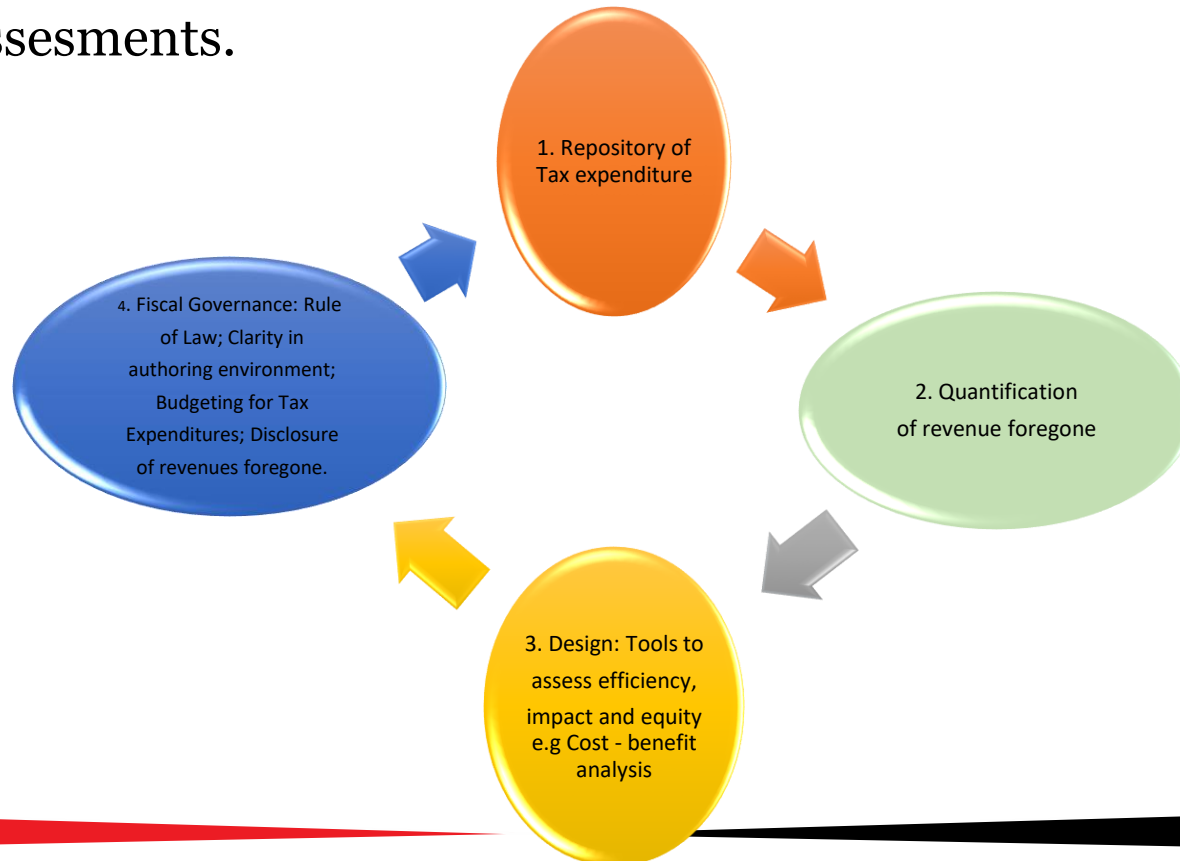


TAX EXPENDITURE REPORTING EXPERIENCE IN KENYA

2023.

Introduction

- **Integrated Framework on Fiscal Management** is envisaged in the Public Finance Management Act 2012. All expenditures , including tax expenditures should be in Fiscal reporting. In addition, dealing with TEs requires a systematic approach { 1. Develop repository of expenditures, 2. Quantification, 3. Impact assessment, 4. Review of fiscal policy based on impact assesments.



Progress on TE reporting in Kenya

- We routinely used to report on the revenue impact of tax policy measures on every Finance bill (pre-budget) and Finance Act (post budget). However this was not factoring any benchmark systems.
- There was no systematic tracking of all expenditures until 2020 (limited fiscal space).
- National Treasury (NT) and KRA jointly prepared the first report (covering 2017-2020) as a structural benchmark with IMF.
- The estimation did not factor in a benchmark system resulting into misreporting and misinterpretation.

