REPUBLIC OF KENYA

FINANCIAL STATEMENT

for the

Fiscal Year 1998/99

(1st July–30th June)

FINANCIAL STATEMENT

PART I

REVISED BUDGET OUT-TURN - 1997/98

		Revised 1997/98
		K£ millions
A.	**RECURRENT ACCOUNT**	
1.	Balance as at 30th June, 1997	313.64
2.	Estimated Receipts	
	(i) Ordinary Revenue	7,898.25
	(ii) Appropriations-in-Aid *	449.74
	(iii) Repayment of Civil Contingencies Fund	-
	(iv) Unspent Exchequer Issues #	-
	(v) Treasury Bonds	-
		8,347.99
3.	Estimated issues	
	(i) Net Expenditure	4,929.60
	(ii) Supplementary	481.11
	(iii) Appropriations-in-Aid *	449.74
	(iv) Consolidated Fund Services ##	3,834.17
	(v) Excess Votes #	-
	(vi) Exchequer Under Issues #	-
	(vii) Advance to Civil Contingencies Fund	-
		9,694.62
4.	Transfer to Development Account	-
5.	Balance as at 30th June, 1998	(1,032.99)

B. DEVELOPMENT ACCOUNT

1. Balance as at 30th June, 1997	3.53
2. Estimated Receipts	
(a) External Receipts	
(i) Cash	
(a) Project Grants	93.11
(b) Project Loans	234.30
	327.41
(ii) Purchase under A-in-A *	
(a) Grants	555.96
(b) Concessionary Loans	549.00
	1,104.96
(iii) Miscellaneous	
(a) Programme Grants	14.45
(b) Programme Loans	10.60
	25.05
(b) Local Sources	
(i) Development Revenue **	256.45
(ii) Long Term Stock	-
(iii) Treasury Bonds	656.42
(iv) Transfer from Recurrent Account	-
(v) Unspent Exchequer Issues #	-
(vi) Local Appropriations-in-Aid *	173.34
	1,086.21
Total (a+b)	2,543.63
3. Estimated Issues	
(i) Net Expenditure	994.06
(ii) Supplementary	(241.87)
(iii) Appropriations-in-Aid *	1,278.30
(iv) Excess Votes #	-
(v) Exchequer Under Issues #	-
	2,030.49
4. Balance as at 30th June, 1998	516.67

C. SURPLUS/DEFICIT

(i) Recurrent Account	
Recurrent Revenue	8,347.99
Recurrent Expenditure	9,694.62
Recurrent Exchequer Deficit	(1,346.63)
(ii) Development Account	
Development Revenue **	2,543.63
Development Expenditure	2,030.49
Development Exchequer Surplus	513.14
(iii) Overall deficit	
Recurrent Exchequer Deficit	(1,346.63)
Development Exchequer Surplus	513.14
Cereals & Sugar Finance Corporation	-
Overall Exchequer Deficit	(833.49)

D. FINANCING OF DEFICIT AND CHANGES IN SHORT-TERM FUNDS

Increase in:	
Treasury Bills	438.75
Capital Receipts	83.10
Advances to Cereals & Sugar Finance Corporation	0.00
Tax Reserve Certificates	0.00
Change in Exchequer cash [increase = (-)]	311.64
	833.49

E. OUTSTANDING SHORT-TERM BORROWING

It is estimated that the balance of short-term funds as at 30th June, 1998 will be:-

Treasury Bills	438.75
Tax Reserve Certificates	3.47
Cereals & Sugar Finance Corporation	(44.89)
	397.33

F. OVERALL EXCHEQUER SUMMARY

It is estimated that the overall Exchequer balance as at 30th June, 1998 will be:-

Recurrent Exchequer	(1,032.99)
Development Exchequer	516.67
Treasury Bills	559.74
Tax Reserve Certificates	3.47
Cereals & Sugar Finance Corporation	(44.89)
Exchequer cash balance	2.00

Notes:

* Appropriation-in-Aid, in fact,do not pass through the Exchequer Account. They are included here as contra items to indicate gross revenue and expenditure.

** Land Revenue, Forest and Mining Revenue, Investment Revenue except CBK Dividend, and Loan Redemption and Loan Interest Receipts have been transferred to Development Exchequer Account. Excludes transfer of Recurrent Surplus

Adjustments for Excess Votes, Under Issues and Unspent Exchequer Issues for the fiscal years prior to 1st July 1997 have been excluded as they constitute the net overdraft of Ksh.38billion which has been converted into K£950 million Treasury Bills and K£ 950 million Treasury Bonds. This was necessitated by the implementation of the requirements of the Central Bank (Amendment) Act 1996 which led to separation of current bank balances from those of the years prior to 1st July 1997. The net overdraft of K£1,900 million was arrived at by the mere netting of of credit bank balances against debit bank balances as at 30th June 1997.

