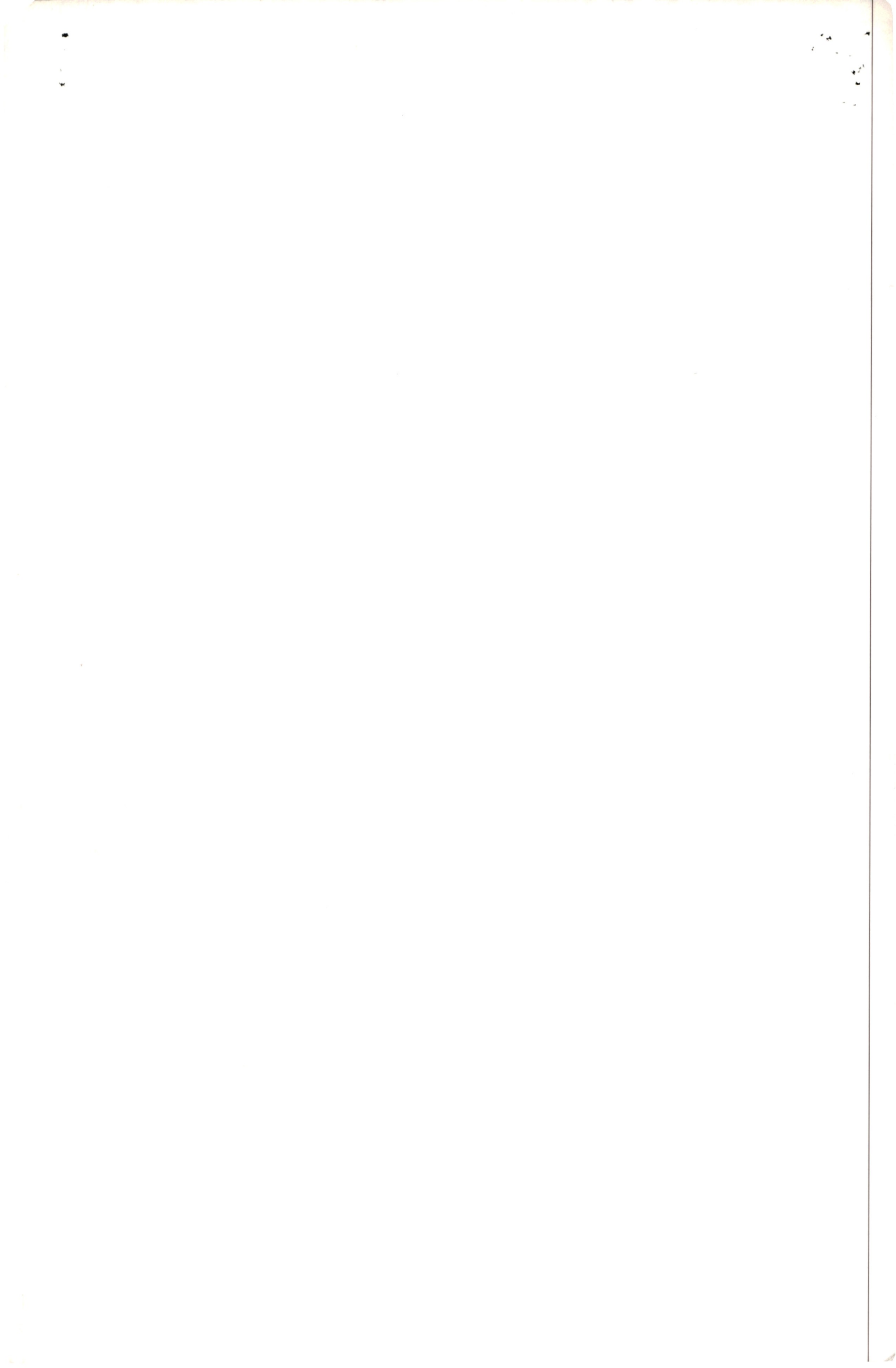


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FINANCIAL STATEMENT

1978/79



FINANCIAL STATEMENT 1978/79

PART I

ESTIMATED BUDGET OUT-TURN 1977/78

It is estimated that the out-turn of the Exchequer for the Year 1977/78 will be as follows:-

	<u>K£m</u>	<u>K£m</u>
<u>A. RECURRENT ACCOUNT</u>		
1. Balance as at 30th June, 1977		Nil
2. Estimated Receipts 1977/78		
(i) Ordinary Revenue	446.46	
(ii) Appropriations in Aid*	60.71	
(iii) Recovery unspent issues 1976/77	<u>3.39</u>	+510.56
3. Estimated Issues 1977/78		
(i) Estimated Net Expenditure of Ministries	312.60	
(ii) Appropriations in Aid* (as above)	60.71	
(iii) Consolidated Fund Services	74.00	
(iv) Under Issues 1976/77	<u>0.13</u>	-447.44
4. Surplus transferred to Development Account		<u>- 63.12</u>
5. Balance as at 30th June, 1978		<u>Nil</u>

B. DEVELOPMENT ACCOUNT

	<u>K£m</u>	<u>K£m</u>	<u>K£m</u>
1. Balance as at 30th June, 1977			Dr.76.71
2. Estimated Receipts, 1977/78			
(a) External Grants and Loans			
(i) Cash Grants	8.70		
(ii) Cash Loans	25.00		
(iii) Purchases under aid:			
(a) Grants	2.30		
(b) Concessionary Loans	12.00		
(iv) Commercial Credit	<u>9.10</u>	57.10	
(b) Local Sources			
(i) Long term stock issues	70.00		
(ii) Transfer from Recurrent Account	63.12		
(iii) Misc. Revenues	2.00		
(iv) Recovery Unspent Issues	<u>1.24</u>	136.36	+193.46
3. Estimated Issues 1977/78			
(i) Estimated Net Expenditure	161.60		
(ii) Credit Purchases	23.40		
(iii) Under Issues	<u>1.77</u>		<u>-186.77</u>
4. Balance as at 30th June, 1978			<u>Dr. 70.02</u>

*Credit purchases and purchases under aid do not pass through the Exchequer Account. They are included here as contra items to indicate gross revenue and expenditure.

