East Africa at a glance

Kenya

The Kenyan economy is projected to grow by between 6.5% and 7% in FY2014/15 compared to 5.3% in FY 2013/14, attributable to lower oil prices, increased investments by government and private entities, and renewed consumer confidence. This growth has been achieved despite continued insecurity which has adversely impacted tourism and other sectors.

Performance in the key sectors of the economy was as follows:

• The financial services sector grew by 8.3% in FY 2014/15 compared to 8.1% in FY 2013/14 driven by higher uptake of loans and advances with a decline in average lending rates and interest rate spreads;

• Information, communication and technology grew by 13.4% compared to 12.3% in FY 2013/14 attributed to mobile and internet penetration;

• Building and construction grew by 13.1% compared to 5.8% in FY 2013/14 attributed to increased government spending on the construction of roads and the standard gauge railway;

• Manufacturing sector grew at a lower rate of 3.4% in FY 2014/15 compared to 5.6% in FY 2013/14 due to modest inflation coupled with lower prices in the second half of the year;

• Agricultural sector recorded a reduced growth of 3.5% compared to 5.2% in the previous year. This was attributed to inadequate rainfall and suppressed global tea prices; and

• Tourism earnings declined by 7.3% impacted by insecurity.

Inflation increased from an annual average of 5.7% in FY 2013/14 to 6.9% in FY 2014/15 due to an increase in the prices of basic commodities which outweighed lower oil and electricity prices.

The Kenya shilling has depreciated against the US dollar in the year. However, it has held firm against the other East Africa currencies.

The priority areas highlighted in the FY 2015/16 budget include the following:

• Tackling insecurity to sustain growth momentum of the economy;
Tanzania

Tanzania’s GDP grew by 7.2% in FY 2014/15 compared to 7.3% in FY 2013/14. The economy experienced a 10.8% growth in the financial services sector, 12.5% growth in transport and storage, 14.6% growth in construction, 10% growth in wholesale and retail trade and 3.4% growth in the agricultural sector.

The priority areas for FY 2015/16 budget include:

- Infrastructure: transportation (roads, railway, airports and marine transport). Investment is aimed at reducing congestion in urban areas, costs of transport and transportation of goods and services and therefore curbing inflation;
- Energy and Minerals: power generation and rural electrification;
- Agriculture: including food and cash crops, irrigation, industrial raw materials, livestock, fisheries and forestry. The measures will enhance production of crops, food security and ensure availability of reliable markets;
- Education: infrastructure, study equipment;
- Health: water and good governance;
- Voter registration and national identity cards; and

Macro-economic objectives highlighted in the budget include the following:

- 7.2% GDP growth in 2015;
- Increase domestic revenue ratio to GDP to reach 14.8% by 2015/16;
- Continue to control inflation at a single digit level; and
- Ensure stability of exchange rate.

Uganda

The economy is projected to grow at 5.3% in FY 2014/2015 compared to 4.5% in FY 2013/2014. This growth has been largely attributed to the recovery in private sector consumption as well as acceleration in both public and private investment.

Uganda’s inflation reduced to 3.1%, in FY 2014/2015 in comparison to 6.7% in FY 2013/2014.

The priority areas highlighted in the FY2015/2016 budget are:

- Maintenance of national security and defense;
- Facilitation of private sector enterprise development;
- Effective development and maintenance of infrastructure;
- Commercialization of production and productivity in primary growth sectors;
- Enhanced capacity for increased domestic revenue mobilization;
- Increased social service delivery; and
- Enhanced efficiency in Government management.
**Rwanda**

Rwanda’s real GDP growth rate increased to 7% in FY 2014/2015 compared to 4.7% achieved in FY 2013/14.

Performance highlights include 9% services sector growth, 6% industry sector growth and a 5% increase in the agricultural production sub sectors.

Rwanda continued to achieve low inflation; the inflation rate in December 2014 was 2.1%.

Exports and imports grew by 3% and 8%, respectively, in FY 2014/15.

The Rwanda Franc appreciated against all regional currencies except the Burundi Franc.

