

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).

Kenya ranks among the world's leading producers and exporters of cut flowers, with its floriculture sector serving as a cornerstone of the national economy. As the fourth-largest global exporter of cut flowers and ornamentals, the industry is a vital source of foreign exchange, employment, and rural development. As the second-highest agricultural export earner after tea, and renowned for its high-quality blooms, sustainable practices, and competitive market positioning, Floriculture contributes 1.6% of Kenya's GDP, generating Kshs 110 billion annually—72% of horticulture export earnings. It directly employs over 200,000 workers and supports an additional 1.5 million indirect jobs in logistics, packaging, and ancillary services.

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.

- The sector imports for use in export and not used locally. – Exports do not attract excise duty in accordance with the Excise Act.
- The cost of buying these locally is high due to the high prices imposed.

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:

- 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.

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 clearance of the backlog. The capital here can reduce the cost of financing the sector; expanding farms and improving research and development.

Justification:

- CAVs serve as a confirmation that the government owes the industry money.
- Outstanding CAV-related refunds distort tax positions.
- Resolving legacy cases will improve business liquidity. Industry has to borrow money to pay government – the taxes on the various inputs etc.

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