

EGERTON UNIVERSITY



**TEGEMEO INSTITUTE OF AGRICULTURAL
POLICY AND DEVELOPMENT**

IMPLICATION OF IMPLEMENTATION OF THE VAT ACT 2013 ON ANIMAL FEEDS

Tim Njagi

24th October 2013

Introduction.../1

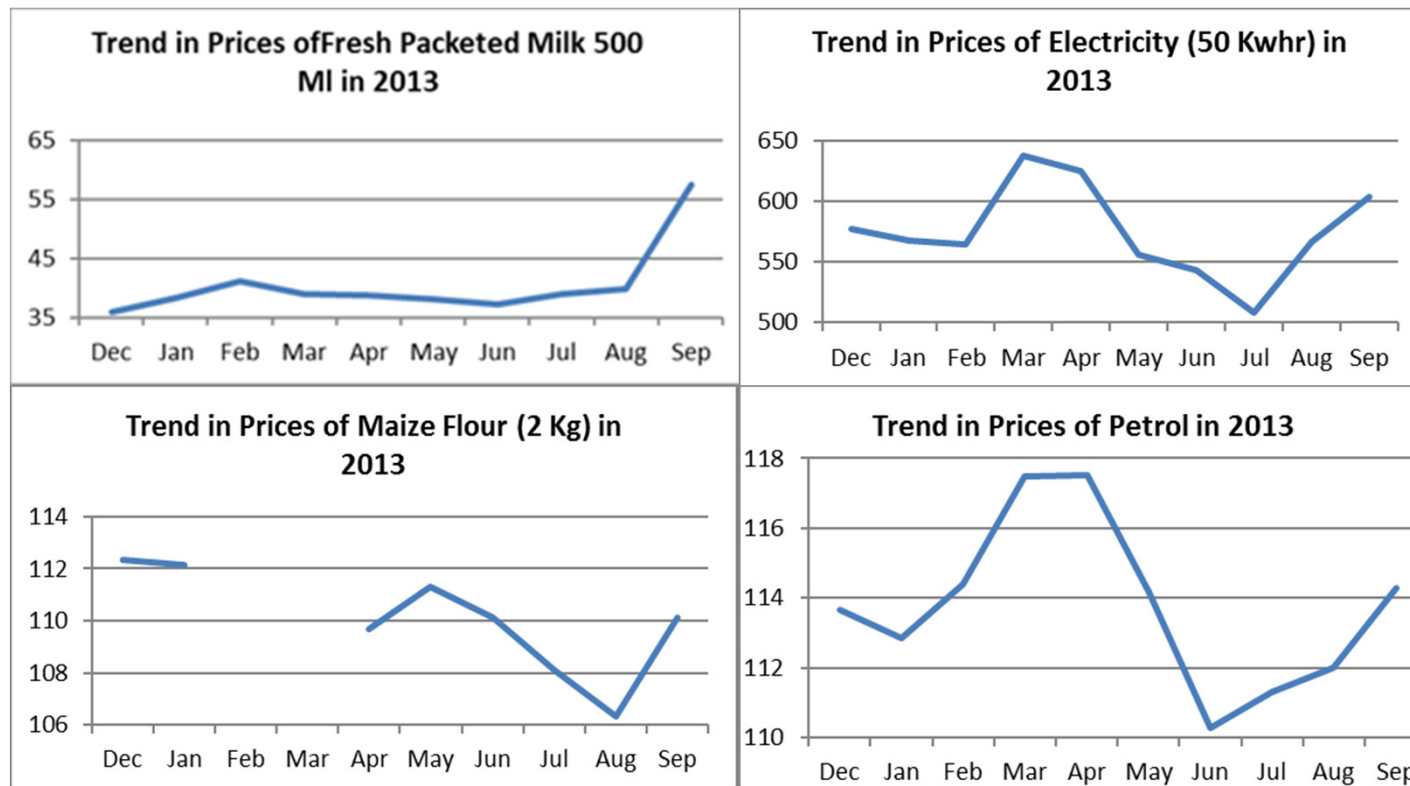
- VAT Act, 2013 intended to:
 - Increase the efficiency of collecting VAT
 - Raise Ksh.10 billion to fund the govt programs
 - Intention to increase the tax burden on those who could afford (middle and high income households)
- Objectives of the govt
 - Maintain prices
 - Affordable for consumers
 - Profitable for farmers
 - Ensure competitiveness