C. SURPLUS/DEFICIT 1977/78

	<u>Kfm</u>
(i) <u>Recurrent Account</u>	
Recurrent Revenue	+510.56
Recurrent Expenditure	<u>-447.44</u>
Recurrent Surplus	<u>+ 63.12</u>
(ii) <u>Development Account</u>	
Development Revenue*	+130.34
Development Expenditure	<u>-186.77</u>
Development Deficit	<u>- 56.43</u>
*Excluding transfer of Recurrent Surplus	
(iii) <u>Overall Surplus</u>	
Recurrent Surplus	+ 63.12
Development Deficit	<u>- 56.43</u>
Overall Surplus	<u>+ 6.69</u>

D. CHANGES IN SHORT-TERM FUNDS

Increase in Treasury Bill Issue	- 12.80
Cereals & Sugar Finance Corporation Deposits	-
Tax Reserve Certificates	+ 3.00
Change in Exchequer Cash (Increase = (-))	<u>+ 3.11</u>
Surplus	<u>- 6.69</u>

E. OUTSTANDING SHORT-TERM BORROWINGS

It is estimated that the balance of short-term funds as at 30th June, 1978, will be:-

(i) Treasury Bills	62.20
(ii) Tax Reserve Certificates	5.84
(iii) Cereals & Sugar Finance Corporation	<u>14.90</u>
Total	<u>82.94</u>

F. OVERALL EXCHEQUER SUMMARY

It is estimated that the overall Exchequer balance as at 30th June, 1978, will be:-

	<u>K£ million</u>
Recurrent Exchequer	Nil
Development Exchequer	- 70.02
Treasury Bills	+ 62.20
Tax Reserve Certificates	+ 5.84
Cereals & Sugar Finance Corporation	<u>+ 14.90</u>
Exchequer Cash Balance	<u>+ 12.92</u>

This cash balance can be compared with the cash balance as at 30th June, 1977, of K£16.04 million.

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
07.05.009	Other vegetables.	50%	25%
07.06.001	Cassava, roots, fresh or dried.	50%	25%
07.06.002	Sago pith, roots and tubers, fresh or dried.	50%	25%
07.06.009	Other.	50%	25%
08.01.010	Bananas (including plantains).	50%	25%
08.01.020	Coconuts, fresh or dried (excluding copra), shelled or not.	50%	25%
08.01.030	Brazil nuts.	50%	25%
08.01.041	Cashew nuts, raw (in shell).	50%	25%
08.01.042	Cashew kernels.	50%	25%
08.01.050	Pineapples.	50%	25%
08.01.061	Avocados, guavas and mangosteens.	50%	25%
08.01.062	Mangoes.	50%	25%
08.01.070	Dates.	50%	25%
08.02.010	Oranges.	50%	25%
08.02.020	Mandarins (including tangerines and satsumas); clementines, wilkings and other similar citrus hybrids.	50%	25%
08.02.030	Lemons and limes.	50%	25%
08.02.040	Grapefruit.		
08.02.050	Other fruit.	50%	25%
08.03.010	Figs, fresh.	50%	25%
08.03.020	Figs, dried.	50%	25%
08.04.010	Grapes, fresh.	50%	25%
08.04.020	Grapes, dried (raisins).	50%	25%
08.03.010	Almonds.	50%	25%
08.05.020	Hazelnuts.	50%	25%
08.05.031	Macadamia nuts.	50%	25%
08.05.039	Other nuts.	50%	25%
08.06.010	Apples.	50%	25%
08.06.020	Pears and quinces.	50%	25%
08.07.000	Stone fruit, fresh.	50%	25%
08.08.000	Berries, fresh.	50%	25%
08.09.000	Other fruit, fresh.	50%	25%

PART II

TAXATION PROPOSALS

This part of the Financial Statement summarises taxation proposals set out in the Finance Bill, 1978, and the Customs and Excise Bill, 1978.

A. CUSTOMS TARIFF

(a) The following changes will be made in import duties with effect from 16th June, 1978 -

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
04.02.033	Human milk substitutes in powder or granules.	20%	25%
07.01.010	Potatoes, fresh (not including sweet potatoes).	50%	25%
07.01.020	Tomatoes, fresh.	50%	25%
07.01.031	Onions, fresh.	50%	25%
07.01.032	Garlic, fresh.	50%	25%
07.01.039	Other, fresh.	50%	25%
07.01.040	Other, chilled.	50%	25%
07.02.000	Vegetables (whether or not cooked), preserved by freezing.	50%	25%
07.03.000	Vegetables provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption.	50%	25%
07.04.000	Dried, dehydrated or evaporated vegetables, whole, cut, sliced, broken or in powder, but not further prepared.	50%	25%

NEW TAXATION PROPOSALS

Mr. Speaker, I am still left with a budget gap of K£53 million. The remaining part of my speech will be concerned with how I propose to close that gap. As usual, I ask that this part shall be regarded as being notice of a motion to be moved before the Committee of Ways and Means.

CUSTOMS AND EXCISE

Last year, when I introduced the Customs and Excise Department Bill to provide a legal framework for the establishment of Kenya's own Customs and Excise Department, I advised the House that it was my intention to publish a Customs and Excise Bill to replace East African Customs legislation.

A new Customs and Excise Bill is published today. It has taken longer than I had envisaged to prepare but the new Bill goes much further than had been our original intention. The new Bill brings together and codifies all existing customs and excise legislation. It aims to replace ten separate Acts: six Acts within the Laws of Kenya and four Acts within the laws of the East African Community.

But the new Bill not only aims to codify all existing Customs and Excise laws, it also aims to up-date the law and introduce improvements where these are felt to be appropriate. In particular, it aims to tighten up customs procedures, so as to prevent the abuse that we know has crept into the system in the last few years.