Progress on TE reporting in Kenya

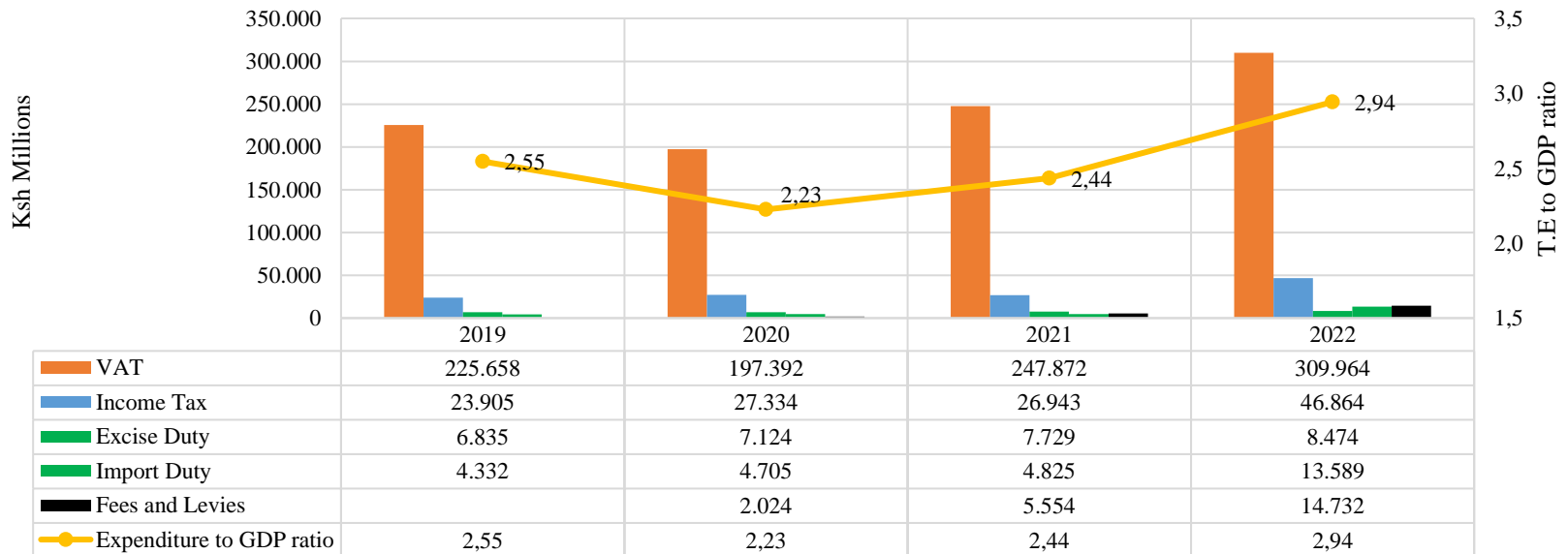
- A tax expenditure repository and a benchmark system was developed in 2021 with the help of the World Bank.
- In 2022 report, a benchmark system was applied and the estimates revised backwards.
- The TE estimates significantly declined. However, there were notable challenges.
 - i. Data consistency was a great constraint (return data and the law are not symmetric).
 - ii. The interpretation of the benchmark system is not always binding.
 - iii. Similar items across jurisdictions are not uniformly treated in TEs reporting

Key success factors in 2023 reporting

- In 2023, the report was a great milestone to obtaining an objective TE report. The key success factors were:
 - i. Creation of a dedicated task force from NT and KRA. This helps in retaining experience and knowledge.
 - ii. Team Diversity: KRA team is drawn from Research and policy units in Customs & Border Control & Domestic Taxes Department.
 - iii. To avoid data inconsistencies, data mining staff were included in the task force.

Summary of Estimates for 2023

TE size is increasing, but importantly, we analyzed the changes in the tax base in relation to the specific TEs. Increasing TE doesn't mean increase in concessions, it may be due to changes in tax base.



Present challenges & possible solutions

- Data in the return cant give us item specific estimates. We should enhance the return.
- Narrow definition of TE. Benchmark systems need harmonization. Treating items differently e.g EPZs and SEZ is not right. Literature review shows that.
- Compliance: Low compliance rate means we are working with a skewed universe. We need to complement tax filling data with surveys or Supply use tables
- Unknown impact: TE impact should inform policy, not the size of the TEs. This is a critical gap.
- Capacity: Much should be done on impact assessment.

Thank
you

