Grant Thornton

KRA's proposal to a new car valuation method: What's the impact on motorists and importers?

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Background

On 20th May 2024 KRA informed the public on its intention to conduct a public participation to obtain views on the Free on Board (FOB) values for used motor vehicles before implementation of a new motor vehicle valuation database by 31st August 2024. This was in compliance with the case of KRA Vs Car Importers Association on the current retail selling price of imported cars where the court ruled that the CRSP published in the KRA Website were arrived at without public participation thus violating Articles 10 and 47 of the constitution and hence rendering it unconstitutional.

In Kenya the value of a brand new motor vehicle is commonly referred to as the current retail selling price (CRSP). CRSP was introduced with an aim of ensuring taxes payable by car importers are fair and reasonable.

Background

Currently, in Kenya, the fall back value method is used in valuation of imported motor vehicles; locally referred to as the CRSP method. This method focuses on the value of a brand new motor value when sold in Kenya less the amount of loss of value due to depreciation, profit margin and taxes paid in Kenya.

Fall back Valuation method (CRSP method) = CRSP-(Depreciation, Profit margin and taxes)

As per the East African Community Customs Management Act, 2004 there are 6 methods of calculating the customs value of imported goods. KRA proposes to change from Fall Back method to Transaction value method.

The transaction value method focuses on the actual value of the motor vehicle imported. This is the actual price payable at the auction house.

Impact on motorists and car importers.

Change in Duties and Tax payable

The change from CRSP to Transaction value method will cause a change in the Taxable value of motor-vehicles. Since Transaction value is based on the actual price of the motor vehicle the taxable value might increase or decrease based on the Value of the motor vehicle. This will affect the duties and taxes payable and ultimately alter the market price of the motor vehicles.

Change in overall Cost of importing used motor Vehicles

As mentioned above when the taxable value of the motor vehicle increases, so does the duties and taxes payable and vice versa. This therefore implies that the cost of importing used motor vehicles will be affected and probably increase or decrease depending on the actual value of the motor vehicle. Car importers will experience a shift in cost that might affect their retail prices of these imported motor vehicles. This will sequentially affect customers' preference as the costs might end up being favourably low or too high.

Promote Compliance among Players in the Industry

The new valuation method is based on the actual price of the motor vehicle, this will encourage players in the industry to declare the actual prices of motor vehicles instead of under declaring the value of the motor vehicles with an aim of reducing the tax and duties payable.

Our Comment

- With reference to the above, players in the automotive industry stand a chance to either benefit or suffer with the new valuation method. The value of a motor vehicle will no longer be dependent on the standardized price but rather on the actual value of the motor vehicle. Car importers with a good eye and outstanding negations skills, stand a chance to import a fairly expensive car at a discounted price which will grant them an upper hand on paying less taxes and duties as compared to importing on the original price of the motor vehicle. On the other hand, expensive motor vehicles that were once standardized will now be imported on actual price making them more expensive to sell in the Kenyan market.

- We note that, the new formula if approved will be a double edged sword with players and their customers set to either win or lose.

For further discussion on this alert or any other tax concern, please contact our tax partner listed below.

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