



# Weekly Market Update

Week ended 22<sup>nd</sup> May, 2009

Issue 20/09

## MARKET PERFORMANCE

### NSE Top Three Stocks

	22-May	15-May	Change
Centum Investments	12.45	10.50	18.6%
Olympia Capital	9.45	8.20	15.2%
Crown Berger	20.00	17.50	14.3%

### NSE Bottom Three Stocks

	22-May	15-May	Change
Total	30.00	35.00	-14.3%
Access Kenya Group	21.25	22.75	-6.6%
Eaagads	32.00	34.00	-5.9%

Market activity rose from Kshs.608.6 million to Kshs.807.1 million. The NSE 20 share gained 1.2% while the NASI shed 0.3%. The activity was driven by increased trading of Safaricom shares prior to and after the announcement of its FY 2008/09 results. Centum Investments was the week's top gainer as it rose by 18.6% following its purchase of a 22.6% stake in Carbacid Investment, a locally listed industrial gas company.

The Monetary Policy Committee revised the Central Bank Rate (CBR) downwards to 8% from 8.25% effective 22<sup>nd</sup> May 2009. The main aim of the revision is to encourage lending to the private sector and boosting liquidity in the money market.

### Economic Data and Foreign Exchange Rates

Indicator	Rate	Period
Economic Growth	1.70%	2008
Overall Inflation Rate	26.1%	Apr-09
Average Bank Deposit Rate	5.19%	Jan-09
Average Bank Lending Rate	14.78%	Jan-09
91 Day Treasury Bill	7.507%	21-May-09
182 Day Treasury Bill	8.875%	21-May-09

According to the recently launched 2009 Economic Survey, the economy expanded by 1.7% in 2008 compared to 7.1% in 2007. This is the lowest growth rate since 2002 when the economy grew by 0.2%. The significant drop in growth is attributed to internal shocks which included the post election disruptions, unfavourable weather conditions, high food costs, high fuel prices and continued political uncertainty. Added to these factors were external shocks from high crude oil prices and the global financial crisis.

## Zimele Highlight

### The Week's Comparative Performance

	22-May	15-May	Change
NSE 20 Index	2,883.07	2,849.49	1.2%
NASI	59.63	59.83	-0.3%
Balanced Fund	2.35	2.31	1.6%
Pension Plan	7.30	7.28	0.3%

**Zimele Money Market Fund** is currently offering a net yield of **8.5% p.a.** on investments. The minimum amount is **Kshs. 5,000**. Kindly contact our Customer Service Department for more details.

## QUESTION OF THE WEEK

### *Q. What ways can reduce the taxes I pay as I save and invest?*

Government Revenue refers to the amount of money that the government receives from taxation, fees, fines, inter-governmental grants or transfers, mineral and resource rights, as well as privatization of state-owned corporations. Of all the different sources of government revenue, the most important and consistent is taxes. As at January 2009, Treasury reported that over 80 percent of the government's revenue came from taxes.

Although paying taxes is an important duty for all citizens of a country, it is important for you as an investor to find the most tax efficient way of saving and meeting your financial goals. This is known as tax planning. It is the process of looking at various tax options in order to determine when and how to conduct your business and personal transactions so that taxes are reduced. There are countless tax planning strategies, however you must choose a strategy that ensures the following:

- That the amount of taxable income is reduced
- That the tax rate is reduced
- That you can control and determine when you will pay your taxes

There are a number of areas through which an investor can save for the future, while reducing the tax burden and within the legal tax environment. These areas include:

#### **A. Saving For Your Retirement**

As a member of a registered pension scheme, one is able to make tax savings in three main areas:

1. **Contributions:** A pension member's contributions are tax deductible up to a maximum of Kshs. 20,000 per month or Kshs. 240,000 per year. This means that your pension contributions are deducted from your gross income before your income is taxed. Hence, reducing your monthly taxable income.
2. **Pension Investments:** Investment income earned through a registered pension scheme is tax-free, that is, withholding tax is not charged on the interest or the dividends received on the investments.
3. **Accessing of Funds:** Upon retirement, a pension member is able to access a lump sum amount of up to Kshs. 480,000 tax free. The balance of your retirement savings is then subject to the applicable tax bands for individual income. However, at 65 years, all monthly pension income is exempt from tax.

By saving through a registered pension scheme, like Zimele Personal Pension Plan, you are able to achieve your two main objectives of saving for retirement and reducing the taxes paid.

#### **B. Saving Towards Owning A Home**

The Income Tax Act has provided that contributions to registered schemes that are designed and established to enable savings for the purchase of residences can be deducted from gross income up to a maximum of Ksh.4,000 per month (Ksh.48,000 per annum).

This has been enhanced by making interest earned on deposits of up to Ksh.3 million into such a scheme tax free. An example is Housing Finance which launched a savings product for this purpose.

In addition, interest incurred on personal mortgages is deductible from gross income before arriving at taxable income, subject to a limit of Ksh.12,500 per month or Ksh.150,000 per annum.

#### **C. Investing In Various Assets**

Taxation of capital gains has been suspended since 1985; this means that individuals have not been subjected to taxes on gains made on the acquisition and subsequent disposal of assets such as immovable property, equities, and fixed income securities. Under the Act, a tax exemption, in this case, is only provided for a capital gain through the acquisition and disposal of assets that are not part of business activity. Therefore, when the same investments are made through a corporate entity, the gains can lead to taxable profits at corporate tax rates.

Additionally, investments made through the capital markets attract a withholding tax on dividends from shares and interest from bonds of 5% and 15%, respectively for local investors. This tax rate is considered very low in comparison to alternative investments, which attract higher taxes.

#### **D. Relief Through Investing In Insurance**

If you are looking to save through an insurance company, you are entitled to relief of 15% of premiums paid for life insurance policies, education (with a maturity of at least 10 years) or health policies taken out for yourself or your spouse or child. This combined relief is subject to a maximum of Kshs. 60,000 per year.

As you determine the most tax efficient way for you to save, remember to:

1. **Keep complete and accurate records:** Proper record keeping will enable you to support your claims for allowable deductions from your gross income.
2. **Get timely, competent tax advice:** Working with a competent tax consultant will enable you to conduct your affairs in compliance with existing tax laws.

Finally, as you put away money for your future, make sure you are saving in the most tax efficient manner.

~ *Quote of the Week: A little Financial planning today can save a lot of money tomorrow.* Tony Harris, Financial Advisor

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Fedha Towers, 7<sup>th</sup> Floor; P. O. Box 76528-00508 Yaya, Nairobi. Tel: 254-20-2246273 Telefax: 254-2-216507  
e-mail: research@zimele.net, website: www.zimele.co.ke