The new Customs and Excise Bill will apply the customs tariff equally to all countries - including Tanzania and Uganda. The free trade area and customs union of the East African Community has broken down completely and we have to accept that reality.

The new Bill does, however, contain a section - 118 - which will allow Kenya to enter into agreements with any other country for the mutual relief of import duty. We are prepared to talk to other countries on a bilateral or multilateral basis, including Tanzania and Uganda, about such agreements.

In addition, the Bill introduces a new customs list designed to provide a much more detailed trade classification than has been available hitherto. Since trade statistics will in future be based on the new classification, investors, market developers, trade planners and the commercial world generally will be able to obtain much more detail on Kenya's external trade than has been possible up till now. The new tariff and statistical code numbers should be brought into use by importers and exporters immediately.

IMPORT DUTIES

Generally, the rates of import duty provided in the First Schedule of the new Customs and Excise Bill are the same as under existing legislation. I have, however, taken the opportunity to introduce a number of changes, so as to push ahead further with the programme of tariff reforms I have followed over the last few years.

Since it would be difficult for Hon. Members to identify the proposed changes in import duties within the mammoth new customs schedule, I have set them out separately in the Financial Statement and these will be available to Hon. Members at the end of my speech. I do not, therefore, intend to read out all the changes individually.

However, this year I have reduced the rates of duty on many more items than I have increased. Rates of duty on many food items are lowered from 50 per cent to 25 per cent. Amongst this list will be found vegetables, fruit and nuts, fruit juices, sauces, extracts and jellies.

Duties on soaps, candles, film rolls, polishes and creams are reduced to 30 per cent.

There are a number of pharmaceutical items - penicillin, antibiotics, etc., for which duty is removed altogether.

There are also raw material items where duty is reduced to 20 per cent; and a number of other items where varying rates of duty on similar types of machinery or components have been centralized on 20 per cent - some items up, some down. Amongst the latter can be found iron and steel rods, electric motors, television and radio parts for assembly.

The rate of duty on domestic sewing machines is reduced to 20 per cent; on typewriters, calculating machines, accounting machines, cash registers and duplicating machines to 30 per cent. Duty on computer tapes is reduced from 40 per cent to 20 per cent.

All these reductions of course have to be paid for. There are a few increases in duty, specifically designed to raise revenue.

Firstly, I propose to set up a higher rate of import duty, 85 per cent, for wine imported in bottle. I am leaving bulk wines at the existing rate of 75 per cent, so there will be a duty advantage to Kenya Wine Agencies and wine consumers to purchase wines bottled and packed locally.

Secondly, the import duty on spirits - whisky, brandy, etc. - will be increased by Sh.5/- per proof litre.

Thirdly, the duty on imported cigarettes will be increased by Sh.100/- per kilogramme, with increases also in cigars and pipe tobacco. For reasons I shall explain in a moment, these increases in tobacco duties will not be as heavy as they may seem at first.

Taking all the changes in import duties into account, including the charging of duty on goods imported from Tanzania and Uganda and the payment of export compensation on eligible goods exported to those countries, I expect the revenue to be increased by approximately K£0.4 million more than it would have achieved anyway.

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
08.10.000	Fruit (whether or not cooked), preserved by freezing, not containing added sugar.	50%	25%
08.11.000	Fruit provisionally preserved (for example, by sulphur dioxide gas, in brine, in sulphur water or in other preservative solutions), but unsuitable in that state for immediate consumption.	50%	25%
08.12.000	Fruit, dried, other than that falling within Heading Nos.08.01, 08.02, 08.03, 08.04 or 08.05.	50%	25%
08.13.000	Peel of melons and citrus fruit, fresh, frozen, dried, or provisionally preserved in brine, in sulphur water or in other preservative solutions.	50%	25%
12.08.000	Locust beans, fresh or dried whether or not kibbled or ground, but not further prepared; fruit kernels and other vegetable products of a kind used primarily for human food, not falling within any other heading.	40%	20%
15.01.000	Lard, other pig fat and poultry fat, rendered or solvent-extracted.	30%	20%
15.02.019	Other fats.	30%	20%
15.12.000	Animal or vegetable oils and fats, wholly or partly hydrogenated, or solidified or hardened by any other process, whether or not refined, but not further prepared.	30%	20%
16.03.001	Meat extracts and meat juice.	50%	25%
16.03.009	Fish extracts.	50%	25%
16.04.000	Prepared or preserved fish including caviar and caviar substitutes.	50%	25%
16.05.000	Crustaceans and molluscs, prepared or preserved.	50%	25%
18.01.000	Cocoa beans, whole or broken, raw or roasted.	30%	20%
18.02.000	Cocoa shells, husks, skins and waste.	30%	20%
18.03.000	Cocoa paste (in bulk or in block), whether or not defatted.	30%	20%
18.04.000	Cocoa butter (fat or oil).	30%	20%

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
18.05.000	Cocoa powder, unsweetened.	30%	20%
18.06.001	Chocolate confectionery.	60%	50%
18.06.002	Chocolate powder, sweetened cocoa powder, chocolate spread and chocolate couvertures.	60%	50%
18.06.009	Other preparations containing cocoa.	60%	50%
19.02.009	Other preparations of flour, meal, starch or malt extract.	40%	25%
19.06.000	Communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products.	30%	25%
20.01.000	Vegetables and fruit, prepared or preserved by vinegar or acetic acid, with or without sugar, whether or not containing salt, spices or mustard.	50%	25%
20.02.009	Other vegetables prepared or preserved by vinegar or acetic acid.	50%	25%
20.03.000	Fruit preserved by freezing, containing added sugar.	50%	25%
20.04.000	Fruit, fruit-peel and parts of plants, preserved by sugar (drained, glace or crystallised).	50%	25%
20.05.009	Fruit jellies, fruit puree and fruit pastes.	50%	25%
20.06.010	Nuts, roasted, including roasted ground nuts.	50%	25%
20.06.021	Pineapple, tinned.	50%	25%
20.06.022	Other fruit.	50%	25%
20.07.010	Orange juice.	50%	25%
20.07.020	Grape fruit juice.	50%	25%
20.07.030	Juice of any other citrus fruit.	50%	25%
20.07.040	Pineapple juice.	50%	25%
20.07.050	Tomato juice.	50%	25%
20.07.061	Passion fruit juice.	50%	25%
20.07.069	Juice of any other fruit or vegetable.	50%	25%
20.07.070	Mixtures of fruit or vegetable juices.	50%	25%
21.01.000	Roasted chicory and other roasted coffee substitutes; extracts, essences and concentrates thereof.	50%	25%

EXCISE

Over and above the changes in import duties, I propose to make two changes in the rates of excise.

