



CIRCULAR NO.CMA/MRT/003/2017

13th June, 2017

RE: RAISING AWARENESS ON TAX INCENTIVES FOR CAPITAL MARKETS ACTIVITIES

Reference is made to the above subject.

The Authority remains committed to spurring potential securities listings on the Nairobi Securities Exchange (NSE), in line with the objectives of the 10-year Capital Market Master Plan by ensuring sufficient information is easily accessible to potential issuers as well as investors.

The Authority together with other stakeholders have over the years worked towards providing enabling and attractive tax arrangements that are competitive for capital markets users and acceptable to the tax authority.

In this regard, the Authority would like to encourage all Stockbrokers, Investment Banks, Fund Managers, Investment Advisers, the Nairobi Securities Exchange and the Central Depository and Settlement Corporation to make available on their websites information on tax incentives introduced within the capital markets. This is aimed at easing access to information that is critical in encouraging potential issuers to list on the NSE.

A guide of these tax incentives is annexed for ease of reference. In case of any further queries, do not hesitate to contact the Authority.

Yours sincerely

Paul M. Muthaura
CHIEF EXECUTIVE

Annexure

BREAKDOWN OF TAX INCENTIVES IN KENYA

INCENTIVE	LEGISLATION
ISSUERS	
<p>Preferential corporate tax treatment- For any Newly listed Co. and approved under the Capital Markets Act with at least 20% of its issued share capital listed, the tax shall be 27% for 3 years commencing immediately after the year of income following the date of such listing.</p>	<p><i>Third Schedule of the Income Tax Act, Cap 470 Head B 2(bb), Finance Act 2001</i></p>
<p>Preferential Corporate tax treatment Amend the Income Tax Act to provide that companies listing by introduction be charged corporate tax rate at 25% instead of 30%.</p>	<p><i>Third Schedule of the Income Tax Act, Cap 470 Head B 2 (g) (i). (2015/2016)</i></p>
<p>Preferential corporate tax treatment In the case of a newly listed company on any securities exchange approved under the Capital Markets Act with at least 30% of its issued share capital listed, the tax rate shall be 25% for the period of five years commencing immediately after the year of income following the date of such listing</p>	<p><i>Third Schedule of the Income Tax Act, Cap 470 Head B 2(d), Finance Act 2002</i></p>
<p>Preferential corporate tax treatment- For a newly listed company which has at least 40% of its issued share capital listed, the tax rate will be 20% for five years commencing immediately after the year of income following the date of such listing.</p>	<p><i>Third Schedule of the Income Tax Act, Cap. 470, Head B 2(e) Finance Act 2005</i></p>
<p>Reduction of Issuance and Listing Costs Law Amended to reduce the listing fees by 50% i.e. from 0.3% to 0.15% for offers of equity.</p>	<p><i>Capital Markets Securities Public offers listing disclosures Regulations 2002 Sixth Schedule</i></p>
<p>Tax Deductibility on Issuance and Listing Costs Expenditure of a capital nature incurred in that year of income by a person on legal costs and other incidental expenses relating to the authorization and issue of shares, debentures or similar securities offered for</p>	<p><i>Income Tax, Act Cap 470, Part IV, 15 (2)(s)</i></p>

INCENTIVE	LEGISLATION
<p>purchase by the general public were all made tax deductible expenses</p>	
<p>Tax Deductibility on Issuance and Listing Costs Expenditure of a capital nature incurred in that year of income by a person, on legal costs and other incidental expenses, for the purposes of listing on any securities exchange operating in Kenya, without raising additional capital is tax deductible.</p>	<p>Income Tax, Act Cap 470 Part IV, 15 (2)(ss) (Finance Act 2006)</p>
<p>Exemption from Payment of Stamp Duty on Transfer of title relating to Sukuk arrangement A Sukuk arrangement shall be exempt from stamp duty where the arrangement requires the transfer of title if at the beginning of the arrangement, the title shall be transferred from the original owner of the asset to the entity representing the interests of the Sukuk holders; and during or at the end of the arrangement when the title is transferred back to the original owner</p>	<p><i>Section 35 of the Finance Act 2017</i></p>
<p>VAT exemption of new Capital Markets Products Asset transfers and other transactions related to the transfer of assets into Real Estates Investment Trusts and Asset Backed Securities are exempt from VAT</p>	<p><i>Sec 9 of the Finance Act, 2017,</i></p>
<p>Tax exemption for Real Estate Investment Trusts (REITS) Instruments used in the transfer of property to listed property investment vehicles exempt from stamp duty in order to encourage land consolidation and discourage non-productive land use</p>	<p><i>Stamp Duty Act Section 96A</i></p>
<p>Exemption of stamp duty of the transfers relating to (REITs) No stamp duty shall be chargeable on the transfer of real estate in respect of a Real Estate Investment Trust (REIT) under the Capital Markets Act whose effect is to convey or transfer:- a. beneficial interest in property from one trustee to another trustee or to an additional trustee; or</p>	<p><i>Stamp Duty Act Cap 480 Section 96A (2015/2016)</i></p>