Consolidated Fund Services in the Printed Estimates 1997/98 show an amount of K£ 6,322.62 million. This includes K£ 2,488.45 million of internal redemption debited to the PMG Account in July 1994. Hence, this amount is not included in the financing requirement for 1997/98.

PART II

TAXATION PROPOSALS

This part of the Financial Statement summarises the proposed tax and other revenue measures included in the Finance Bill, 1998. Not all the individual items are specified. Reference should be made to the Finance Bill for full details.

The proposed revenue measures are as follows:

1. Amendments to the Kenya Revenue Authority Act will be introduced to further separate the functions of tax policy from administration, and to enhance the autonomy and objectivity of the Kenya Revenue Authority Board by removing three ex officio members and replacing them with two private sector representatives. The remaining two Government officials will be in an advisory, non-voting capacity. The KRA will expand its revenue collection activities to include aviation revenues and contributions to public sector pension funds. In the case of revenue collection under non-revenue Acts, the role of KRA will be confined to revenue assessment, collection and accounting, leaving the sectoral policy issues to the Ministry responsible.

CUSTOMS DUTIES

2. Given the difficult domestic economic conditions and currency devaluations in South East Asia and South Africa resulting in severe import competition for Kenyan businesses, changes to the import duty tariff are limited to increases in protection through increases in import duty rates or an additional 5% in suspended duties for selected domestic industries, including fresh and processed fruit and vegetables, wheat flour, cement, gas cylinders, grinding wheels, paper and paper products, clothing and electrical cables.

3. To limit environmental and safety problems being caused by the importation of old motor vehicles, for direct imports of used vehicles over 5 years old, the existing 20% surcharge will be subject to a minimum surcharge of shs 30,000, and for vehicles over 8 years old, this minimum surcharge will rise to shs 60,000. In addition, the depreciation rate used by Customs to establish a customs value will be reduced for directly

imported vehicles over 5 years and stopped for vehicles over 8 years of age. All used vehicles will require pre-shipment inspection to determine their road worthiness prior to the issuance of a clean report of findings. The second-hand motor vehicle purchase tax will now be collected at the port of entry upon importation.

4. To assist the horticultural sector, a wider range of polyvinyl chloride and polyethylene sheeting will be allowed duty free for use in covering green houses subject to recommendation by the Director of Agriculture.

5. Hygienic bags for use by patients will be duty free on importation in such quantities as the Commissioner may allow.

6. Specified chemical compounds not classified as fertilisers, but frequently used as fertilisers (such as ammonium nitrate and magnesium sulphate) will be duty free for agricultural use if certified by the Director of Agriculture.

7. To encourage the local servicing of aircraft at Kenyan airports, spare parts for aircraft will be exempt from duty and VAT when imported by aircraft operators and maintenance companies subject to the recommendation of the Director of Civil Aviation.

8. While jet kerosene for jet aircraft is duty and tax free by international agreement, to prevent the diversion of this fuel to other uses, the same duty applied to illuminating kerosene will apply to jet kerosene, but a specific exemption will be provided for aircraft use in the Third Schedule.

9. The duty on residual fuel oil will be reduced by one shilling per litre to assist major users such as paper manufacturers and to lower the cost of electricity.

10. To curb abuse and limit the revenue cost, the specific exemptions for motor vehicle imports for specified privileged persons in the public sector, and for Non-Governmental Organisations will be limited to passenger cars with an engine capacity of 2000cc or less, except for four wheel drive vehicles for which the engine capacity limit will be 3000cc in the case of importations by members of the National Assembly and specified Non-Governmental Organisations.

11. The indirect exporter provisions of Export Promotion Programmes (EPPO) will be expanded to allow domestic suppliers of indirect exporters to qualify in order to extend the backward linkages of exporters in the domestic economy. To maintain stronger controls on this programme to prevent diversions into the local economy, all indirect

exporters will have to be registered with the Commissioner of Customs and Excise and maintain compliance with the EPPO requirements.