Firstly, in order to simplify tobacco taxation, I propose to amalgamate the present sales tax and excise on cigarettes and tobacco into a single excise duty. The new single rate of excise will be a little higher than the present rate of excise and sales tax taken together; so that the price of a packet of Sportsman or Embassy will rise by 50 cents allowing for a small increase to the manufacturer. More expensive brands such as "555" will increase in price by Sh.1/- per packet, while the cheapest brands will increase by 25 cents per packet.

Secondly, the rate of excise on locally manufactured spirits - such as gin and vodka - will be increased by Sh.2/50 per proof litre.

Taken together, but without taking into account the abolition of sales tax on cigarettes, the increases in excise will bring an additional K£6.4 million to the Exchequer.

SALES TAX

I propose that there should also be increases in sales tax, particularly those items that bring in the most revenue.

The rate of sales tax on petrol and diesel oil will increase by 10 cents per litre. Taking into account some allowance for higher costs of processing and moving oil, the cost of these fuels in Mombasa will rise by 13 cents, and in Nairobi by 14 cents per litre.

The specific rate of sales tax on lubricating oils and greases will also increase by a few cents.

Once again, I am afraid, I have to look to beer. Beer prices in Kenya are cheaper than most other parts of the world and consumption continues to rise rapidly. The Exchequer must maintain its share of the total retail price, and allowing for a small increase to Kenya Breweries, a bottle of Tusker or White Cap will be 40 cents more expensive from tomorrow.

I have not increased the taxation of motor cars for a couple of years and the demand for vehicles is greater than can be met from the present foreign exchange allocation. I, therefore, propose to raise the rate of sales tax on passenger vehicles, other than the larger buses, from 15 per cent to 20 per cent. Since this is an ad valorem rate of tax, the increase in car prices will vary from model to model. The cheapest cars will incur the lowest increases in price.

I have already mentioned the small increase in rates of import duty and excise on wines and spirits. There will, in addition, be an increase in the rate of sales tax on wines and spirits from 15 per cent to 20 per cent.

The effect of these combined increases will be that the price of a bottle of imported whisky will rise by about Sh.8/—, or a little bit more allowing for higher import costs that have not yet been passed on in the price. Locally manufactured spirits will probably go up by about Sh.5/—, while wines will go up depending on the quality of the wine and whether it is imported in bottle or in bulk.

I have already mentioned the abolition of the sales tax on cigarettes and tobacco and the consolidation of the tax with the excise. In addition, I propose to continue with the procedure I have followed over the last two years of exempting raw materials from sales tax where these do not enter directly into consumption. There is a list of such manufacturers' raw materials set out in the Financial Statement, including crude vegetable oils and bottle stoppers.

In addition, I propose to exempt from sales tax completely a larger number of small manufacturers. At the moment, any manufacturer whose turnover does not exceed K£5,000 per year is not required to deduct and pay sales tax. I propose to raise that limit to K£10,000 which will have the effect of removing some 500 small manufacturers from the scope of the sales tax altogether. This will, I hope, be a boost to small industry in this country and since the collection costs of sales tax from small firms is relatively high, I do not expect any significant loss of revenue.

Overall, the changes I have proposed today in the sales tax will bring an additional K£7.3 million to the revenue in a full year.

INCOME TAX

I now turn to the income tax. There are a few technical changes contained in the Finance Bill which are consequential on the collapse of the East African Community. Amongst these is the new definition of income for tax purposes which, with effect from year of income 1978, will be restricted to income arising in Kenya and not to income arising in the partner states as a whole.

In addition, the opportunity has been taken to extend the definition of Kenya for income tax purposes to the continental shelf, since there is some possibility of resource development offshore of Kenya in the years ahead, and we should make it clear now that Kenya proposes to exercise tax jurisdiction over the continental shelf in that event.

Secondly, I am now convinced that the system of tax clearance certificates introduced some years ago has served its purpose. The cost of administering the present scheme outweighs any revenue benefits. Accordingly, the requirement that all residents travelling overseas should obtain a tax clearance certificate is abolished with immediate effect. I am sure that this move will be appreciated by the travelling public.

I propose, however, to reserve one safeguard for the revenue. When an individual applies to Exchange Control for emigration treatment, he will be required to show that he has cleared off any income tax liability before Exchange Control permission will be granted for an emigration allowance.

