

## Exempt NSE from capital gains tax

By [ANDRE DESIMONE \(http://dev.bdafrica.com/author/andre-desimone\)](http://dev.bdafrica.com/author/andre-desimone), 03 Jul, 2013, 04:25 PM GMT views

In his June 2013 Budget Speech, the Treasury secretary, Henry Rotich mentioned a review of the capital gains tax.

While the idea of reviving this tax in Kenya might make sense for a variety of reasons, its application to share trading on the Nairobi Securities Exchange (NSE) does not make sense for several reasons.

First, the NSE represents a relatively small pool of potential tax collection, especially on a "per transaction" basis. With approximately 1700 mostly small transactions per day, the median average trade size on the NSE is less than Sh200,000, and most of this trading is done by active investors and traders whereby the capital gain (or loss) on each trade is often very small.

Importantly, the largest local investors on the NSE are Kenya pension fund managers. Also, while several large companies are listed on the NSE, a small portion of their shares are actually ever traded on the NSE.

Most of the companies listed on the NSE are small and medium size enterprises whose share trading may be active but in very small transaction sizes.

Second, the NSE's approximately 1700 trading transactions per day, or approximately 500,000 transactions per year, is represented by approximately 1.9 million shareholders who have trading accounts with the NSE.

### Task

For stockbrokers to monitor and calculate capital gains (net of losses) every single day, for every single client and every single transaction (both buys and sells) would be an administrative and accounting task of such immense proportions that some stockbrokers could probably not afford the expense.

For the KRA to also monitor and calculate capital gains (and losses) on so many small transactions for so many clients would also be a huge administrative task.

This compares to transactions in the real estate sector, for example, which are relatively few in number but very large in value. Hence, much easier to monitor and assess, and worth the effort of collection.

Third, the NSE is a very small stock market which has just recently been recognised by international investors.

The CMA and NSE are making great efforts to promote Kenya's capital markets and encourage its use as a capital

raising venue to attract more investment into Kenya and also to spread ownership amongst Kenyans.

To impose a complicated capital gains tax on this very small but active market at such an early stage of development would set the country back many years with regard to its goal of capital markets development.

As the saying goes, "There are bigger fish to fry". The NSE is but a very small "omena" that is just learning to swim.

If capital gains tax is to eventually be applied to the sales of shares in Kenya, then NSE listed shares should be exempted from this tax to further encourage public listings and the development of the capital markets in Kenya.

The author is the executive director, Kestrel Capital (East Africa) Ltd, a member of Nairobi Securities Exchange

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NSE chief executive officer Peter Mwangi. PHOTO

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