

Investment allowances

As per the 2nd schedule of ITA, these are summarized as follows for ease of studies by an RCM online college student.

Part A-Investment Allowances on Buildings

Capital expenditure incurred on:	Rate from 1 January 2022**
Hotel building	50% in first year of use and residual value 25% in equal instalments
Building used for manufacture	50% in first year of use and residual value 25% in equal instalments
Capital expenditure incurred on:	Rate from 1 January 2022**
Hospital buildings	50% in first year of use and residual value 25% in equal instalments
Petroleum and gas storage facilities	50% in first year of use and residual value 25% in equal instalments
Educational buildings including student hostels	10% per year in equal instalments
Commercial building	10% per year in equal instalments
Industrial building	10% per year in equal instalments
Dock	10% per year in equal instalments

Part B-Investment allowances on Machinery

Capital expenditure incurred on:	Rate from 1 January 2022*
Machinery used for manufacture	50% in first year of use and residual value 25% in equal instalments
Hospital equipment	50% in first year of use and residual value 25% in equal instalments
Ships or aircrafts	50% in first year of use and residual value 25% in equal instalments
Motor vehicles * and heavy earthmoving equipment	25% per year in equal instalments
Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25% per year in equal instalments
Furniture and fittings	10% per year in equal instalments
Telecommunications equipment	10% per year in equal instalments
Filming equipment for local producers subject to CS approval	25% per year in equal instalments
Machinery used to undertake exploration operations (prior to 01/01/2022, restricted to those who have a mining right)	50% in first year of use and residual value 25% in equal instalments
Machinery used to undertake operations under a prospecting right	50% in first year of use and residual value 25% in equal instalments
Other Machinery	10% per year in equal instalments

Part C-Investment Allowances-Other

Capital expenditure incurred on: Rate from 1 January 2022*	
Purchase or acquisition of an indefeasible right to use fibre optic cable by a telecommunications operator	10% per year in equal instalments
Farmwork	50% in first year of use and 25% in equal instalments

Note that:

Effective 1 January 2022, investment deduction at the rate of 100% in the following circumstances:

- ❖ The cumulative investment value in the preceding three years outside Nairobi and Mombasa Counties is at least KES 2 billion; or
- ❖ The investment value outside the Counties of Nairobi and Mombasa is at least KES 250 million; or
- ❖ The capital investments are made in a Special Economic Zone (SEZ).

Effective 1 July 2022, investment deduction at rate of 150% on investments made outside Nairobi County or Mombasa County if they meet the below criteria;

- ❖ That the cumulative investment value for the four years preceding 1 July 2021 is at least KES 2 billion; or
- ❖ The cumulative investment for the three years succeeding 1 July 2021 at least KES 2 billion.

1. Short notes on computing ID/A

- ❖ ID/A is an investment allowance granted in manufacturing only.
- ❖ It is granted on a one-off basis, meaning you only claim the whole deduction once in a year and NO pro-rating whatsoever based on the number of months/weeks/days in use during the given year of income
- ❖ ID/A is granted at the rate of 50% in the first year of use of the qualifying asset then 25% per year in equal instalments for the residue from the 2nd year onwards.
- ❖ **The qualifying costs for ID/A include the following**
 - ✓ Cost of a factory, manufacturing or industrial building.
 - ✓ Cost of machines that are used in manufacturing (i.e., converts RM into FG) e.g., Processing Machinery and cost of machines that assist in manufacturing e.g., Generators, water pumps, Treatment plants, conveyor belts
 - ✓ Costs incurred to acquire manufacturing machines but before use e.g., Machine transport costs, Machine insurance costs, Machine loading and offloading costs, Machine testing costs, and Machine Repair costs before use of the machines (this is called capitalization of costs)
 - ✓ Costs that aid in the use of the building (i.e., civil works & structures) e.g., Access

roads, parking bay, sewerage systems, Railway lines, and electricity systems.