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
21.02.010	Extracts, essences or concentrates of coffee and preparations with a basis of those extracts, essences or concentrates.	50%	25%
21.02.020	Extracts, essences, or concentrates of tea or maté and preparations with a basis of those extracts, essences or concentrates.	50%	25%
21.03.000	Mustard flour and prepared mustard.	50%	25%
21.04.000	Sauces, mixed condiments and mixed seasonings.	50%	25%
21.05.010	Soups and broths, in liquid, solid or powder form.	50%	25%
21.05.020	Homogenised composite food preparations.	50%	25%
21.06.001	Bakers' and household yeasts.	30%	25%
21.06.002	Prepared baking powders.	30%	25%
21.06.009	Other.	20%	25%
21.07.001	Milk foods specially prepared for infants.	20%	25%
21.07.002	Saccharin tablets consisting of saccharin in an excipient.	40%	25%
21.07.009	Other food preparations, not elsewhere specified.	40%	25%
22.05.001	Still wine, not in bottle.	Sh.3/50 per litre or 75%	75%
22.05.002	Still wines, in bottle.	Sh.5/- per litre or 75%	85%
22.05.003	Champagne.	Sh.8/- per litre or 75%	85%
22.05.004	Sparkling wines, other.	Sh.5/50 per litre or 75%	85%
22.05.005	Grape must.	Sh.3/50 per litre or 75%	75%
22.06.001	Vermouths, not in bottle.	Sh.3/50 per litre or 75%	75%
22.06.002	Vermouths; in bottle	Sh.5/- per litre or 75%	85%

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
22.09.010	Whisky.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.021	Brandy.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.029	Other spirits obtained by distilling wine or grape marc.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.031	Gin and geneva.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.032	Vodka.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.033	Rum.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.034	Liqueurs and other spirituous beverages (concentrated extracts).	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.09.039	Other spirits.	Per proof litre Sh.60/-	Per proof litre Sh.65/-
22.10.000	Vinegar and substitutes for vinegar.	40%	25%
24.02.010	Cigars and cheroots; cigarillos.	Per kg. Sh.200/-	Per kg. Sh.360/-
24.02.020	Cigarettes.	Per kg. Sh.180/-	Per kg. Sh.280/-
24.02.031	Snuff.	Per kg. Sh.30/-	Per kg. Sh.50/-
24.02.032	Other manufactured tobacco.	Per kg. Sh.180/-	Per kg. Sh.280/-
28.30.001	Copper oxychloride.	20%	Free
29.44.000	Antibiotics.	10%	Free
29.44.010	Penicillins and their derivatives.	10%	Free
29.44.020	Streptomycins and their derivatives.	10%	Free
29.44.030	Tetracyclines and their derivatives.	10%	Free
29.44.040	Other antibiotics.	10%	Free

Thirdly, I propose to close a tax loophole under which shareholders of private companies have avoided tax under section 24 by converting themselves into public companies. Section 24 deems dividends to have been paid to the shareholders even though they may not be declared. That provision will now apply to public companies as well as private companies. No genuine company that retains profits for development need be concerned by this amendment. It is simply an anti-avoidance measure.

Fourthly, I am convinced that farm employees who are required to live on a farm under the terms of their employment are taxed unfairly when they are charged for the value of their house at 15 per cent of their emoluments. I propose, therefore to reduce the housing charge for agricultural employees to 10 per cent of emoluments.

Fifthly, the allowance for tax free fringe benefits has remained unchanged at Sh.1,000/- per year for many years. In the light of inflation, I propose to raise this amount to Sh.2,400/- per year which will allow works canteen lunches and similar minor fringe benefits to be free of tax.

I explained to the House last year that I was concerned at the amount of tax evasion in Kenya and that this was having the effect of reducing the revenue received by the Exchequer. Increased efforts by the tax department in the last year have significantly reduced the impact of evasion and income tax receipts have been much closer to the total that should be collected.

Revenue is, however, still affected by taxpayers delaying their tax payments beyond the date they are due and my sixth income tax measure today is to increase the penalty for late payment of tax from five per cent to ten per cent of the tax due.

This will not affect any law abiding taxpayer who pays on time but anyone who is late in his payments will suffer a heavier penalty than previously with effect from next year.

My next income tax proposal is also concerned with tax avoidance. It has been possible under the existing Act for the taxpayer to run a business at a loss and to deduct that loss from other taxable income, so that he ends up by paying little or no tax, although it is obvious to all that he enjoys a very high standard of living.

With effect from 1979, that will no longer be possible. Losses of business income will only be allowed for set off against profits of that type of business and not against other income. Business losses can still be carried forward but not set off against employment income, rents, etc. This is, I think, an important improvement in our tax legislation.

My last change for this year affects the income tax chargeable on capital gains. There has been some technical difficulty over the working of the section of the Act that limits the rate of tax chargeable on this type of income. I, therefore, propose to drop that section - 34A - and to simplify the system by charging to tax only one-half of the gain realised by an individual on the sale of property. This will have the effect of reducing the impact of tax on capital gains for everyone, not just those paying tax at the top rates. I am making this change retroactive to year of income 1978.

Finally, Mr. Speaker, I propose no changes in rates of income tax for 1979. The rates I announced last year to take effect in 1978 will

continue in force for 1979.

And so Mr. Speaker, these are my taxation proposals for the coming year. In total, I expect to increase taxation by approximately K£14 million, and thus reduce the Budget gap to about K£40 million. This is still a higher gap than I would like to see but we are working with forecasts of national income even more uncertain than usual.

If coffee production is not as bad as we now fear, if the recovery of coffee prices in the last couple of weeks is something more than temporary or if exports of non-traditional products can be expanded at a faster rate, the Budget deficit could be smaller than now seems likely.

In some ways, this year's Budget is highly technical with the emphasis being on the reform of tax and financial legislation rather than the introduction of substantial new tax measures. Provided the House approves the measures I propose, some 37 separate pieces of legislation will be removed from the statute book and replaced by legislation that will be more easily understood by Hon. Members of this House and the general public.

Although we shall still no doubt make changes in our taxing Acts from time to time, the main thrust of our tax reform programme has been completed with the implementation of Kenya legislation for income tax, sales tax and now customs and excise.

Our economy has recovered well from the strains of 1974-76. It is now stronger than it was then. As I explained, however, the forecast is for new difficulties ahead in 1979. I believe we are now better placed to face those difficulties and I am confident that we can face them without undue hardship.

At the end of this year, we shall publish our fourth Development Plan to map our path for the next five years. My Budget is designed to prepare the way for the new Plan.

Mr. Speaker, I beg to move.

