Proposed VAT Bill to push up cost of maize flour

The Bill allows for the imposition of a 16 per cent tax on agricultural inputs and processed food stuffs, such as maize meal

By JACKSON OKOTH

Analysts say the Bill will see consumer pay 22 per cent more for a kilogramme of sifted maize meal than they are paying now.

Kenyans should brace themselves to pay more for sifted maize meal, if proposed amendments to the Value Added Tax (VAT) Act goes through Parliament.

The amendment, which allows for the imposition of a 16 per cent tax on agricultural inputs and processed food stuffs, will see the price of maize flour — a staple food item on the menu of most Kenyan households — increase in the coming months.

"If VAT is imposed on shifted maize meal, this will have the effect of increasing its retail price, thereby reducing demand for the commodity in many households," said Raphael Gitau, a researcher at Tegemeo Institute of Agricultural Policy and Research.

Gitau also warned that taxing farm inputs would increase overhead costs, forcing farmers to reduce usage of fertiliser and other chemicals.

The VAT Bill, which is yet to be brought on the floor of the house, seeks to reduce the number of zero-rated items in a bid to address the problem of huge tax refunds owed to businesses by the Kenya Revenue Authority (KRA).

This means that some of the basic items — including maize flour and other processed foodstuffs that are currently zero-rated — will now attract a 16 per cent VAT charge.

The list of items to be affected if changes in the VAT Act become law include agricultural inputs such as fertiliser and seeds, processed food items — such as sifted maize meal — and processed milk.

PRODUCTION COSTS

According to the Ministry of Agriculture marketing information bureau, the average wholesale price of maize grain in Nairobi between November last year and January this year was Sh3,187 per 90-kg bag, while the retail price during the same period was Sh3,727.

"Assuming that margins of producers, wholesalers and retailers remain the same after the increase in production costs due to VAT on fertiliser and seeds, the new wholesale and retail will increase by five per cent to Sh3,346 and Sh3,913 respectively," said Gitau.

> The VAT Bill will increase food prices, a situation that will hurt an already overburdened population."

The retail price of sifted maize meal will therefore increase from the current Sh58 per kilo to Sh70.

"This implies that a consumer will pay 22 per cent more for a kilogram of sifted maize meal because of the effects of VAT," said Gitau.

"Not only does amendments to the VAT Bill threaten to increase farm input prices and reduce affordability, it has the potential to increase food prices, a situation that will hurt an already overburdened population," said Dr Mercy Kamau, an analyst at Tegemeo Institute of Agricultural Policy and Development.

The price of maize grains in Kenya has been stable for most of this year, largely due to a huge influx of imports from neighbouring Tanzania, Uganda and South Africa.

"A huge reliance of regional trade has prevented escalation of prices in the maize market. We are, therefore, urging for removal of import tariffs on maize grains because they end up pushing local prices," said Dr Kamau. The institute recommends more regional trade in grains because inflows from neighbouring countries curb price escalations during deficits in domestic production.

Available data indicates that maize imports in the first six months of this stood at four million bags, with some 3.2 million bags coming from neighbouring countries, while 0.8 million came from the international market.