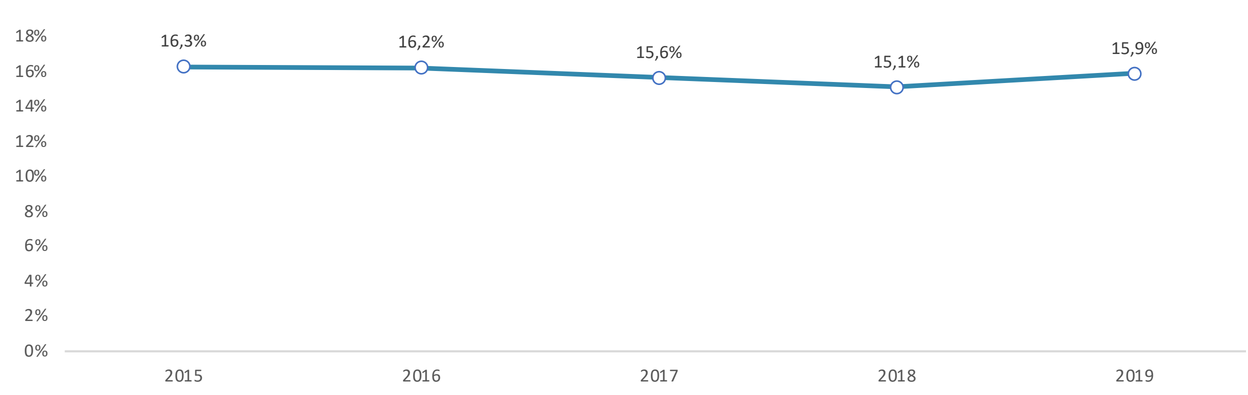
Stepping up domestic revenue mobilisation

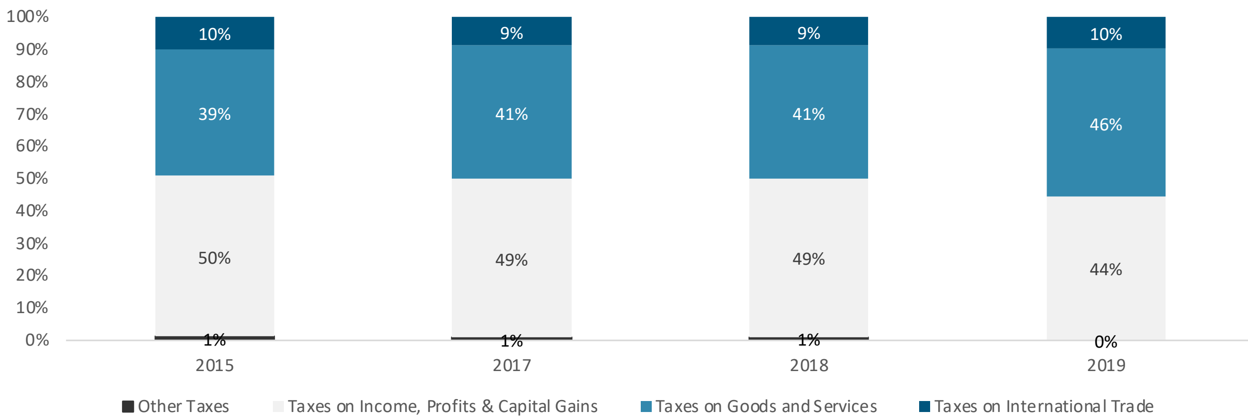
Kenya

Tax revenue (% GDP)



Source: Government Revenue Dataset (GRD) (ICTD-UNU-Wider).

Tax revenue by source



Source: GRD (ICTD-UNU-Wider). The 2019 ATI Monitoring Report covers revenue from four core tax sources of ATI members (i.e. tax es on incomes, profits, and capital gains; taxes on goods and services; taxes on international trade and transactions; other taxes). Revenue from social security contributions, which are sometimes reported as part of the tax-to-GDP ratio, is not included.

Public Expenditure and Financial Accountability (PEFA) Assessment: 2019

P19: Revenue administration	D+
P20: Accounting for revenue	D+

Source: PEFA assessment scores.

Note: PEFA is a framework and process for assessing the public financial management systems of countries. Assessed countries receive a grade between A+ (highest) to D (lowest) for each of the assessment criteria, whereby grades for each one of the assessment criteria are based on distinct definitions. See **PEFA (2018)** for more information.

