Growing tomorrow's economy
East Africa highlights

National Budget 2012/2013

East Africa economies at a glance

Kenya

Decline in GDP attributed to unfavourable weather conditions and inflationary pressure.

GDP grew by 4.4% compared to 5.8% in 2011. This low growth was attributed to unfavourable weather conditions in some parts of the country as well as the inflationary pressures associated with the instability in the foreign exchange markets experienced during the year.

Most of the key sectors recorded a slower growth in the year compared to 2011. Performance highlights for of some of Kenya's key sectors include:

- Agriculture grew by 1.5% compared to 6.4% in 2011 due to unfavourable weather conditions;
- Manufacturing grew by 3.3% compared to 4.5% in 2011 mainly as a result of increases in prices of primary input and high fuel costs;
- Transport and communication grew by 4.5% compared to 5.9% in 2011 mainly due to the high prices triggered by the weakening of the Kenya Shilling; and
- Tourism recorded a higher growth of 5% in the year compared to 4.2% in 2011.

Focus on growth and more inclusive and equitable development

The economy is projected to grow by 5.2% in 2012/13.

The priority areas highlighted in the 2012/2013 budget include the following:

- Strengthening the financial systems by continuing to implement the legislative and institutional reforms;
- Scaling up of infrastructure investments; and
- Making growth and development more inclusive and equitable across the country.

To achieve these goals, the government intends to continue investing in infrastructure, reform public service to make it more efficient and effective, strengthen financial sector regulations and coordinated supervision and improve law and order to ensure security for all.

The government also plans to improve efficiency at the port and to continue providing an appropriate market environment which will enable the private sector to meet some of the economy's resource requirements.

Decline in regional GDP growth

Focus on growth in the key sectors and stable macroeconomic environment

Tanzania

GDP grew by 6.4% in 2011 compared to 7% in 2010.

The decline in growth was mainly attributed to the following:

- Unfavourable weather conditions which affected the agriculture sector and power generation; and
- Cost of imported raw materials, mostly fuel.

The priority areas for the 2012/13 Budget include:

- Improvement of infrastructure;
- Increased access to financial services; and
- Strengthened public private partnership.

The main macro-economic objectives include:

- 6.8% economic growth in 2012 and 8.5% by 2016;
- 18% increase in domestic revenue collection; and
- Reduction of inflation rate to a single digit.

Uganda

Uganda's GDP grew by 3.2% compared to 6.7% in 2011. This decline was attributed to high global prices of oil and commodity prices and unfavourable weather conditions in parts of the country as well as the wider region.

The country also experienced high inflation rates during the period. This contributed to a 1.8% decline in the manufacturing sector.

The key areas of focus in the 2012/2013 budget include the following:

- Growth in the agriculture, production, and tourism sectors;
- Infrastructure development;
- Education, health and access to water.

Some of the main macro-economic objectives in the current budget are as follows:

- Achieve a GDP growth of 5.4%;
- Reduce the inflation rate to single digit of rate; and
- Promote economic recovery.

Other highlights in the economic outlook of the country include the following:

- Implementation of a National Oil and Gas Policy;
- Development of Petroleum supply, infrastructure and regulation;
- Regulatory reforms to simplify business registration procedures; and
- Establishment of a one stop shop at Uganda Investment Authority.

Rwanda

The GDP growth for 2011 was projected at 8.6 % compared to 7.2% in 2010. This commendable growth is mainly attributed to an 18% growth in the construction, minerals, chemicals and non-metallic minerals sub sectors.

The growth for 2012 is projected at 7.7%.

The resource allocation for the 2012/13 budget will mainly focus on the following policy objectives:

- Infrastructural development;
- Creating off-farm employment;
- Promoting urbanisation; and
- Maximising tourism and mining potentials.

Key highlights from Kenya, Tanzania, Uganda and Rwanda

Key indicators of the performance of the East Africa economies are set out below. Where applicable, prior year comparatives have been included in brackets.