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
32.10.000	Artists', students' and signboard painters' colours, modifying tints, amusement colours, and the like, in tablets, tubes, jars, bottles, pans or in similar forms or packings, including such colours in sets or outfits, with or without brushes, palettes or other accessories.	37½%	30%
34.01.001	Soap, toilet and medicinal.	40%	30%
34.01.002	Soap, other.	40%	30%
34.01.009	Organic surface-active products, surface-active preparations and washing preparations, whether or not containing soap, not elsewhere specified.	40%	30%
34.03.002	Greases.	Per kg. cents 44	20%
34.03.009	Other non-petroleum lubricants.	33⅓%	20%
34.05.001	Scouring powder.	33⅓%	30%
34.05.009	Polishes and creams, etc.	33⅓%	30%
34.06.000	Candles, tapers, night-lights and the like.	33⅓%	30%
37.02.000	Film in rolls, sensitised, unexposed, perforated.	40%	30%
39.07.018	Empty gelatine capsules for pharmaceutical use.	20%	Free
58.04.010	Woven pile fabrics and chenille fabrics of wool or fine animal hair.	Per square metre Sh.4/- or 60%	45%
58.04.020	Woven pile fabrics and chenille fabrics of cotton.	Per square metre Sh.4/- or 60%	45%
58.04.030	Woven pile fabrics and chenille fabrics of man-made fibres, synthetic.	Per square metre Sh.4/- or 60%	45%
58.04.040	Woven pile fabrics and chenille fabrics of man-made fibres, regenerated.	Per square metre Sh.4/- or 60%	45%
58.04.050	Other woven pile fabrics and chenille fabrics.	Per square metre Sh.4/- or 60%	45%
65.06.000	Other headgear, whether or not lined or trimmed.	Each Sh.2/- or 40%	40%

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
68.14.000	Friction material (segments, discs, washers, strips, sheets, plates, rolls and the like) of a kind suitable for brakes, for clutches or the like, with a basis of asbestos, other mineral substances or of cellulose, whether or not combined with textile or other materials.	30%	20%
73.10.011	Wire rod of iron or steel other than of high carbon or alloy steel, round or square, of a diameter or square cross section of 6 mm or more.	30%	20%
73.10.019	Other wire rod of iron or steel, other than of high carbon or alloy steel.	10%	20%
73.10.021	Bars and rods (excluding wire rod), not further worked than hot-rolled or extruded, of iron or steel, other than of high carbon or alloy steel, round or square, of a diameter or square cross section of 6 mm or more.	30%	20%
73.10.029	Bars and rods (excluding wire rod), not further worked than hot-rolled or extruded, of iron or steel, other than of high carbon, of other dimension.	10%	20%
73.10.031	Bars and rods, forged, cold-formed or cold-finished (including precision made), of iron or steel, other than of high carbon or alloy steel, round or square, of diameter or square cross section of 6 mm or more.	30%	20%
73.12.009	Other, (other than of high carbon and alloy steel).	10%	20%
73.14.000	Iron or steel wire, whether or not coated, but not insulated.	10%	20%
84.25.010	Lawn mowers.	Free	20%
84.41.011	Sewing machines, industrial.	30%	20%
84.41.019	Sewing machines, other.	30%	20%
84.41.020	Sewing machine needles; furniture specially designed for sewing machines; parts of the goods of Tariff No. 84.41.011 and Tariff No. 84.41.019.	30%	20%

<u>Tariff No.</u>	<u>Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
84.51.010	Typewriters with ordinary characters, electric.	40%	30%
84.51.020	Typewriters with ordinary characters, non-electric.	40%	30%
84.52.010	Calculating machines (including electronic desk calculators).	40%	30%
84.52.020	Accounting machines (including book-keeping machines).	40%	30%
84.52.030	Cash registers.	40%	30%
84.52.040	Postage-franking, ticket issuing and similar machines.	40%	30%
84.54.010	Duplicating machines.	40%	30%
84.54.020	Other machines.	40%	30%
84.55.010	Parts and accessories of the typewriters of Tariff Nos. 84.51.010, 84.51.020 and 84.51.030.	40%	30%
84.55.020	Parts and accessories of the machines of Heading Nos. 84.52 and 84.53.	40%	30%
84.64.001	For road motor vehicles.	30%	25%
85.01.011	D.C. motors and generators.	10%	20%
85.01.021	Other motors, including universal (A.C./D.C.) motors.	10%	20%
85.01.031	A.C. generators.	10%	20%
85.01.041	Generating sets with internal combustion piston engines.	10%	20%
85.01.051	Rotary converters.	10%	20%
85.01.061	Parts of electric motors, etc.	10%	20%
85.01.070	Liquid dielectric transformers.	10%	20%
85.01.080	Other transformers and parts.	30%	20%
85.01.090	Static converters, rectifiers and rectifying apparatus.	10%	20%
85.01.100	Inductors.	10%	20%
85.01.110	Parts of the goods of Tariff Nos. 85.01.070 to 85.01.100.	10%	20%
85.18.001	Industrial or for scientific use.	10%	20%
85.18.002	For use in radio and television receiving set or for radiogram.	37½%	20%
85.18.009	Other electrical capacitors.	30%	20%

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
85.21.010	Cathode-ray television picture tubes.	37½%	20%
85.21.021	Other electronic valves and tubes (including television camera tubes) for industrial use.	10%	20%
85.21.022	Other electronic valves and tubes (including television camera tubes) for radio, television receiving set or for radiogram use.	37½%	20%
85.21.029	Other electronic valves and tubes (including television camera tubes).	30%	20%
85.21.031	Diodes, transistors and similar semiconductor devices; photo-cells (including photodiodes and photo-transistors) for industrial use.	10%	20%
85.21.032	Diodes, transistors and similar semiconductor devices, photo-cells (including photodiodes and photo-transistors) for radio, television receiving set or for radiogram use.	37½%	20%
85.21.039	Other diodes transistors and semiconductor devices; (photo-cells (including photodiodes and photo-transistors).	30%	20%
85.21.049	Other electronic micro-circuits.	30%	20%
85.21.030	Piezo-electric crystals, mounted.	30%	20%
85.21.061	Parts suitable for use as parts of radio or television receiving sets or radiograms.	37½%	20%
85.21.069	Parts, other.	30%	20%
87.04.001	Chassis for tractors (heading No.87.01).	At the rate	Free
87.04.002	Chasis for motor vehicles of heading No. 87.02.	applicable to the	25%
87.04.003	Chassis for motor vehicles of heading No. 87.03.	highest rated vehicle for which suitable	25%
87.05.001	Bodies for motor vehicles of heading No. 87.01.	At the rate applicable to the	Free
87.05.002	Bodies for motor vehicles of heading No. 87.02.	highest rated vehicle for which suitable	25%
87.05.003	Bodies for motor vehicles of heading No. 87.03.	highest rated vehicle for which suitable	25%