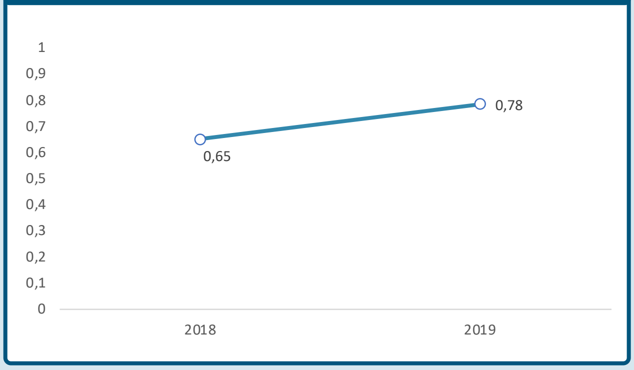
Commitment to Reducing Inequality Index (CRI)

Progressivity of Tax Structure Score

Scale of zero (least progressive) to 1.0 (most progressive).

Source: Oxfam international, the Commitment to Reducing Inequality Index

Impact of Tax on Inequality



Calculated by multiplying the total revenue collected from each form of taxation as a share of GDP by a standard global coefficient for each tax that predicts its impact on the income Gini index. The results for all taxes are then summed. On a scale from 0 to 1, the country with the largest decrease in the value of the Gini coefficient as a result of this tax revenue scores a maximum of 1.0

Source: Oxfam international, the Commitment to Reducing Inequality Index

Recent reforms and progress

To help increase the level of domestic revenue mobilisation in Kenya, the Kenya Revenue Authority (KRA) implemented a tax base expansion programme with the aim of recruiting new taxpayers into the tax net and increase the level of compliance of new and existing taxpayers.

Progress achieved in 2019

Apart from the KRA's tax base expansion programme, Kenya implemented a variety of reforms and systems to aid in revenue collection. These include:

- Amendment of Sec. 3 of the Income Tax Act, through the Finance Act, 2019 to include "income accruing through a digital marketplace" with a subsequent definition of the digital marketplace. This means that income from transactions on a digital platform that is accrued in or derived from Kenya is taxable in Kenya.
- Amendment of Sec 12C – Turnover Tax Provisions. The Finance Act, 2019 re-introduced Turn over Tax at the rate of 3% of the gross receipts of the business payable monthly.
- Implementation of an inbuilt system risk profiling and Monitoring Evaluation Module in the iTax system for the Nil & Non filer cases
- Integration of iTax, National registration bureau (NRB) and Transport Integrated management system (TIMS) in order to link vehicle registration details.
- Integration with Business Registration Service (BRS), which facilitates company registration validation between BRS and iTax.
- Implementation of data warehouse and business intelligence which enhances retrieval of iTax data on the various tax obligations, storage of third-party data, analysis and monitoring of taxpayer patterns and cases at any point in time and automated compliance review process.
- Creation of projects teams, such as construction and real estate sectors, to ensure tax compliance in those sectors.

Outlook: DRM priorities

Kenya's Seventh Corporate Plan (2018/19 – 2020/21) seeks to address revenue mobilisation with the following strategic objectives:

- **Revenue:** enhancing revenue mobilisation by broadening the taxpayer base using smart intelligence and risk-based compliance strategies
- **Customer:** enabling business by leveraging on technology to achieve full electronic customer service leading to enhanced operational efficiency and high customer satisfaction
- **Business Process:** strengthening administrative capacity and enhancing transparency and fairness through organisational change and business process optimisation
- **People:** creating a staff establishment that is professional, courteous, accessible and practice in responding to customer problems

Priority activities

- Tax base expansion
- Reducing illicit trade
- Customer service improvement
- Implementing the third ICT strategy
- Robust research and data analytics
- Staff expansion
- Enhancing integrity

Expected outcomes

- Enhanced revenue through improved compliance
- Improved business climate with respect to taxation and trading across borders
- Data and intelligence driven organisation
- Public confidence in the integrity, professional competence and customer focus of our staff

Ensuring policy coherence for development

Kenya has been consistent in ensuring proper policies are in place to address domestic revenue mobilisation, as well as emerging trends in business and the economy more generally. The Tax Procedure Act has harmonised the provisions of Income Tax Act, Value Added Tax (VAT) and Excise Duty Act to provide for coherence, especially in the administration of penalties arising from non-compliance. Kenya's commitment to promote policy coherence for development is demonstrated by:

- Efforts to address illicit financial flows, including corruption and money laundering, recognising the need for transparency and domestic awareness in tax matters;
- A strong commitment to international tax cooperation through membership to the Global Forum on Transparency and Exchange of Information for Tax Purposes, ATAF and East African Revenue Authorities Technical Committees;
- Providing tax incentives for investment such as reduced taxation for publicly listed start-up companies and the introduction of a Special Economic Zone Regime with a view towards attracting investment;
- Continually reviewing its double taxation agreements with the purpose of assessing their effectiveness and bringing them in line with international taxation standards;
- Offering VAT exemptions, import duty exemptions and PAYE exemptions to donors in an effort to support official development assistance;
- Providing VAT exemptions for materials in support of green energy and alternative energy sources, such as wind and solar energy.