAT and Excise Duty; however, we await the publication of the Finance Bill to see what changes could have been made for VAT and Excise Duty – the devil is always in the detail!

In the statement, the Cabinet Secretary stated that the new VAT Act has not only made it easier for taxpayers to comply and but also eased the VAT refund burden. He has promised to reform the Excise Duty regime with the introduction in the coming year of a new Excise Duty Bill which will be simple and modern. So there is little to write about VAT and Excise Duty changes. Perhaps this could be due to the recent enactment of the VAT Amendment Act, 2014.

From hereon we comment on how the government is likely to deal with the historic VAT refund burden, whether the new VAT Act has helped and how the Government can use the opportunity under the new Excise Duty Bill to transform the taxation of consumption.

VAT refunds backlog

The Cabinet Secretary acknowledged the existence of a huge VAT refund backlog and the Government's intention to develop a long lasting solution.

In our view, the government is likely to address the backlog by issuing debt instruments to the taxpayers whose refunds are due.

VAT Act, 2013

Generally, the New VAT Act has made it easier for taxpayers to comply with the VAT legislation. However, there are a number of challenges that remain unresolved after the enactment of the new Act.

First, the KRA has not reformed their administration, procedures and returns in line with the new VAT Act for example the collection of VAT on electronic services imported by consumers and the interpretation on which items of plant and machinery are exempt.

Secondly, the administrative difficulties on the accounting for VAT when taxable supplies are subsequently approved for qualifying businesses as exempt supplies.

However, the Cabinet Secretary promised that the VAT regulations will be released soon.

We hope that regulations will be innovative and creative such that they can ease the burden of compliance in the modern digital age.

The jury is out as to whether the regulations will address such areas as export of services, tax representatives, consideration of a valid tax invoice in a digital environment, and VAT status of services provided with respect to goods in transit.

Excise Duty Reform – an opportunity to transform taxation of consumption

A draft Excise Duty Bill is to be tabled in Parliament after going through public participation.

The intention to table a new Excise Duty Bill is in line with the efforts being witnessed in the other Partner States. These efforts present an opportunity for the countries to pull together and come out with either one EAC Excise Management Act or a model Excise Duty Act to be used by the Partner States.

While the drafting and planning around the proposed excise bill goes on, there is need for the government to seize the opportunity to transform the taxation on consumption by being innovative in using both Excise Duty and VAT systems to tax consumption of goods and services.

As an example, excisable products could be restricted to products where tax forms a significant portion of the price paid by consumers and other products and services could be taxed under the VAT regime.