<u>Tariff No.</u>	<u>Tariff Description</u>	<u>Import Duty Now</u>	<u>Proposed Duty</u>
87.14.029	Other trailers and semi-trailers designed for use with motive units such as articulated vehicles.	At the rate applicable to the highest rated vehicle for which suitable.	25%
90.29.000	Parts or accessories suitable for use solely or principally with one or more of the articles falling within heading Nos. 90.23, 90.24, 90.26, 90.27 or 90.28.	The rate of import duty applicable to the articles of which the goods are part or accessories	25%
92.12.025	Computer tapes.	40%	20%

(b) Import duty will be chargeable on imports from Tanzania and Uganda.

Taken together, the changes in import duties will earn an additional K£1.7 million of revenue.

B. EXCISE TARIFF

The following changes in the excise will be effective from 16th June, 1978 :-

(a) Spirits

The rate of excise of spirits will be increased by Sh.2/50 per proof litre.

(b) Cigarettes and Tobacco

The sales tax and excise on cigarettes and tobacco will be combined in a single excise at a rate which will represent an effective increase of tax of 10 per cent of the ex-factory price.

Taking into account the absorption of the sales tax on cigarettes and tobacco, the changes in the rates of excise will bring an additional K£6.40 million to the Exchequer.

C. SALES TAX

The following changes in the sales tax will be effective from 16th June, 1978:--

(a) Petrol and Diesel Fuel

The rate of tax on petrol and diesel fuel (gas oil) will be raised by 10 cents per litre.

(b) Lubricating Oils and Greases

The rate of tax on lubricating oils and greases will be increased from 40 cents per litre and 70 cents per kg. to 45 cents per litre and 80 cents per kg. respectively.

(c) Beer

The rate of tax on malt beer will be raised by 48 cents per litre, while that on beer not made from malt will be raised from 25% to 30%.

(d) Cars

The rate of sales tax on cars will be raised from 15% to 20%.

(e) Wines and Spirits

The rate of tax will be raised from 15% to 20%.

(f) Cigarettes and Tobacco

The sales tax on cigarettes and tobacco will be abolished and combined with the excise as above.

(g) Sales Tax Exemptions

- (i) The following raw materials will be exempted from sales tax:--

15.01.000	Lard and other animal fats.
15.07.011	Soya bean oil, crude.
15.07.021	Cotton seed oil, crude.
15.07.031	Ground-nut oil, crude.
15.07.041	Olive oil, crude.
15.07.051	Sunflower seed oil, crude.
15.07.081	Palm oil, crude.
15.07.091	Coconut (copra) oil, crude.
15.07.101	Palm kernel oil, crude.
19.06.000	Communion wafers, empty cachets, sealing wafers, rice paper.
39.07.017	Plastic stoppers, lids and caps.
40.14.001	Stoppers and rings for bottles, discs, washers and joints.
41.10.000	Composition leather.
48.04.000	Composite paper.
48.06.000	Paper and paperboard, ruled, lined or squared.
73.13.053	Uncoated flat sheets of iron or steel.
76.03.005	Wrought aluminium circles of a thickness less than 7 mm.

- (ii) The minimum level of turnover to be achieved before a manufacturer is required to register and charge sales tax will be raised from Sh.100,000/- to Sh.200,000/-.

Taken together, the changes in the sales tax are estimated to bring an additional K£7.3 million to the Exchequer.

D. INCOME TAX

The following changes in the income tax will be effective from year of income 1978:-

(a) Definition of Income

The definition of income will be amended, so that tax will be chargeable only on income arising in Kenya and not on income arising in "the Partner States".

The definition of Kenya will be extended to include the continental shelf.

(b) Capital Gains

Income arising from the capital gains of an individual will be assessed at 50% of the gain but all such income will then be aggregated with other income and assessed at the individual's full marginal rates of tax.

(c) Tax Clearance Certificates

The present requirement that a tax clearance certificate must be obtained before travelling abroad will be abolished but individuals will be required to obtain an "Exchange Control Income Tax Certificate" before an application from an individual will be accepted by Exchange Control for emigration treatment.

(d) Dividend Distributions

Section 24 relating to the under-distribution of dividends to avoid tax will be extended to public companies as well as private companies.

The following changes in the income tax will be effective from year of income 1979:-

(e) Value of Housing

The value of housing provided to agricultural employees required to live on farms will be deemed to be 10 per cent of earnings from employment, rather than 15 per cent as hitherto.

(f) Losses

Losses arising from different specific categories of income will only be allowable as a deduction against profits of that category of income and not against income as a whole.

(g) Penalties for Late Payments

The penalty for late payments of tax will be raised from 5 per cent of tax due to 10 per cent of tax due.

(h) Tax Free Fringe Benefits

The value of fringe benefits which the Commissioner may allow without charging to tax will be raised from Sh.1,000/- to Sh.2,400/- per year.