12. Measures are being introduced to control transit and export diversions into the domestic market: the penalties for transporting, storage or sale of uncustomed goods are being increased to three times the value of the goods or up to five years in prison; a new penalty of up to shs 1,000,000 on owners of property used for storing or selling uncustomed goods will be introduced; transit transporters will be bonded; and time limits are being introduced on exports made out of bond for the goods to be exported and accounted for; and to protect revenues, providers of bonds wanting to initiate a court action against the Commissioner claiming all or part of a bond for which the conditions have not been satisfied, will be required to deposit with the Commissioner the full amount of the duty demanded to be deposited before filing the suit.

13. The minimum shipment value for Pre-Shipment Inspection will be raised to $5,000, but an import audit programme has been initiated that will conduct random inspections of shipments on arrival, including shipments below $5,000, reconcile all PSI documents with customs documents, audit PSI invoices, verify a random sample of prices in the country of export, and establish import valuation databases for Customs.

14. Non-Governmental Organisations will have to first register as charitable organisations with the Commissioner of Income Tax before applying for import duty exemption for imports for furtherance of their charitable purposes.

EXCISE DUTY

15. The excise duty on petrol and automotive diesel will be lowered by shs 1.50 per litre in order to make room for the road maintenance levy which will be increased by the same amount.

VALUE ADDED TAX

16. The standard rate of VAT will be reduced from 17% to 16% to give the average Kenyan taxpayer some relief and improve VAT compliance.

17. Newsprint will be returned to the standard VAT rate from zero (but newspapers will remain zero rated) to discourage the substitution of newsprint for other taxable paper.

18. Clarifications will be made to taxable services, namely, that advertising service include all notices placed in the media for a fee (except death notices) and that secretarial services include electronic mail and telephone bureau services.

19. The definition of taxable supplies will be broadened to include any compensation for loss of taxable goods or services such as under an insurance policy, and the self-supply of taxable goods or services where the VAT on such goods or services if used as inputs is classified as non-deductible.

20. A number of measures are being introduced to improve VAT compliance such as a requirement for maintenance of specified VAT Accounts, and it will become an offence if an auditor issues a false refund certificate in cases of VAT refund claims over one million shillings.

21. VAT payer rights will be enhanced by recognising their right to appeal to the courts, but this will be subject to the tax in dispute being deposited with the Commissioner to prevent delaying tactics. In addition, the VAT Tribunal will be expanded from three to five to speed up the business of the VAT Tribunal by ensuring a quorum of three is always available

INCOME TAX

22. To protect low-income earners, the personal relief will be increased by 10% which will raise the minimum monthly income at which income tax becomes payable from shs 6,600 to shs 7,260 per month. In addition, to contain inflation-induced bracket creep, the income tax brackets will be widened by 5%.

23. A new fringe benefit tax structure will be introduced to the Income Tax Act that will be used to deal with the benefits from employer-provided low interest rate loans. Under this structure, the tax on the fringe benefit becomes payable by the employer rather than the employee. All existing low-interest rate loans will remain taxable as employment income under the current structure, and the current 15% limit on the market lending rate will be retained. The new fringe benefit tax will apply to all new loans and any benefit amount in excess of the 15% limit. This will leave the after-tax income of the employees unaffected, but equitable treatment of the low-interest loans is achieved by the employer paying the tax on the excess income when market interest rates exceed 15% as well as on any new low-interest loans to employees.

24. To improve the tax compliance of owners of matatus and other public service vehicles, the advance taxes on goods transporting vehicles will be raised to1,000

shillings per ton of load capacity per year or 2,000 shillings, whichever is the higher, and for passenger carrying vehicles to 480 shillings per passenger capacity per year or 2,000 shillings, whichever is the higher.

25. With losses in the agricultural sector caused by the *El Nino* weather conditions, the Presumptive Income Tax will be suspended from January 1, 1999. All members of the agricultural sector will return to paying regular income taxes in 1999.

26. To ensure that parastatals are facing the same tax regime as their private sector competitors, the tax exemption for the Kenya Power Company Limited and Kenya Tea Development Authority will be withdrawn effective from 1st January, 1999

27. To improve the fairness of the administration of the PAYE tax system, objections and appeals against application of the law will be allowed subject to the same restrictions concerning filing documentation and prepayment of tax as exists for other income tax objections and appeals.

28. To encourage tax compliance, a tax amnesty will be introduced. To the extent that a person purchases Government bonds of at least two years in duration, the income tax, penalties and interest on undeclared income from prior tax years will be forgiven up to the amount of bonds purchased. Bond purchases and declarations of income to the Commissioner of Income Tax will have to be prior to December 31, 1998. In addition, an amnesty will be given on any VAT not charged, and on the interest and penalties on any VAT charged but not remitted on supplies of goods or services related to the undeclared income qualifying for the income tax amnesty.