The allocation of resources in the 2015/16 fiscal year has been made taking into account the Economic Development and Poverty Reduction Strategy (EDPRS2) priorities. The main areas of focus under the EDPRS2 are:

- The economic transformation which has been allocated 23% of the total budget. This includes: accelerating growth in exports, timely completion of ongoing energy projects, accelerating transport projects to meet targets and ensuring roads connect productive uses and ICT focus on security and increasing country wide access;

- Rural development has been allocated 13% of the total budget. This includes: increasing access to inputs, increasing the number of priority crops and funding one-off investments; water and sanitation; and affordable housing, rural settlement and plot servicing;

- Productivity and youth employment has been allocated 8% of the total budget; and

- Accountable governance which has been allocated 5% of the total budget.
### Key highlights from the Kenya, Tanzania, Uganda and Rwanda

<table>
<thead>
<tr>
<th></th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Uganda</th>
<th>Rwanda</th>
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<tbody>
<tr>
<td>Real GDP growth</td>
<td>6.5% (5.3%)</td>
<td>7.2% (7.3%)</td>
<td>5.3 (4.5%)</td>
<td>7.0% (4.7%)</td>
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<td>Overall inflation</td>
<td>6.0% (6.9%)</td>
<td>5.3% (6.3%)</td>
<td>3.1% (6.7%)</td>
<td>2.1% (3.7%)</td>
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<td>91 day treasury bill rates</td>
<td>8.6% (9.5%)</td>
<td>8.9% (12.47%)</td>
<td>14.1% (8.9%)</td>
<td>4.1% (5.3%)</td>
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<tr>
<td>Exchange rate to the dollar (Local currency = US$1)</td>
<td>90.9 (87.9)</td>
<td>2,046 (1,609)</td>
<td>3,115 (2,580)</td>
<td>716 (680)</td>
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<tr>
<td>Budgeted spend (billions)</td>
<td>2,002 (1,757)</td>
<td>22,495 (19,853)</td>
<td>18,133 (13,988)</td>
<td>1,636 (1,649)</td>
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<tr>
<td>Recurring (billions)</td>
<td>1,280 (1,248)</td>
<td>16,576 (13,408)</td>
<td>8,716 (7,550)</td>
<td>889 (865)</td>
</tr>
<tr>
<td>Development (billions)</td>
<td>721 (509)</td>
<td>5,919 (6,445)</td>
<td>6,802 (4,881)</td>
<td>747 (784)</td>
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**Customs and Excise duty**

**Kenya**

**Customs Duty**

- Reduction of customs duty on nylon yarn from 10% to 0% to encourage local manufacturers of fishing nets.

- An increase of import duty on ready-made fishing nets from 10% - 25% to protect local industries.

- An increase in the specific duty rate on imported sugar from USD 200 to USD 460 per metric tonne while maintaining the advalorem rate at 100% to cushion the sector from unfair competition and enable our local companies to break even.

- In October 2014, duty on paper and paper board was increased to 25%. Common External Tariff (CET) on these products has now been reduced to 10% to lower the cost of paper and paper board.

- To deter smuggling of raw hides and skin out of the country the export duty rates had been harmonised across EAC at 80% of Free On Board (FOB) value or USD 0.52 per kg whichever is higher.

- To protect local manufacturers the import duty rates on plastic tubes for packing toothpaste and cosmetics has been increased from 10% to 25%.

- To encourage investors to produce pasta locally, gazetted manufacturers of pasta will be entitled to full duty remission on Semolina (the raw materials used in making pasta).

- Import duty rate for gas cylinders has been increased from 0% to 25% to protect local manufacturers of gas cylinders.

- Prison authorities have been included in the duty exemption schedule. This will enable them import duty free goods, materials, equipment and other supplies for their official use.

**Excise duty**

- To counter the consumption of illicit brew, beer and wine made from local agricultural products excluding barley will be granted remission.

- To encourage the local production of aluminium milk cans, import duty has been increased from 10% to 25% on importation.

- The CS has once again promised to table a new excise bill in parliament to simplify the current excise regime. Excise duty on alcoholic beverages will be adjusted upwards to cater for inflation. Cigarettes will be taxed on a specific regime. Duty on motor vehicle and motor cycles will be on a graduated scale based on age.

- Non-biodegradable plastics bags will be subject to duty at KES 120 per kg.

