

**PARLIAMENT
OF KENYA**

**BUDGET AND APPROPRIATIONS COMMITTEE RECOMMENDATIONS ON
THE AMENDMENTS TO THE FINANCE BILL, 2015 AND THE EXCISE
DUTY BILL, 2015**

Mr. Speaker Sir,

The Budget and Appropriations Committee was requested to consider the amendments to the Finance Bill, 2015 and the Excise Duty Bill, 2015 in accordance with Article 114 of the Constitution. The Committee met today morning, Thursday 27th August 2015, and deliberated of these amendments.

Mr. Speaker Sir,

I note that the Committee of the Whole House deliberated and concluded with the Finance Bill, 2015 save for the clauses 5, 43, 46 and new 35A which were recommitted to the House. I will therefore give an abridged version of the recommendations by the Committee on various amendments by members since this statement is coming after the fact.

Mr. Speaker Sir,

The Committee recommends to the House that all amendments by the Hon. Patrick Musimba, MP and the Hon. Kimani Ichung'wah, MP on the Finance Bill, 2015 should not be entered upon in the Committee of the Whole House the recommendations have adverse effects to the macro-economic framework of the country. Also the amendments by the Hon. Kimani Ichung'wah on the Excise Duty Bill, 2015 should also not be entered upon by the Committee of the Whole House since they will have adverse impacts on both the macro-economic framework and revenue targets.

Amendments to Finance Bill by Hon. Jakoyo Midiwo, MP

1. Amendment to seeks remove the provision to increase the core capital of banks and mortgage institutions from Ksh 1 billion to Ksh 5 billion by end of 2018.
2. Proposal to insert a new clause to amend the Banking Act with the intention of controlling bank interest rates by placing a ceiling for lending rates and a floor for deposit rates.

The Committee was not seized of the matter in time and therefore not able to deliberate fully on it. On the second proposal, it is noted that this will require the recommendations of

both the National Treasury and the Central Bank of Kenya. Further, the Committee is in receipt of a legislative proposal with a similar amendment to control bank interest and it will be able to address the matter adequately through the bill. Therefore, the Committee recommends that this amendment be **declined** until such a time the Committee, the National Treasury, the Central Bank of Kenya and other stakeholders are consulted.

ADDITIONAL NOTES

AMENDMENTS TO THE FINANCE BILL BY HON. PATRICK MUSIMBA, MP

1. **Introduction of New Clause to Finance Bill**

Amendment to Section 5 of the VAT Act, 2013 to increase the rate from the current the current **16% to 18%**.

Recommendation: the Committee deliberated on it and agreed that this will affect the macro-economic environment for the country since an increase in the VAT may reduce consumption. The Committee recommended to **decline** this amendment.

2. **Amendment of Clause 5 of the Finance Bill**

Amendment to reduce the acreage of land, from **100 acres to 5 acres**, meant to benefit from VAT exemptions on taxable services in respect of construction of industrial and infrastructural works in the industrial and recreational parks.

Recommendations: the Committee deliberated on it and agreed that the 100 acre threshold can be maintained and reviewed during the next financial year. The Committee recommended to **decline** this amendment.

3. **Amendment to Clause 13 of the Finance Bill**

Amendment to reduce the number of fresh graduates an employer need to engage on apprenticeship in order to qualify for the tax rebates from **more than 10 to at least 1**.

Recommendations: the Committee deliberated on it and agreed that the threshold of more than 10 will ensure fresh graduates get a number of places in institutions. If the threshold is limited to at least one, employers will not have an incentive to employ many fresh graduates on apprenticeship. The Committee recommended to **decline** this amendment.

4. **Amendment to Clause 18 of the Finance Bill**

Amendment to exempt individuals who earn a monthly salary of Ksh. 35,000 and below from being deducted PAYE. The same case will also apply to wife's employment and wife's self-employment who earn less than Ksh 35,000 monthly.

Recommendations: the Committee deliberated on it and agreed that this will lock out a huge number of Kenyans from paying taxes and it will curtail the government from collecting a large proportion of revenue. The Committee recommended to **decline** this amendment.