29. To further encourage the purchase of long-term government bonds, the Government will be issuing bearer bonds of at least two year duration. The withholding tax on these bearer bonds will be 15%. The withholding tax rate on all other bearer bonds or certificates will be raised to 25%.

30. In line with prior commitments to phase in the full deductibility of pension contributions to registered pension funds and individual retirement funds by the year 2000, the annual deductible limit will be raised to 150,000 shillings in 1999.

MISCELLANEOUS FEES AND TAXES, AND OTHER MEASURES

31. To simplify the collection of the Airport Passenger Service Charge, it will be collected at the time of sale of the airline tickets by the airlines or their agents, as is generally the case internationally. This will become effective as of 1st September 1998.

32. Funds for road maintenance will be increased to over shs 6.5 billion, but for improved accountability, all these funds will be sourced from the Road Maintenance Levy and transit tolls. This will require increasing the Road Maintenance Levy by shs 1.50 per litre from its current level of shs 3.30 to shs 4.80 per litre on petrol and automotive diesel. There will be no increase in the overall tax burden on petrol and diesel, as this increase will be offset by a corresponding reduction in the excise duties. New contracting rules will be issued to enhance the effectiveness of the use of these funds.

33. Aviation fees for various licenses, ratings and certificates for personnel, equipment and airport facilities will be increased by about 50%. These fees have not been increased for some years and are low by international standards.

34. Immigration fees for work permits will be increased by 25% on average.

35. Local authorities are being assisted through: amendments to the Local Government Act to require the payment of all license fees as a consolidated payment or single license fee per category of business to simplify revenue collection; introduction of the Local Authorities Transfer Fund to provide a more stable and low cost funding to local authorities; and improvements in the procedures for Government to pay their contributions in lieu of rates coupled to mechanisms to cancel mutual debts between the two levels of government.

36. The Insurance Act is amended to require that long-term insurance funds hold at least 20% of their investments in government securities and that at least 50% of these government securities are bonds with a maturity of two years or more.

37. To reduce diversion of duty free goods into the local market, the Export Processing Zone Act is amended to disallow duty-free importation of motor vehicle tyres, spare parts and fuels by EPZ enterprises.

The combined additional revenues that are expected to be raised in 1998/99 from the proposed tax and other measures will be as follows:

	K£ million
IMPORT DUTY	10.89
EXCISE DUTY	-98.50
VAT	-104.57
INCOME TAX	-5.50
MISCELLANEOUS ORDINARY REVENUES	14.00
TOTAL ORDINARY REVENUE	-183.68
MISCELLANEOUS APPROPRIATIONS-IN-AID	99.51
TOTAL REVENUE	-84.18

PART III

FORECAST BUDGET OUT-TURN – 1998/99

	Forecast 1998/99 K£ millions
A. RECURRENT ACCOUNT	
1. Balance as at 30th June, 1998	(1,032.99)
2. Estimated Receipts	
(i) Ordinary Revenue	8,427.30
(ii) Appropriations-in-Aid *	639.74
(iii) Repayment of Civil Contingencies Fund	-
(iv) Unspent Exchequer Issues #	-
(v) Treasury Bonds	1,432.39
	10,499.43
3. Estimated issues	
(i) Net Expenditure	5,106.86
(ii) Supplementary	-
(iii) Appropriations-in-Aid *	639.74
(iv) Consolidated Fund Services	4,422.23
(v) Excess Votes #	-
(vi) Exchequer Under Issues #	-
(vii) Advance to Civil Contingencies Fund	100.00
	10,268.83
4. Transfer to Development Account	-
5. Balance as at 30th June, 1998	(802.39)

B. DEVELOPMENT ACCOUNT

1. Balance as at 30th June, 1998	516.67
2. Estimated Receipts	
(a) External Receipts	
(i) Cash	
(a) Project Grants	89.49
(b) Project Loans	212.81
	302.30
(ii) Purchase under A-in-A*	
(a) Grants	561.43
(b) Concessionary Loans	656.30
	1,217.73
(iii) Miscellaneous	
(a) Programme Grants	0.00
(b) Programme Loans	0.00
	0.00
(b) Local Sources	
(i) Development Revenue **	231.95
(ii) Long Term Stock	-
(iii) Treasury Bonds	-
(vi) Transfer from Recurrent Account	-
(v) Unspent Exchequer Issues #	-
(vi) Local Appropriations-in-Aid *	129.92
	361.87
Total (a+b)	1,881.90
3. Estimated Issues	
(i) Net Expenditure	565.68
(ii) Supplementary	-
(iii) Appropriations-in-Aid *	1,347.64
(iv) Excess Votes #	-
(v) Exchequer Under Issues #	-
	1,913.32
4. Transfer to Development Account	-
5. Balance as at 30th June, 1999	485.25