- All bottled water and other goods that have no harmful effect will not be taxable under the new excise law.
**Tanzania**

*Customs Duty*

- Extension of import duty reduction to 10% on buses for transportation of more than 25 passengers for a further period of one year.
- Removal of some PVC pipes and HDPE from the list of deemed capital goods.
- Extension of stay of an import duty rate of 10% on wheat grain.
- Increase in import duty on rice from USD 200 per tonne or 75% of the value to USD 345 per tonne or 75% of the value whichever is higher.
- Increase in import duty on sugar from USD 200 per metric tonne or 100% of the value to USD 460 per metric tonne or 100% of the value whichever is higher.
- A special procedure was also announced for industrial sugar which will be subject to 10% duty. The initial payment by importers will be 50% but a refund of 40% will be provided once the TRA has certified that the sugar has been used in the manufacturing process.
- Increase in duty on plastic tubes for toothpaste from 10% to 25%.
- Reduction in the duty rate on Semolina to 0% as a raw material to make pasta.
- Imposition of duty at 25% on steel products used in constructions.
- Increase in duty from 0% to 10% for glucose used in producing candy products.
- Reduction of duty to 0% for fibres used in making fishing nets.
- Extension of duty at 0% for manufacturers using LABSA as a raw material for soap manufacture for a further year.
- Reduction of the duty rate from 10% to 0% on solvent used for match sticks for one year.
- Extension of exemption from import duty provided to the Armed Forces Canteen Organisation for a period of one year.
- Amendment of the 5th Schedule to the East Africa Community Customs Management Act (EACCMA) to provide import duty exemption for goods imported for official use by the Armed Forces and Police Force Prisons.

**Road and fuel duty**

- Increase in road and fuel duty by TZS 100 per litre for diesel, petrol and kerosene.

**Uganda**

*Customs Duty*

- Increase of the environmental levy on import of used motor vehicles from the current rate of 20% to -
  i) 35% of CIF value for motor vehicles which are between five and ten years old, and
  ii) 50% of CIF value for motor vehicles which are ten years old or more.
- Remission and in some cases, reduction of import duty on road tractors for semitrailers, goods vehicles for transporting varying tonnage of between five and 20 tonnes.
• Increase of passport fees from UGX 120,000 to UGX 150,000, with the exception of the East African passport that remains at UGX 80,000.

• Introduction of a non-refundable work permit fee of USD 500 per application.

Excise Duty

The proposed amendments to the Excise Duty Act include:

• The excise duty regime has been widened to cover furniture, motor vehicle lubricants and sweets. The applicable rates are 10%, 5% and 10% respectively.

• Removal of excise duty on incoming international calls from the Northern Corridor states (Kenya, Rwanda and South Sudan). This took effect on 1 January 2015.

• Reduction of duty on un-denatured spirits from UGX 4,000 per litre or 140%, whichever is higher to UGX 1,000 per litre or 100%. This is intended to encourage consumption of high quality un-denatured spirits.

• The excise duty changes also include increases of duty on the items below:
  
  i) Beer whose local material content excluding water, is at least 75% by weight of its constituent from 20% to 30%;

  ii) Gas oil (automotive, light, amber for high speed engine) from UGX 630/- per litre to UGX 680/- per litre;

  iii) Motor spirit (gasoline) UGX 950/- per litre to UGX 1000/- per litre;

  iv) Increase of duty on other wines from 70% to 80%;

  v) Duty on soft cap increases from UGX 35,000 per 1000 sticks to UGX 45,000 per 1000 sticks;

  vi) Duty on hinge lid increases from UGX 69,000 per 1000 sticks to UGX 75,000 per 1000 sticks.

Rwanda

Customs Duty

Import duty rates have been amended as follows for goods originating outside EAC;

• From 25% to 0% for Road Tractors/Semi Trailors;

• From 25% to 10% on motor vehicles weighing between five to 20 tonnes;

• From 10% to 0% for motor vehicles that weigh more than 20 tonnes.

• Motor vehicles which carry between 25 and 50 passengers will be taxed at 10% down from 25% while those carrying above 50 passengers will be taxed at 0%.

• Imported sugar which is below 70 tonnes will be taxed at 0%.

• From 35% to 0% on wheat;

• From 75% to 45% or USD 200 per tonne on rice in husks;

• Raw materials appearing on approved list will be taxed at 0%.
• Telecommunication equipment to be taxed at 0%.

**Excise Duty**

The taxation of tobacco is to be amended to a hybrid tax system. Currently, tobacco is taxed through a purely advalorem excise tax system which is based on CIF value/ex-factory price base at the rate of 150%.

The proposed change is to tax tobacco at an advalorem excise of 36% of retail price plus a specific excise tax of Rwf 30 per pack of 20 rods. This change is expected to generate Rwf 5.0 billion to the tax collection. The proposed change is expected to take effect from 1 July 2015.

**Direct and indirect taxes**

**Kenya**

**Income**

• Proposal to introduce taxation at 12% for landlords whose gross rental income is below KES 10 million per year.

• Further, the CS proposed a tax amnesty for all landlords who have been non-compliant.

