

NEWS BUSINESS



COMMODITIES REVIEW

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VAT Tax and Spend

Value-added tax (VAT) is a consumption tax. Value-added taxation is based on a taxpayer's consumption rather than his income. Advocates say it raises government revenues without punishing success or wealth, as income taxes do; it is also simpler and more standardized than a traditional sales tax, and there are fewer compliance issues. It is believed that VAT's impact would be felt less by the wealthy and shouldered more heavily by the poor, who spend a larger percentage of their take-home pay on necessities. Notwithstanding the above, it is a "democratic" tax in that folks are not able to game the system [This is an important consideration especially when you consider the level of racketeering in our economy around the importation of basic commodities – sugar is a case in point] and this is one of the reasons the likes of the IMF have been keen that the GOK introduces it.

There has been a great deal of drama around the introduction of the 16% VAT levy on fuel which was introduced on September 1. MPs fought its introduction after a "Clouseau" like fashion. The fuel tax came into effect after MPs failed to factor in enough time to vote on extending an existing exemption from the levy until 2020 and have it included in proposed legislation known as the Finance Bill which is why I characterised it as a "Clouseau" like effort. The tax was first legislated in 2013, but its introduction was postponed until 2016 and then again delayed until this year. President Kenyatta was out of town. And fuel stations went dry and queues snaked out of stations into the main road and counterintuitively if you were to get home last week at a reasonable hour, you had to avoid roads with fuel stations.

Bloomberg's Adelaide Changole estimated that the new Tax would raise Sh71 billion (\$705 million) a year. "The president has a difficult decision because the Big Four agenda, which is his agenda, needs to be funded from somewhere," said Jibril Qureishi, regional economist for Stanbic Holdings Ltd in Nairobi. If there's no solution, "it will be shelved and pushed forward, which means no Big Four and no legacy." I am not certain that VAT will prove the silver bullet that will finance the Big 4 because I am of the view that the GOK credit card is now maxed out and that the introduction of VAT is actually a necessary defensive manoeuvre. Revenue collection is behind the curve, with GOK collecting Sh99 billion in July, but spending Sh121 billion for recurrent expenditure and debt payments. You don't have to be a rocket scientist to work out that if this continues at this pace it would mean Sh1.2 trillion in revenue – a shortfall of Sh600 billion. Do the Math! The reality is that government is simply in no position to forgo that VAT. If Kenyatta does as lawmakers wish by exempting fuel from tax and retaining the rate cap, it would be seen as "a complete failure by the presidency," according to Jacques Nel, an economist at South Africa-based NKC African Economics. The potential loss of the IMF facility has made investors jittery and forswearing the extra revenue would be a further knock for the nation's finances, he said. [Bloomberg]

The bigger challenge is this. Clearly the VAT imposition is going to ripple through the economy, dial up inflation and dial down consumer spending power. GDP growth is surely going to lose momentum and given the reaction we have witnessed, its becoming increasingly clear we are testing the limits of the "Laffer Curve."

The Laffer Curve suggests that, as taxes increase from low levels, tax revenue collected by the government also increases. It also shows that tax rates increasing after a certain point would cause people not to work as hard or not at all, thereby reducing tax revenue. Eventually, if tax rates reached 100 per cent, all people would choose not to work because everything they earned would go to the government. Denis Healey the British Chancellor of yore famously announced "I want to squeeze the rich until the pips squeak." Remove the word "rich" insert the word, "Kenyan" and what we witnessed were Kenyans "squeaking" Therefore, we really need some refreshed and innovative thinking.

Aly-Khan is a financial analyst

EXPANDING TAX BASE

Taxman to go after traders without pin

If found, they will be subjected to forced registration, in addition to assessment for back tax with penalties



KRA Commissioner General John Njiraini demonstrates to taxpayer Frida Sigilai how the iTax mobile system works at its relaunch in Nairobi on October 10 last year /ENOS TECHE

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Kenya Revenue Authority has warned trading institutions against carrying out any transactions with anyone whose pin is not on the iTax platform.

Judith Njagi, a chief manager in KRA's Domestic Taxes department, Pins not on iTax are invalid and they create room for tax evasion.

iTax is KRA's online system used to file returns for Pay As You Earn, Value Added Tax, individual annual income and agency revenues.

The caution comes as the authority seeks to enlarge its tax bracket after missing its target for the 2017-18 financial year by Sh172.4 billion.