C. SURPLUS/DEFICIT

(i) Recurrent Account	
Recurrent Revenue	10,499.43
Recurrent Expenditure	10,268.83
Recurrent Exchequer Surplus	230.60
(ii) Development Account	
Development Revenue **	1,881.90
Development Expenditure	1,913.32
Development Exchequer Deficit	(31.42)
(iii) Overall Deficit	
Recurrent Exchequer Surplus	230.60
Development Exchequer Deficit	(31.42)
Cereals & Sugar Finance Corp.	-
Overall Surplus	199.18

D. FINANCING OF DEFICIT AND CHANGES IN SHORT-TERM FUNDS

Increase in:	
Treasury Bills	(274.18)
Capital Receipts	75.00
Advances to Cereals & Sugar Finance Corp.	0.00
Tax Reserve Certificates	0.00
Change in Exchequer cash [increase = (-)]	0.00
	(199.18)

E. OUTSTANDING SHORT-TERM BORROWING

It is estimated that the balance of short-term funds as at 30th June, 1999 will be:-

Treasury Bills	(274.18)
Tax Reserve Certificates	3.47
Cereals & Sugar Finance Corporation	(44.89)
	(315.60)

F. OVERALL EXCHEQUER SUMMARY

It is estimated that the overall Exchequer balance as at 30th June, 1999 will be:-

Recurrent Exchequer	(802.39)
Development Exchequer	485.25
Treasury Bills	360.56
Tax Reserve Certificates	3.47
Cereals & Sugar Finance Corp.	(44.89)
Exchequer cash balance	2.00

Notes:

* Appropriation-in-Aid, in fact,do not pass through the Exchequer Account. They are included here as contra items to indicate gross revenue and expenditure.

** Land Revenue, Forest and Mining Revenue, Investment Revenue except CBK Dividend, and Loan Redemption and Loan Interest Receipts have been transferred to Development Exchequer Account. Excludes transfer of Recurrent Surplus

Adjustments for Excess Votes, Under Issues and Unspent Exchequer Issues for the fiscal years prior to 1st July 1997 have been excluded as they constitute the net overdraft of Ksh.38billion which has been converted into K£950 million Treasury Bills and K£ 950 million Treasury Bonds. This was necessitated by the implementation of the requirements of the Central Bank (Amendment) Act 1996 which led to separation of current bank balances from those of the years prior to 1st July 1997. It is now planned that the K£ 1,900 million in Treasury Bills and Bonds will be converted into long term loan (20years) to be repaid at the rate of K£ 95 million per annum starting from the fiscal year 1998/99.

PART IV

FINANCING OF ACTUAL EXPENDITURE

The financing of the budget outlined in parts I and III relates to the cash deficit in the Exchequer Account. An alternative way of considering the deficit is to compare the resources taken out of the economy through Government expenditure but ignoring cash transactions between different Government Accounts and showing borrowings net of repayments. Considered this way, the deficit is as follows:-

	1997/98 K£ millions	1998/99 K£ millions
Current Expenditure	8,244.35	7,867.31
Development Expenditure	2,030.49	1,913.32
- Civil Contingencies Fund		100.00
Total Expenditure	10,274.84	9,880.63
Total Revenue	8,777.83	9,428.91
Foreign Grants	663.52	650.91
Total Revenue & Grants	9,441.35	10,079.82
Budget Deficit/Surplus	(833.49)	199.19
Financed by:		
1. Non-Banks		
- External Concessionary Loans (net)	562.00	633.10
- External Commercial Borrowing (net)	(872.40)	(887.85)
Domestic Borrowing: [Treasury Bonds and Bills (net)]	374.60	(9.72)
Total Non-Bank Borrowing (net)	64.20	-264.47
2. Domestic Banking System		
Long-term Securities		
C & S.F.C. Deposits	-	-
Treasury Bonds and Bills (net)	-	-
Cash Balance [increase = (-)]	374.6	-9.72
	311.59	0
Total Banking System Borrowing (net)	686.19	(9.72)
3 Capital Receipts	83.10	75.00