• Removal of the 5% capital gains tax arising from sale of shares and introduction of 0.3% withholding tax on the transaction value of the shares.

• Reduction of tonnage of ships qualifying for Investment Deduction (ID) from 495 tons to 125 tons. Further, an increase in the ID rate from 40% to 100% has been proposed.

• Proposal to extend the period to utilise tax losses to ten years without obtaining approval of The National Treasury for power producers, manufacturers and hotel operators.

**Withholding Tax**

• To promote the film industry, proposal to exempt payments made by a film producer to foreign actors and crew members. Previously, a withholding tax of 20% was applicable.

• To promote harmonisation in the extractive sector, withholding tax will be at the rate of 12.5% for training services and 5.6% for contractual services.

**Value Added Tax**

The CS has proposed to include the following items under the exemption schedule:

• Goods and services purchased for use in film making;

• Plastic bag biogas digesters for cooking and lighting for rural households;

• Inputs imported or purchased locally for the assembly of ICT devices;

• Taxable goods and services for use in the construction of infrastructure works in industrial and recreational parks of 100 acres or more.

• Importation of duty free goods, materials, equipment and other supplies by prison
authorities for their official use.

Proposal to zero rate services in respect of goods in transit.

Returning residents will now be allowed to import replacement of left hand motor vehicles subject to specific conditions.

Refund claims to be lodged within 12 months from the date the tax became due and payable.

**Personal Taxes**

- Proposed tax rebate for employers hiring and training at least ten fresh graduates for a period of between six to 12 months.

- Further proposal to consolidate all the training levies into a National Job Fund.

**Tanzania**

**Income Tax**

Proposed amendments to the Income Tax Act include:

- Income and gains arising from bonds issued by the African Development Bank in the Tanzania domestic capital market will be exempt from tax.

- Gaming winnings subject to tax at 18% of the value of the prize.

- Special strategic investment status to be granted to investors who invest at least USD 300 million (in cash or assets) channeled through local financial institutions, employ at least 1,500 Tanzanians (including senior positions) and generate foreign exchange or reduce importation.

- Eliminate tax exemption on government projects financed by commercial loans.

- PAYE threshold to be adjusted from 12% to 11% to provide relief of tax burden to employees of TZS 1,900 per month.

- Confirmation of exemption of Skill and Development Levy for agricultural sector.

- Presumptive tax rate to be reduced by 25% on small businesses.

**Value Added Tax**

- No changes announced. New VAT Act expected to be enacted on 1 July 2015.

**Uganda**

**Income Tax**

The proposed amendments to the Income Tax Act include:

- Taxpayers will not be able to claim a deduction in their tax returns for any expenditure above UGX 5 million incurred on goods and services from a supplier who does not have a Tax Identification Number (TIN). This threshold applies on a transaction basis. It is a new measure aimed at bringing the informal sector into the tax bracket.

- All local authorities, government institutions and regulatory bodies will now require a person applying for a license or any form of
authorisation to have a TIN.

• The types of reorganisations that are entitled to roll-over relief for capital gains tax purposes have been defined.

• The definition of a “Branch” of a non-resident company has been extended to include a place where a person furnishes services including consultancy services, if the services continue to be rendered for the same or to a connected project for more than ninety days in any twelve month period.

• The Income Tax Amendment Bill also introduces a definition of the term ‘immovable property’ for mining and petroleum operations. It includes a mining right, petroleum right, mining information, or petroleum information.

• There are changes to the thin capitalisation rules. The allowable debt to equity ratio for foreign controlled entities has been amended to 1.5:1 (from the current 1:1).

• Further, the thin capitalisation rules will now apply to all interest-bearing debt of a foreign-controlled resident company. Currently the restriction only applies in general to loans from a foreign related party (i.e. the foreign controller or an associate).

• Thin capitalisation rules have also been extended to branches of non-resident companies.

• The withholding tax on reinsurance premiums which was introduced in July 2014 has been reduced from 15% to 5%.

• The exemption of imported and locally procured plant and machinery, petroleum products and raw materials from 6% withholding tax has been removed.

• Taxpayers providing passenger or freight transport services using vehicles with a load capacity of more than two tonnes will now be required to pay an “advance tax” before renewal of their operational license.

• The threshold for presumptive tax has been increased from UGX 50 million to UGX 150 million. In addition, the presumptive tax rate has been reduced to 1.5% from 3%.
Value Added Tax

The proposed amendments to the VAT Act include:

- The VAT annual registration threshold has been increased from UGX 50 million to UGX 150 million.
- The zero-rating of cereals grown and milled in Uganda which was scrapped in July 2014 has been reinstated, effective 1 January 2015.
- The threshold for cash based accounting for VAT has been increased from UGX 200 million to UGX 500 million.
- The list of VAT exempt public international organisations was amended to include the Global Fund to fight AIDS, Malaria and Tuberculosis and the Uganda Red Cross Society.

