

KFC/GK-NA/CT/001/05-2025

**The Chairman
The Departmental Committee of Finance and National Planning
Main Parliament Building - Parliament Road
P.O. Box 41842 – 00100
Nairobi.**

Attn: Clerk of the National Assembly

SUBMISSION OF MEMORANDUM ON THE FINANCE BILL, 2025 (NATIONAL ASSEMBLY BILL NO.19 OF 2025)

The Kenya Flower Council (KFC), representing the interests of Kenya's floriculture sector, hereby submits the following input to the Finance Bill, 2025. These proposals seek to promote competitiveness, ease of doing business, and sustainability in the flower export industry, which is a major foreign exchange earner and employer.

1. Repeal of Excise Duty on Packaging Materials

Issue: Packaging materials such as test liners, fluting paper, and imported carton boxes are subjected to multiple layers of excise duty under Section 14 of the Excise Duty Act.

Proposal:

- Remove excise duty on test liners, fluting paper, and imported carton boxes.
- Alternatively, allow an input offset mechanism for excisable packaging materials used in the production of finished goods.

Justification:

- Excise duty is a consumption tax intended for the final consumer. Levying it at intermediate production stages increases production costs and renders Kenyan exports uncompetitive.
- Alignment with global best practices is necessary to maintain Kenya's leading position in the global floriculture industry.

2. Reclassification of Agricultural Inputs from Exempt to Zero-Rated

Issue: The reclassification of critical agricultural inputs (e.g., fertilizers and crop protection agents) from zero-rated to exempt for VAT purposes.

Proposal:

- Reinstate zero-rated status for all agricultural inputs.

Justification:

- VAT exemption prevents farmers from claiming input VAT, thereby increasing the net cost of production.
- Negative impact on cash flow and production viability for thousands of farmers.

3. VAT Refund Timelines and Fund Allocation

Issue:

- Proposed reduction of timeline to lodge VAT refund claims from 24 to 12 months.
- Proposed reduction of bad debt threshold from 3 years to 2 years.

Proposal:

- Fast-track VAT refunds and allow automatic offsets against future liabilities.
- Establish a dedicated VAT Refund Fund to address refund backlogs.

Justification:

- Many flower farms are owed VAT refunds in billions of shillings.
- Current delays create persistent negative VAT positions, harming cash flows and business operations.

4. Export and Investment Promotion Levy (EIPL) on Inputs

Issue: EIPL at 17.5% applies to critical imports like iron/steel (tariff codes 7207.11.00, 7213.91.10, 7213.91.90), kraft paper, and packaging materials.

Proposal:

- Reduce the EIPL rate to 5% or abolish the levy altogether on these inputs.

Justification:

- Levy causes input cost inflation and double taxation.
- Directly affects pricing and competitiveness of floriculture exports.

5. Removal of Automatic Annual Inflation Adjustment in Excise Duty

Issue: Paragraph 2 of Part 1, Schedule 1 of the Excise Duty Act introduces automatic inflation-based adjustments each year.

Proposal:

- Delete the provision requiring automatic inflation adjustment in excise duty.

Justification:

- Align with Finance Act 2023 which eliminated inflation-linked excise increases for certain goods.
- Predictable tax policy supports business planning.

6. Legacy VAT Refund Claims from Credit Adjustment Vouchers (CAVs)

Issue: Businesses remain in refund position even after applying old CAVs (pre-June 2019) due to zero-rated supplies.

Proposal:

- Introduce legal mechanisms to facilitate refund of excess tax on zero-rated supplies adjusted using the CAV formula.

Justification:

- Outstanding CAV-related refunds distort tax positions.
- Resolving legacy cases will improve business liquidity.

7. Exemption from Withholding VAT (WHVAT) for Perennial Refund Taxpayers

Issue: Exporters like flower farms consistently operate in VAT credit positions but are still subject to WHVAT.

Proposal:

- Introduce a provision exempting perennial refund taxpayers from WHVAT.
- Define eligibility as businesses in continuous refund position for at least 24 months.

Justification:

- WHVAT exacerbates negative VAT positions.
- A targeted exemption will ease compliance costs and improve cash flow.

CONCLUSION

We respectfully urge the National Assembly and the National Treasury to consider these proposals in support of a more competitive, tax-efficient, and sustainable business environment for Kenya's floriculture sector.

Yours faithfully,



CLEMENT TULEZI
CHIEF EXECUTIVE OFFICER