INCENTIVE	LEGISLATION
<ul style="list-style-type: none"> b. beneficial interest in property from a person or persons for the transfer of units in the c. real estate investment trust. 	
INVESTORS	
<p>Scrapping of Capital Gains Tax Capital Gains Tax (CGT) of 5% that was introduced in 2014 scrapped. Instead a transaction levy of 0.3% of all sale transactions introduced.</p>	<p><i>Finance Act No. 14 of 2015, s. 18 (a)</i></p>
<p>Exemption from Double taxation of Stamp Duty on transfer of an Islamic property finance arrangement</p> <p>The Government shall not charge stamp duty twice where a person moves a mortgage or an Islamic property finance arrangement from one bank to another</p>	<p><i>Section 32 of the Finance Act 2017</i></p>
<p>VAT Exemption of Islamic Finance products The issue, transfer, receipt or any other dealing with Sukuk and any financial service structured in conformity with Islamic Finance is exempt from VAT.</p>	<p><i>Sec 9 of the Finance Act, 2017,</i></p>
<p>Reduction of withholding tax Reduction of withholding tax applicable to dividend income arising from investment on listed securities for both local and foreign investors. Foreign 15% to 10%; local 5%</p>	<p>Third Schedule of the Income Tax Act, Head B 5(e)</p>
<p>Reduction of withholding tax Withholding tax rate on interest income arising out of fixed income securities such as bonds as well as bank deposits reduced to 15% and made a final tax.</p>	<p><i>Third Schedule of the Income Tax Act, Cap. 470, Head B 5(b)(ii)</i></p>
<p>Tax exemption on investment income from Collective Investment Schemes. Investment income of a pooled fund or other kind of investment consisting of retirement schemes registered by the Commissioner is tax exempt</p>	<p><i>Income Tax Act Cap 470, Section 20 (1)</i></p>
<p>Tax exemption for infrastructure securities (Asset Backed Securities and Infrastructure Bonds).</p>	<p><i>First Schedule of the Income Tax Act Cap 470, , Part I para 51</i></p>

INCENTIVE	LEGISLATION
Interest income accruing from all listed bonds used to raise funds for infrastructure and social services, exempt from income tax, provided that the bonds shall have a maturity of at least three years	
Investment In New Products Approved By The Capital Markets Authority By Retirement Schemes Guidelines for retirement benefits schemes were amended in 2016 to facilitate pension schemes to investment in new products approved by the Capital Markets Authority including exchange-traded derivatives and listed Real Estate Investment Trusts.	<i>Tabel G of the Retirement Benefits (Managers And Custodians) Regulations, 2000.</i>
Interest income earned by investors who buy listed bonds as asset-backed securities for purposes of developing infrastructure exempted from income tax	<i>First Schedule of the Income Tax Act Cap 470, , Part I para 52</i>
Exemption from the Stamp Duty Act (Cap 480) for any instrument that is certified to be in connection with the issue of asset-backed securities through a scheme approved by the Capital Markets Authority	<i>Finance Act 2007, Section 76</i>
Stamp duty and Value Added Tax (VAT) exemption on share capital Exemption of stamp duty and value added tax on the transfer of listed securities.	<i>Stamp Duty Act Cap 480 S. 117 (K)</i>
Increased investment limits for foreign investors The cap of 75% for the foreign investor shareholding of domestic listed companies removed. Foreigners can own shares in Kenyan listed companies up to a maximum of 100%, subject to a prescription by the Cabinet Secretary for the National Treasury who may by notice in the Kenya gazette prescribe a maximum foreign shareholding in an issuer or a listed company	<i>The Capital Markets (Foreign Investors) Regulations 2002, Regulation 3 (1).</i>
Tax exemption for Venture Capital Companies (VCC) Gain arising from trade in shares of a venture company earned by a registered venture capital company, within the first ten years from the date of first investment	<i>(First Schedule of the Income Tax Act Cap 470, Section 13&14, Part I (47))</i>