Introduction.../2

- To achieve this objectives:
 - agricultural inputs and outputs were exempt from VAT
- The VAT Act 2013
 - agricultural inputs such as fertilizer, seed and pesticide are exempt
 - agricultural output (all unprocessed food, processed food e.g. maize, wheat flour, rice) also exempt,
 - But animal feeds and processed agricultural output (where value addition has taken place) attract 16% VAT

Introduction.../3

- Result of imposing VAT was a general increase in prices (KNBS, 2013)



Introduction.../4

Effects of Consumers

Table 1: Average Household Expenditure for the months of August and September

Household Income (Ksh)	Food Expenditure in August	Food Expenditure in September	Percentage Change
0 to 15,000	12,164	13,343	10%
16,000 to 30,000	14,383	15,415	7%

- Expenditure on food increase mainly because unscrupulous traders increased prices

Introduction.../5

- What are the implication of Implementing the VAT Act, 2013 on the Agricultural sector?
 - Crops subsector has no direct effects
 - Direct effect on livestock subsector as animal feeds are taxable
- A case study of Poultry Farming
 - Est. >10 m commercial layers and >6 m broiler in the country
 - Large population of rural and peri-urban farmers involved
 - Relatively easy and cheaper to start
- Conducted a rapid assessment survey in Kiambu County
 - Conducted 2 Focus Group Discussions
 - Held interviews with:
 - Poultry farmers
 - Animal feeds manufacturers
 - Animal feeds stockists

Effects of VAT on Crops subsector

Table 2: Retail prices of Seed and Fertilizer in Kiambu County

Input	Company	Type	Unit	Price August (Ksh)	Price September (Ksh)
Seeds	Kenya Seed		2 Kg	300	300
	AGRI-SEED	SC DUMA	2 Kg	390	390
Fertilizers	MEA	DAP	50 Kg	4000	3600
	MEA	CAN	50 Kg	3000	2600
Chemicals	(No Change At All)				

Effects of VAT on the Livestock Subsector.../1

1. Input Prices

More of a sales tax than VAT

Table 3: Retail prices of Selected Animal Feeds in Kiambu County

Feed Type	Unit	Feed Manufacturer A			Feed Manufacturer B		
		Avg Price in August -Before VAT (Ksh)	Avg Price in September - After VAT (Ksh)	Percentage increase in Prices	Avg Price in August - Before VAT (Ksh)	Avg Price in September - After VAT (Ksh)	Percentage increase in Prices
Chick Mash	70 Kgs	2550	2960	16%	2600	3020	16%
Broiler Starter	70 Kgs	2850	3000	5%	3100	3650	18%
Broiler Finisher	70 Kgs	2750	3190	16%	3000	3550	18%
Growers Mash	70 Kgs	2150	2495	16%	2200	2560	16%
Layers Mash	70 Kgs	2380	2760	16%	2400	2800	17%
Sow Weaner	70 Kgs	1850	2145	16%	1850	2150	16%
Sow Finisher	70 Kgs	1750	2030	16%	1750	2050	17%
Dairy Meal	70 Kgs	1650	1915	16%	1450	1690	17%

Effects of VAT on the Livestock Subsector.../2

2. Effect of Prices on Poultry farmers

2.1 Commercial Layers

- Drop in Egg Prices over the past 2 months from Ksh.280-300 to Ksh.240-260
 - Attributed to imports from Uganda
 - Possible oversupply of eggs
- Combined effect
 - Exit from poultry farming by small farmers (we estimate those with <300 birds)
 - Large farmers reducing the number of birds
 - Drop in prices of ex-layers from Ksh.350 to 250



