

# TAX ALERT

## Highlights of Tax and Non-tax measures on Covid-19

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The coronavirus outbreak, which originated in China, has infected more than 500,000 people so far. Its spread has left businesses around the world counting losses. Investors fear the spread of the coronavirus will reverse economic growth and that government action may not be enough to stop the decline. In response, central banks in many countries have cut interest rates.

The travel industry has been badly affected, with airlines cutting flights and tourists cancelling business trips and holidays. Governments around the world have introduced travel restrictions to try to contain the virus.

Large-scale quarantines, travel restrictions, and social-distancing measures will result in a sharp fall in consumer and business spending until the end of Q2, and is expected to bring recession. Consumers are staying home, businesses are losing revenue and laying-off workers, and inevitably unemployment levels will rise sharply.

What happens in China will have ripple effects on the rest of the world. Africa, and in particular Kenya, has already started experiencing lower demand of goods and in many cases cancellation of contracts. Cash-flow has been affected severely and the Company will have to take exceptional steps to reduce its expenditure base. In most cases the 'salary & wages' being the largest expenditure item, needs to be reviewed. Separate policies need to be developed for critical and non-critical staff. It was proposed that the Directors should take pay-cut with immediate effect for sustainability of business during these difficult times.

The President on 25th March 2020 announced various relief measures with a view to alleviate Kenyans of the negative financial effect resulting from the onslaught of Covid 19.

The summary points are as follows based on the President's speech.



## **PAYE**

- 100% tax relief for low income earners – persons earning monthly gross income up to Ksh 24,000/- will be exempt from PAYE.
- Highest PAYE tax slab is reduced from 30% to 25%. Effectively, person earning more than Ksh 47,059/- will pay PAYE at 25% on the excess.

We believe these changes will be effective from April 2020 salary.

## **Corporate tax**

- The resident corporate tax has been reduced from 30% to 25% allowing companies some relief during this unprecedented times. We believe this change will be effective for the financial year starting from 1<sup>st</sup> January 2020.

## **Turnover Tax**

- The Turnover tax is reduced from 3% to 1%. The Turnover tax was re-introduced by the Finance Act 2019 for the businesses whose annual turnover does not exceed Kenya Shillings five million.

## **Value Added Tax (VAT)**

- Tax rate: The standard rate of VAT is reduced from 16% to 14% on taxable goods and services provided by a registered person, with effect from 1<sup>st</sup> April 2020.
- Release of VAT refund: The President has directed the Kenya Revenue Authority to expedite the payment of verified VAT refund claims amounting to Ksh 10 billion within the next 90 days and allow offsetting of withholding VAT.



## Other Non-tax measures

- Appropriation of an additional Ksh 10 Billion to the elderly, orphans and other vulnerable members of our society through cash-transfers by the Ministry of Labour and Social Protection.
- Temporary suspension of the listing with Credit Reference Bureaus (CRB) of any person, Micro, Small and Medium Enterprises (MSMES) and corporate entities whose loan account becomes overdue or falls in arrears, effective 1<sup>st</sup> April, 2020.
- Payment of at least of Ksh 13 Billion of the verified pending bills, within three weeks from 25<sup>th</sup> March 2020.
- Allocation of Ksh 1.0 billion from the Universal Health Coverage kitty, strictly towards the recruitment of additional health workers to support in the management of the spread of COVID-19.
- Voluntary reduction of salaries for top government officials.

## Measures already implemented on 24<sup>th</sup> March 2020

- Lowering of the Central Bank Rate (CBR) to 7.25% from 8.25%.
- Lowering of the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent. This is expected to provide additional liquidity of Ksh 35 Billion to commercial banks.
- The Central Bank of Kenya shall provide flexibility to banks with regard to requirements for loan classification and provisioning for loans that were performing as at 2<sup>nd</sup> March, 2020 and whose repayment period was extended or were restructured due to the pandemic.

## Effective date

The above financial proposals except VAT, need a formal approval of the Parliament under the Constitution of Kenya. Though the President would like to fast track the changes, it requires certain formalities before their implementation. We shall keep you posted with any further developments on the above.



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