Increased budgeted spend in the region

	Kenya	**Tanzania**	**Uganda**	**Rwanda**
Real GDP growth	4.4% (5.6%)	6.4% (7%)	3.2% (6.7%)	8.6% (7.2%)
12 month overall inflation – May	16.42% (5.96%)	12.7% (5.5%)	18.6% (16%)	8.3% (4.7%)
91 day TB rates – June	9.8% (8.7%)	13.47%(3.77%)	15.7% (7.6%)	7.6% (6.85%)
	KES	*TZS*	*Ush*	*RwF*
Annual average exchange rate to the dollar (Local currency = US$1)	87.90 (79.50)	1,579.5 (1,533)	2,485 (2,323)	609 (600)
Budgeted spend (billions)	1,460 (1,155)	15,120 (13,526)	10,885 (9,732)	1,385.3 (1,061)
Recurring	1,003 (756)	10,592 (8,601)	5,575.5 (5,499)	708 (558)
Development	452 (399)	4,528 (4,925)	5,286.5 (3,940)	677.3 (503)

Customs and Excise

East African Community (EAC)

Common external tariffs geared towards regional integration

Goods imported into the EAC are subject to Common External Tariffs (CET). Some of the proposals made by the member states in respect of these tariffs in 2012/2013 are as follows:

- Removal of import duty on set top boxes, to facilitate migration to digital television signals
- Zero rating of import duty on food supplements and mineral premix used in fortification of food supplements for feeding infants
- Duty remission to producers of nutritious food or products for feeding infants and persons suffering from HIV/AIDS
- Zero rating of import duty on imported software
- Exemption of duty on inputs used in the manufacture of medical diagnostic kits
- Exemption of import duty on beekeeping equipment
- Extension of the stay of application of CET rate of 35% on wheat grain for a period of one year
- Continued application of the CET rate of 25% on cement for a period of one year
- Increase in import duty on galvanized wire from 0% to 10%

Some of other changes that are unique to the respective East Africa Community countries are as follows:

Kenya

- Review of minimum tax payable on imported second hand clothes from 1.9 million KES to 1.1 million KES per 20 ft container.
- Amendment of customs and excise Act to ensure no person enjoys tax exemption by virtue of holding a tax office.

Tanzania

- Abolishment of import duty exemption on all non-utility motor vehicles with capacity of 3000cc and above
- Removal of duty exemption on "deemed capital goods" and application of a rate of 10%
- Abolishment of excise duty on Heavy Furnace Oil
- Introduction of excise duty on music and film products
- Introduction of excise duty on fruit juices – TZS 83 per litre on imported juices
- Excise duty exemption on fuel used for oil and gas exploration
- 25% and 20% increase in excise duty on beer and carbonated drinks respectively
- Increase of excise duty on airtime to 12%
- Increase in excise duty on dumping of motor vehicles older than eight years to 20%

Uganda

- Reduction of import duty on inputs for manufacturers of vacuum packaging bags from 25% to 10% for one year
- Increase of excise duty on spirits made from locally made raw materials from 45% to 60%
- Introduction of a 10% excise duty on cosmetics and perfumes

Rwanda

- Extension of the import duty remission on rice at 35%
- Reduction of import duty on tractors of carrying capacity of 10 tons and above to 10%

- Reduction of import duty on trucks with a carrying capacity of 20 tonnes to 10%
- Reduction of import duty on wheat flour to 35%
- Reduction of import duty on road tractors and semi-trailers to 10%
- Zero rating of import duty on telecommunication equipment
- Zero rating of import duty on electricity and energy

Direct and indirect taxes

Kenya

Personal and withholding tax

- Introduction of a 5% withholding tax on payments made to non resident persons engaged in the business of transmitting messages
- Validity period for tax exemption certificates issued to charities including NGO's and religious organisation has been reduced to three years with the possibility of extension subject to the Minister's approval
- There has been a clarification of the definition of commercial buildings which qualifies for a 25% deduction in the Income Tax Act.

Bold move in the proposed amendments.

- Kenya Revenue Authority will be mapping out all residential and commercial areas with the objective of implementing a strategy to ensure that all landlords pay tax on their rental income.

Value Added Tax (VAT)

- A revised draft VAT bill was tabled for debate by parliament. The bill is aimed at simplifying the VAT rules, increasing efficiency and raising more revenue.

Tanzania

Personal taxes

- Individuals with the only income from business not exceeding TShs 20 million in a year are now exempt from tax on their turnover not exceeding TShs 3 million. New turnover bands have been introduced and tax rates for all bands of turnover above TShs 3 million have been increased.
- The tax free monthly threshold for employees has been increased from TShs 135,000 to TShs 170,000.