PART III

FORECAST BUDGET OUT-TURN 1978/79

It is forecast that the out-turn of the Exchequer for the year 1978/79 will be as follows:-

	<u>K£m</u>	<u>K£m</u>
<u>A. RECURRENT ACCOUNT</u>		
1. Balance as at 30th June, 1978		Nil
2. Estimated Receipts 1978/79		
(i) Ordinary Revenue	504.85	
(ii) Appropriations in Aid*	<u>37.40</u>	+542.25
3. Estimated Issues 1978/79		
(i) Estimated Net Expenditure of Ministries	339.00	
(ii) Appropriations in Aid (as above)	37.40	
(iii) Consolidated Fund Services	75.15	
(iv) Excess Votes 1975/76	<u>7.30</u>	-458.85
4. Transfer to Development Account		<u>- 83.40</u>
5. Balance as at 30th June, 1979		<u>Nil</u>

It is not possible to estimate accurately the effect on the revenue of the proposed changes, but any loss of revenue arising from (a), (b), (c), (e) and (h) above should be at least offset by the gains to revenue from (d), (f) and (g).

E. EXPORT COMPENSATION

Export Compensation will be extended to eligible goods exported to Uganda and Tanzania.

It is estimated that this change will reduce net receipts of customs and excise by K£1.5 million.

F. OVERALL INCREASE IN TAXATION

The overall effect on the revenue in 1978/79 of the tax changes announced in the Budget will be as follows:-

	<u>K£ million</u>
A. Import Duties	+ 1.9
B. Excise Duties	+ 6.4
C. Sales Tax	+ 7.3
D. Income Tax	-
E. Export Compensation	<u>- 1.5</u>
Total	<u><u>+14.1</u></u>

B. DEVELOPMENT ACCOUNT

	<u>K£m</u>	<u>K£m</u>	<u>K£m</u>	<u>K£m</u>
1. Balance as at 30th June, 1978				Dr. 70.02
2. Estimated Receipts, 1978/79				
(a) External Grants and Loans				
(i) Cash Grants	18.95			
(ii) Cash Loans	37.81			
(iii) Purchases under aid:				
(a) Grants	1.69			
(b) Concessionary Loans	<u>10.58</u>	12.27		
(iv) Commercial Credit		<u>20.20</u>	89.23	
3. Local Sources				
(i) Long term stock issues	42.56			
(ii) Transfer from Recurrent Account	83.40			
(iii) Misc. Revenues	<u>1.49</u>	<u>127.45</u>		+ 216.69
4. Estimated Issues 1978/79				
(i) Estimated Net Expenditure	224.03			
(ii) Appropriations in Aid*	33.97			
(iii) Excess Votes 1975/76	<u>4.00</u>			<u>- 262.00</u>
5. Balance as at 30th June, 1979				<u>Dr. 115.34</u>

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

C. SURPLUS/DEFICIT 1978/79

	<u>K£m</u>
(i) <u>Recurrent Account</u>	
Recurrent Revenue	+542.25
Recurrent Expenditure	<u>-458.85</u>
Recurrent Surplus	<u>+ 83.40</u>
(ii) <u>Development Account</u>	
Development Revenue*	+133.28
Development Expenditure	<u>-262.00</u>
Development Deficit	<u>-128.72</u>
*Excluding transfer of Recurrent Surplus	
(iii) <u>Overall Deficit</u>	
Recurrent Surplus	+ 83.40
Development Deficit	<u>-128.72</u>
Overall Deficit	<u>- 45.32</u>

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

Increase in Treasury Bill Issue	+ 30.00
Cereals & Sugar Finance Corporation Deposits	+ 3.00
Tax Reserve Certificates	+ 1.00
Change in Exchequer Cash (increase = (-))	<u>+ 11.32</u>
Finance for Deficit	<u>+ 45.32</u>

E. OUTSTANDING SHORT-TERM BORROWING

It is estimated that the balance of short-term funds as at 30th June, 1979, will be:-

(i) Treasury Bills	92.20
(ii) Tax Reserve Certificate	6.84
(iii) Cereals & Sugar Finance Corporation	<u>17.90</u>
Total	<u>116.94</u>

PART IV

FINANCING OF ACTUAL EXPENDITURE

The financing of the Budget, outlined in Part I and Part III, relates to the cash deficit in the Exchequer Account. An alternative way of considering the Government deficit is to compare the resources taken out of the economy by taxes, etc., in the year, with the resources put into the economy through Government expenditure but ignoring cash transactions between different Government accounts and showing borrowings net of repayments. Considered this way, the deficit in 1977/78 and 1978/79 can be compared as follows:-

	K£ million		% Change
	1977/78	1978/79	
Current Expenditure	418.3	429.9	+ 2.8
Development Expenditure	185.0	258.0	+ 39.5
Total Expenditure	603.3	687.9	+ 14.0
Current Revenue	471.0	530.6	+ 12.7
Foreign Grants	11.0	20.6	+ 87.3
Deficit to Finance	121.3	136.6	+ 12.6
Financed by:-			
1. Non-Banks			
External Concessionary Loans (Net)	30.3	40.9	+ 35.0
External Commercial Borrowing (Net)	44.8	23.2	- 48.2
Domestic Borrowing (Non-Banks) (Net)	37.4	33.5	- 10.4
Total Non-Bank Borrowing (Net)	112.5	97.6	- 14.2
2. Domestic Banking System			
Long term securities	+27.5	+ 5.0	-
C.S.F.C. Deposits	-	+ 3.0	-
Treasury Bills	-12.8	+30.0	-
Cash Balances (-) (increases)	- 6.0	+ 1.0	-
Total Bank Borrowing (Net)	+ 8.8	+39.0	-

F. OVERALL EXCHEQUER SUMMARY

It is forecast that the overall Exchequer balance as at 30th June, 1979, will be:-

	<u>K£ million</u>
Recurrent Exchequer	Nil
Development Exchequer	-115.34
Treasury Bills	+ 92.20
Tax Reserve Certificates	+ 6.84
Cereals & Sugar Finance Corporation	<u>+ 17.90</u>
Exchequer Cash Balance	<u>+ 1.60</u>

This cash balance can be compared with the estimated cash balance as at 30th June, 1978, of K£12.92 million.