EGERTON UNIVERSITY
TEGEMO INSTITUTE OF AGRICULTURAL
POLICY AND DEVELOPMENT

Effects of VAT on the Livestock Subsector.../3

Summary of Expenditures and Returns (for 100 birds)

Expenditure	Scenario 1	Scenario 2	Scenario 3	
Brooding	4,540	4,540	4,540	
Day old chicks	10,050	10,050	10,050	
Feeds	236,600	236,600	268,100	
Equipment	-	-	0	
Veterinary	2,150	2,150	2,150	
Labour	14,250	14,250	14,250	
Supplements	2,150	2,150	2,150	
Transport to market	15,600	15,600	15,600	
Sub-Total	285,340	285,340	316,840	
Returns				
Eggs	230,550	211,073	211,072	
Culls	34,650	34,650	29,700	
Gunny bags	2,550	2,550	2,550	
Sub-Total	267,750	248,273	243,322	
Profit/Loss	(17,590)	111%	98%	318%



EGERTON UNIVERSITY
TEGEMO INSTITUTE OF AGRICULTURAL
POLICY AND DEVELOPMENT

Effects of VAT on the Livestock Subsector.../4

Summary of Expenditures and Returns (for 500 birds)

Expenditure	Scenario 1	Scenario 2	Scenario 3
Brooding	10,350	10,350	10,350
Day old chicks	20,000	20,000	20,000
Feeds	1,148,400	1,148,400	1,336,800
Equipment	5,000	5,000	5,000
Veterinary	11,280	11,280	11,280
Labour	36,000	36,000	36,000
Supplements	2,640	2,640	2,640
Transport to market	30,600	30,600	30,600
Sub-Total	1,264,270	1,264,270	1,452,670
Returns			
Eggs	1,476,680	1,374,840	1,374,840
Culls	175,000	175,000	150,000
Gunny bags	14,400	14,400	14,400
Sub-Total	1,666,080	1,564,240	1,539,240

Profit/Loss

401,810

25%

299,970

71%

86,570

78%

Effects of VAT on the Livestock Subsector.../5

Effect for Broilers

Item name	Own Calculation	
	Pre-VAT Price	Post-VAT Price
Cost of day old broiler chick	60	60
Broiler starter mash @900 gm per bird @ksh 3650 per bag	39.86	46.93
Broiler finisher @2.5kg per bird @ksh 3550 per bag	107.14	126.76
Subtotal	207	233.69
Drugs, brooding, labour, water and lighting -est @ 10%of the subtotal	20.7	23.37
Mortality –est. 10% of the above costs	18.63	20.03
Incidental costs- est. 5% of the above cost	8.38	9.01
GRAND TOTAL	254.71	286.1
Av. Yield /broiler @ 39 days in kgs	1.30	1.30
Cost per kg of chicken meat	195.93	220.1
Current market price	240	240
Profit	19.15%	9%

10% pts



Conclusion.../1

- Result of VAT Act, 2013:
 - General increase in prices even for low income households
 - VAT was applied as a sales tax instead of a value added tax
 - Animal feeds, the main input for livestock production, was moved to taxable category
- Adverse effects of livestock farmers
 - Small holder poultry farmers forced to exit
 - Large farmers reducing their flock due to high costs
 - Farmers forced to exit loose livelihoods with implications on poverty, nutrition and unemployment (Poultry farming was one of the easiest enterprises to start and develop)

Conclusion.../2

- Likely to reduce production – infiltration of imports
- Increase in price as a result of taxation always results in loss of welfare for the society
 - Depressed consumer demand
 - Taxes that are not remitted to the government
 - Farmers forced to stop poultry farming as a result of high feed prices

Policy Implications

- We recommend
 - Zero-rating or exemption of VAT on animal feeds
 - Enforcement of the VAT Act, 2013 by KRA
 - Correct Application of VAT
 - Prosecution of unscrupulous traders
 - Enhance public awareness
 - What goods/services are exempt, taxable



**TEGEMEO INSTITUTE OF AGRICULTURAL
POLICY AND DEVELOPMENT**

Thank You!

Acknowledgement

This study is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of Tegemeo Institute and do not necessarily reflect the views of USAID or the United States Government.