Corporate tax

- Capital gains on the sale of shares relating to a Tanzanian company by its parent or offshore holding company will be subject to tax.
- Dar es Salaam Stock Exchange (DSE) to be exempt from income tax
- Holders of gaming licences will be exempt from income tax on their income from which they pay tax under the Gaming Act.

Withholding taxes

- Exemption of withholding tax on interest earned by non residents has been removed
- Interest paid by 'strategic investors' to foreign banks will be exempt from withholding tax
- Exemption from withholding tax on dividends between resident corporations has been abolished and 5% withholding tax applies.

Value Added Tax (VAT)

A new VAT rate of 10% has been introduced and will apply to some selected VAT relieved beneficiaries.

The following new VAT exemptions have also been introduced:

- Electronic Fiscal Devices
- Various equipment used for the storage, transportation, and distribution of natural gas.

Uganda

Income Tax

- Withholding tax on income derived from Treasury Bills and Bonds has been increased from 15% to 20%
- Pay As You Earn (PAYE) threshold has been increase from UShs 130,000 to UShs 235,000 per month and all tax bands adjusted accordingly
- There will be an additional 10% income tax on individuals with

chargeable income of UShs 120 million and above.

Value Added Tax (VAT)

- VAT on the supply of water increased to 18%
- VAT on the supply of bio-degradable packaging materials has been reinstated
- VAT exemption on gambling has been reinstated while the Gaming and Pool Betting Tax has been increased from 15% to 20%.

Rwanda

Bold move in the proposed amendments.

Income Tax
A new tax regime for SMEs in the form of a flat tax rate has been introduced. The new SME tax regime groups SMEs in two categories with the following tax rates;

1. SMEs with turnover of RWF 12 million to RWF 50 million will now pay a flat tax rate of 3% instead of 4%;

2. Micro enterprises with turnover of RWF 12 million or less are now grouped into four bands with tax amounts payable as follows:

    - From 10 million to 12 million will pay RWF 300,000;
    - From 7 million to 10 million will pay RWF 210,000;
    - From 4 million to 7 million will pay RWF 120,000
    - From 2 million to 4 million will pay RWF 60,000

Taxpayers with annual turnover equal to RWF 200 million or less can opt to declare and pay the PAYE on quarterly basis.

Miscellaneous

Kenya

Enhanced supervision of financial sector in Kenya

Tax administration

- Introduction of regulations governing registration and licensing of tax agents

- The Commissioner is allowed to issue guidelines on the application of transfer pricing methods

- The commissioner of income tax is now required to respond to the taxpayers appeal within 30 days

- Directors and other senior officers of companies will be potentially liable for unpaid taxes as a result of offenses by the corporate bodies if ordered by a court of law.

Others

- New measures to enhance supervision of financial services sector

Key changes planned for Uganda

- Banking Act to introduce concept of ‘banking group’ and ‘non-operating holding company’. Non-operating holding company may be allowed to own more than 25% of a bank’s capital

- Some of the regulations in the banking sector contained in the prudential guidelines have been incorporated in the Banking Act

- Motor vehicle owners will be required to apply for annual road licenses from the registrar of motor vehicles.

Tanzania

Tax administration

- From 1 January 2013, the government will introduce measures to prevent piracy of artistic products. This will include introduction of revenue stamps for the music and film products.

Others taxes and levies

Export levy

- Increase export duty on raw hides from 40% to 90%

Gaming tax

- There has been a revision of the gaming tax which is applicable to Casino and organisers of games of chance.

Airport charges

- Airport service charges have been increased from US$ 30 to US$ 40 for passengers travelling outside the country and from TShs 5,000 to TShs 10,000 for local travel passengers

- Other changes include introduction of personalised plate numbers for Tshs 5,000,000 for three years.

Uganda

Others

- Establishment of a Retirement Benefits Regulatory Authority

- Set up of an electronic license registry will be in the next financial year to serve as a repository for all approved business licensing in Uganda

- Establishment of a One Stop Centre at Uganda Investment Authority to provide online registration services for various licenses required to start a business.

- Introduction of new Tax Procedure Code will be introduced.