ECONOMIC MEASURES TO CURB THE ADVERSE EFFECTS OF COVID-19 IN KENYA

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President Uhuru Kenyatta on Wednesday 25th March 2020 announced raft of measures to help tackle Covid-19 outbreak in Kenya. With the view of cushioning Kenyans against the Corona Virus Pandemic, the National Treasury implements the following immediate reliefs to increase disposable income to the people of Kenya;

1. **Tax Relief:** 100 % Tax Relief for persons earning gross monthly income of up to Ksh. 24,000. This means that individuals earning Kshs24,000 and below will not be paying PAYE.

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2. **Reduction of PAYE:** Reduction of Income Tax Rate (PAYE) for individuals from 30% to 25%. This means that the highest tax rate in the graduated scale rate will effectively be 25% (and not 30%). However, taxpayers earning between Kshs 24,001 and Kshs 47,059 will have no tax relief and thus will still bear the same PAYE implication as before. In this new arrangement, the higher income earners will enjoy more savings per month compared to the lower earners.

Reduction of PAYE
From 30%-25%

3. **Reduction of Income Tax:** Reduction of Resident Income Tax (Corporation Tax) from 30% to 25%. This would therefore mean that taxpayers who have already remitted taxes for 2019 would get a credit/overpayment. We will wait for the policy guidance to confirm whether directive also affects year 2019.

Reduction of Corporation Tax
From 30% to 25%

4. **Reduction of Turnover Tax:** Reduction of the turnover tax rate from the current 3% to 1%, for all Micro, Small and Medium sized Enterprises (MSMEs). The aim is to boost cash circulation in the economy.

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5. **Funds for elderly and other special groups:** Appropriation of an additional Ksh. 10 Billion to the elderly, orphans and other vulnerable members of our society through cash-transfers.

6. **CRB Listing suspension:** Temporary suspension of the listing with Credit Reference Bureaus (CRB) of any person, Micro, Small and Medium sized Enterprises (MSMES) and corporate entities, whose loan accounts fall overdue or are in arrears, effective 1st April, 2020. This means that struggling business may now be able to borrow from banks since the listing with CRB has been suspended.

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7. **VAT Reduction:** The National Treasury shall cause immediate reduction of the VAT from 16% - 14%, effective 1st April,2020. This means that prices for items with both zero-rated and exempt status will not be much affected by the VAT rate reduction.

Reduction of VAT
From 16% to 14%

8. **Pending Bills:** That all Ministries and Departments shall cause the payment of at least Ksh. 13 Billion of the verified pending bills, within three weeks.

9. **VAT Refunds:** That KRA shall expedite the payment of all verified VAT refund claims amounting to Ksh. 10 Billion within 3 weeks; or in the alternative, allow for offsetting of Withholding VAT, in order to improve cash flows for businesses.

10. **UHC Funds Allocation:** That Ksh. 1 billion from the Universal Health Coverage kitty has been allocated for recruitment of additional health workers.

11. **Salaries Reductions:** Voluntary reduction in the salaries of the senior ranks of the National Executive.

NB: We are waiting for policy guidance with regards to the effective date, especially for the Payroll Taxes since many companies have already processed March 2020 Salaries. All Tax proposals must be accented by Parliament through a Finance Bill. We therefore hope and trust that the National Treasury and Parliament will move with speed to implement the directive before the PAYE deadline of 9th April 2020.

Additionally, the Central Bank of Kenya has rolled out the following Measures:

- The lowering of the Central Bank Rate (CBR) to 7.25% from 8.25%, which will prompt commercial banks to lower the interest rates to their borrowers, availing the much needed and affordable credit to MSMEs across the country.
- The lowering of the Cash Reserve Ratio (CRR) to 4.25% from 5.25%, to provide additional liquidity.
- The Central Bank of Kenya shall provide flexibility to banks with regard to requirements for loan classification and provisioning for loans that were performing as at March 2,2020.

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