Full year economic and budget review by the National Treasury shows that KRA collected Sh1.48 trillion in the year ending June 2018, against a target of Sh1.65 trillion.

"iTax is the only platform we use to register any pin, so any person who has a pin not on iTax should know the pins are not authentic and nobody should trade with such people for such a transaction would also be invalid," Njagi said.

She added that culprits avoiding to migrate to iTax are evading to remit tax and if caught will be forced to pay the principal tax and penalties from their initial dates of transaction.

"Any individual or corporate with taxable income who fails to acquire pin and register for the liable tax obligations is subjected to forced registration, addition of relevant tax obligations and assessment for back tax with penalties and interest."

In the financial year 2017-18, KRA,

through the help of third party information, was able to nab 20,000 qualified taxpayers who were trying to evade tax.

Some of the third party information sources include Integrated Financial Management Information System, which netted those transacting with the government, and Integrated Customs Management System to nab those in the export and import business. The two systems are linked to iTax.

Other sources are data from the water service providers and Kenya Power, mostly used to net landlords.

"Through this data, we are able to see who is transacting with the government, the amounts involved, and the goods. We will come for you based on that information," Njagi said.

Pins which can not be tracked using the third party data are set for suspension.

To further net tax evaders, the taxman revealed that the organisation will appoint withholding tax agents for VAT and rental income.

The agents will look out for large suppliers and landowners, and after carrying out a transaction with them, they will withhold six per cent for VAT and 10 per cent for rental.

Through this, KRA will bring such taxpayers on board and go for the remaining balance. Out of the total collected tax in the last financial year, Sh350.63 billion was payroll tax, Sh99.21 billion import duty, Sh162.48 excise duty, Sh206.25 billion VAT charged on local products and Sh144.8 billion VAT on imports.

Tax from investment revenue was Sh24.12 billion, while Sh3.07 billion was from traffic revenue.

FOR RAIL, ROAD

China agrees to Botswana's loan request – President

REUTERS/ China has agreed to extend a loan to Botswana for rail and road infrastructure, as well as writing off some debt, Botswana's President Mokgweetsi Masisi said on Saturday.

Speaking at the airport on his return from this week's China-Africa forum in Beijing, Masisi said Botswana made a pitch to China and "I am happy to report that, judging from what President Xi Jinping told me, we were successful".

In addition to the loan and a debt cancellation of 80 million pula, China has also offered a 340 million pula (\$31 million) grant, he said. "We got a little bit more than just the loan."

Masisi did not disclose the size of the loan, but last week the Ministry of Finance said Botswana was seeking a 12 billion pula (\$1.09 billion) loan for transport infrastructure. Botswana is the world's leading producer of diamonds by value. Chinese companies, mostly state-owned, are largely into construction in Botswana, building dams and roads.

The bulk of the loan is expected to fund the Moseitse-Kazungula railway line project, which will link the central part of Botswana to the tourism hub in the northwest. The railway line will also promote regional trade as it will connect Botswana to Zambia via the Kazungula Bridge, currently under construction.

China's Xi offered another \$60 billion in financing for Africa on Monday and wrote off some debt for poorer African nations, while warning against funds going towards "vanity projects".

WAR ON CONTRABANDS

Illicit sugar seized by KRA officials destroyed in Wajir

STAR REPORTER/ At least 728 bags of illicit sugar were destroyed on Saturday at the Kenya Defence Forces camp in Wajir.

The sugar, intercepted in Wajir last month, was destroyed by the Kenya Revenue Authority and key government agencies.

The exercise was an execution of a court order issued by Wajir resident magistrate Mugendi Nyaga on August 23.

The sugar was part of a larger consignment of 1,584 bags worth Sh2 million intercepted by KRA Customs officials on the Kenya-Somalia border on August 21 aboard three trucks.

The officials had also intercepted 30 boxes of milk powder from Denmark and another 30 boxes of cooking oil manufactured in Malaysia valued at Sh180,000 and Sh29,700 respectively.

Preliminary investigations showed that the consignment was destined for Wajir town. On the day the court order was issued, a businessman identified as Hassan Noor was fined Sh2.2 million for transporting the goods whose taxes had not been paid.

The rest of the bags shall be destroyed today as directed by the court. This destruction comes in the wake of renewed combat on illicit trade and contraband goods.

INDIVIDUALS, CORPORATES WHO FAIL TO ACQUIRE PIN AND REGISTER ARE SUBJECT TO FORCED REGISTRATION