VAT for petroleum sector

Mining and petroleum operators will now be allowed to register for VAT regardless of whether they are making taxable supplies or not. This is a welcome relief to the operators as they had been de-registered for VAT and as such were not able to claim the significant input VAT incurred in the pre-operating phase.

In addition, mining and petroleum licensees will now be allowed to claim a credit for input VAT charged under the reverse charge mechanism on imported services.

Rwanda

Rwanda is undergoing comprehensive tax reforms hence no changes were announced in this budget.

Miscellaneous

Kenya

Other taxes

- In order to tap into the gaming industry, the CS has re-introduced a simplified gaming tax, which will be a direct charge on the gross gaming revenue. The tax covers public lotteries which are to be taxed at 5% of the lottery turnover and bookmakers at 7.5% of the gross betting revenues.
- Also, all prize competitions where the costs of entry are premium shall be taxable at 15% of the total gross revenue.
- Tax Procedure Bill to be introduced. This will contain uniform procedures across the three tax legislations.
- The Road Maintenance Levy was increased by KES 3 per litre to be collected and paid into the Road Annuity Fund.
- The IDF rate has been reduced from 2.25% to 2%. 
**Tanzania**

**Others taxes and levies**

**Export Levy**

Increase of export levies on raw hides and skins from 60% or TZS 600 per kilogram to 80% or USD 0.52 per kilogram whichever is higher and 10% for intermediate to intermediate level (wet blue leather).

**Fuel Levy**

No enforcement of petroleum charges on projects implemented by aid donors.

**Legislative amendments**

The Minister stated that minor amendments to various tax laws and other laws will also be made so as to ensure their smooth and effective implementation.

**Uganda**

Uganda enacted a Public Finance Management Act, 2015 which requires that the budget for the next financial year be presented before Parliament by 1 April. In addition, the Appropriation Bill and any other Bills that may be necessary to implement the annual budget are to be approved by Parliament by 31 May of each year.

This is change from the past where the budget was presented to Parliament together with the Tax Bills after the budget had been read.

**International agreements**

The Government has ratified the following international agreements:

- The EAC Double Taxation Agreement. This DTA will come into force when all the EAC partner states have ratified it. So far, only Rwanda and Uganda have ratified the DTA.
- The Agreement for the Establishment of the African Tax Administration Forum (ATAF) on Mutual Assistance in Tax Matters. The ATAF Agreement was adopted by members in 2010.
- The OECD Convention on Mutual Administrative Assistance.

These agreements have been laid before Parliament in accordance with Section 4 of the Ratification of Treaties Act Cap 204.

**Tax Administration**

As part of the strategy to enhance compliance and revenue collections, Uganda Revenue Authority will undertake the following measures:

- Implement the Joint Compliance Campaign involving the Uganda Registration Services Bureau and Kampala Capital City Authority aimed at widening the tax base and increasing revenue collection.
- Undertake taxpayer sensitization and education on tax policy changes.
- Strengthen the international taxation function with respect to
audit capacity of international transactions and exchange of information with other tax jurisdictions.

• Expand Taxpayer Registration and Expansion Program (TREP) outside greater Kampala, Maraca, Wakes, Mikonos, Aura and Lira.

• Automate the exchange of information and enforcement collaboration between the Ministries Departments and Agencies within greater Kampala.

• Expand the implementation of the Single Customs Clearance Process.

• Enhance information management systems to facilitate faster clearance of goods by rolling out the Electronic Cargo Tracking System (ECTS) to Mombasa, implementing centralized Document Processing and implementing a centralized automated valuation database.

**Infrastructure development levy**

In order to finance infrastructure projects, such as railway and energy, a 1.5% infrastructure development levy has been introduced on all goods imported outside EAC.

This is per the agreement by the EAC Ministers of Finance during their pre-budget consultative meeting. The Government expects to collect revenue amounting to Rwf 10.6 billion from this levy.

**Rwanda**

**Others taxes and levies**

**Road maintenance levy**

The levy on petrol and gasoil has been increased from Rwf 62.37/litre to Rwf 82.37/litre. The funds collected are to be used to finance District Class 2 roads. The expected revenue impact of the increase will be Rwf 5.2 billion.