- ✓ Water tanks, Boreholes, Security/perimeter walls
- ✓ Machinery used for cleanup and disposal of industrial effluents/reduction of environmental damage

❖ **Non-qualifying costs for ID/A**

- ✓ Anything Land i.e., cost of land and all related costs e.g., title processing costs.
- ✓ Costs of non-manufacturing parts of a factory building/non-qualifying parts where they exceed 10% of the total cost of the factory e.g., Exhibition halls, warehouse, staff quarters, stores, showroom, shops etc.

2. Short notes on computing IBD/A

- ❖ It is granted on only buildings used for manufacture.
- ❖ It is granted at the rate of 10% per annum on equal instalments basis

❖ **Qualifying costs for IBD/A include**

- ✓ A building used for storage of Raw materials, WIP or Finished goods e.g.
 1. Warehouses,
 2. Stores
 3. Godown
- ✓ Staff quarters where staff stay,
- ✓ Staff welfare facilities e.g.
 1. Staff dispensary/clinic
 2. Staff canteen
 3. Staff sports arena/pavilion
- ✓ Commercial buildings e.g.
 1. A showroom
 2. Offices
 3. Shops/retail shops

❖ **Non-qualifying costs include costs of:**

- ✓ Partitions
- ✓ CCTV cameras
- ✓ Costs of land where the building is located
- ✓ Counters
- ✓ Shelves
- ✓ Industrial building....(only qualifies for Investment Deduction/allowance)

3 Short notes on computing Wear & Tear allowance

❖ This is an investment allowance that is granted on items/assets that assist in running a business venture e.g., for an insurance company, the tables they use, the printers they use, the chairs they use etc.

❖ *Currently, items that qualify for WTA are classified as follows:*

✓ **WTA at the rate of 25%**

1. All vehicles e.g., canters, lorries, buses, graders, Caterpillars, Tractors, Saloon cars, Motorbikes, SUVs, 3-wheeled vehicles e.g., Tuk-tuks, Prime transists good movers
2. Computers and their peripherals e.g., Hard disks, flash disks, mice, Photocopiers, printers, duplicators, computer software, websites, scanners, computer programmes
3. Calculators
4. Cash Registers (other than manual ones)

✓ **WTA at the rate of 10%**

1. Furniture and fittings
2. Fax machines
3. CCTV cameras
4. Bicycles
5. Fax Machines
6. Telephones
7. Mobile phones
8. Partitions, shelves
9. Farm machines e.g. those used for milking cows
10. Generators
11. Water pumps
12. Manual cash registers
13. Office fan
14. Paper shredders

4. Short notes on computing Farm Works Allowance

❖ It is granted only to persons carrying out farming ventures.

❖ It is currently granted at the rate of 50% in the 1st year of use, then 25% in equal instalments thereafter

❖ *Qualifying costs for FWAs include:*

- ✓ A farmhouse - a building within the farm where the farm owner stays. Only 1/3 of

the cost of the farmhouse qualifies for FWA unless the business is a separate legal entity like a company

- ✓ Fish ponds
- ✓ Cattle Dips
- ✓ Feeding bays/troughs
- ✓ Farm Watch towers
- ✓ Pig stays
- ✓ Cow sheds and chicken sheds
- ✓ Farm Irrigation system, water and electricity systems
- ✓ Any other structure that assists in use of the farm

❖ ***Non-qualifying costs for FWAs include***

1. Cost of land and its related costs do not qualify

5. Short notes on computing SIA

- ❖ Applies only to costs incurred by air and sea transport operators
- ❖ The rate of investment allowance on ships and aircrafts is currently at 50% in the 1st year of use, then 25% in equal instalments for the residual balance.
- ❖ Qualifying costs here include:
 - ✓ The costs of acquisition of aircrafts and ships
 - ✓ Auxiliary costs incurred prior and after, but before the use of the acquired ships or aircrafts

Area of research: *Enlist the various investment allowances for licensees and contractors*