5. **Amendment to Clause 43 of the Finance Bill**

Amendment to seeks to keep the status quo of Ksh 1 billion for the already existing banks and mortgage institutions instead of increasing the core capital gradually from the current Ksh 1 billion to ksh 5 billion by 31st December 2018. However, for any new bank or mortgage institution being registered, the amendment proposes that the minimum capital be Ksh 5 billion.

Recommendations: the Committee deliberated on it and agreed that this is an unfair and punitive requirement since it will restrict new entrance to the country by banks and mortgage institutions. The Committee recommended to **decline** this amendment. It further proposed that the Clause 43 be amended to maintain the current status quo of Ksh 1 billion for all new entrants while the core capital for current institutions be gradually graduated to Ksh 5 billion by 31st December 2018.

AMENDMENTS TO FINANCE BILL BY HON. KIMANI ICHUNG'WAH, MP.

6. **Amendment to Clause 31 of the Finance Bill**

Amendment to seeks to increase the minimum capital requirement for general insurance business from Ksh 600 million to Ksh 800 million and increase that of long term insurance business from ksh 400 million to Ksh 600 million.

Recommendations: the Committee deliberated on it and agreed that this will lead mergers to give rise to bigger and highly capitalized insurance institutions. The Committee noted that this will reduce micro-insurance. The Committee recommended to **decline** this amendment.

7. **Amendment to Clause 44 of the Finance Bill**

Amendment to seeks to increase the amount proposed for actualization of the Road Annuity Fund from **Ksh 3 to Ksh 5 per litre of petrol.**

Recommendations: the Committee deliberated on it and agreed that this will lead to increasing the prices of fuel and may have an impact on the cost of commodities which will lead to higher inflation. The Committee recommended to **decline** this amendment.

AMENDMENTS TO EXCISE DUTY BILL BY HON. KIMANI ICHUNG'WAH, MP.

1. **Amendment to the Part 1 of the First Schedule of the Excise Duty Bill**

Amendment to seeks to increase the rate of excise duty rate on spirits of under natural ethyl alcohol, spirit liqueurs and other spirituous beverages of alcoholic strength exceeding 10% from the proposed **Ksh 175 per litre to Ksh 400 per litre**.

Recommendations: the Committee deliberated on it and agreed that this will lead an increase in the price of spirits. This may prohibit the consumption of alcohol but may lead to a rise in consumption of illicit brew and reduce the revenue collected. The Committee recommended to **decline** this amendment.

2. **Amendment to the Part 1 of the First Schedule of the Excise Duty Bill**

Amendment to seeks to increase the rate of excise duty on cigar, cheroots, cigarillos containing tobacco and tobacco substitutes from the proposed **Ksh 10,000 per kg to Ksh 20,000 per kg**.

Recommendations: the Committee deliberated on it and agreed that this will lead to an increase in the prices of tobacco products. Though it may reduce the consumption of tobacco products, it may increase the trade of contraband tobacco goods, reduce sales of these products thus reducing revenue and undermine investments. The Committee recommended to **decline** this amendments.

3. **Amendment to the Part 1 of the First Schedule of the Excise Duty Bill**

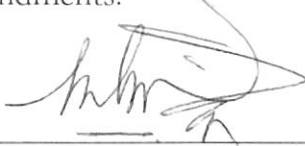
Amendment to seeks to increase the rate of excise duty on electronic cigarettes from the proposed **Ksh 3,000 per unit to Ksh 6,000 per unit**.

Recommendations: the Committee deliberated on it and agreed that this will lead to an increase in the prices of electronic cigarettes. Though it may reduce the consumption of electronic cigarettes, reduce sales of these products thus reducing revenue and undermine investments. The Committee recommended to **decline** this amendments.

4. **Amendment to the Part 1 of the First Schedule of the Excise Duty Bill**

Amendment to seeks to increase the rate of excise duty on electronic cigarettes containing tobacco and tobacco substitutes from the proposed **Ksh 2,500 per mille to Ksh 5,000 per mille**.

Recommendations: the Committee deliberated on it and agreed that this will lead to an increase in the prices of tobacco products and electronic cigarettes. Though it may reduce the consumption of tobacco products and electronic cigarettes, it may increase the trade of contraband tobacco goods, reduce sales of these products thus reducing revenue and undermine investments. The Committee recommended to **decline** this amendments.



Hon. Mutava Musyimi, MP.
Chair Budget and Appropriations Committee

Date: 27-8-15