REVENUE FORGONE IN KENYA

19th, October 2022

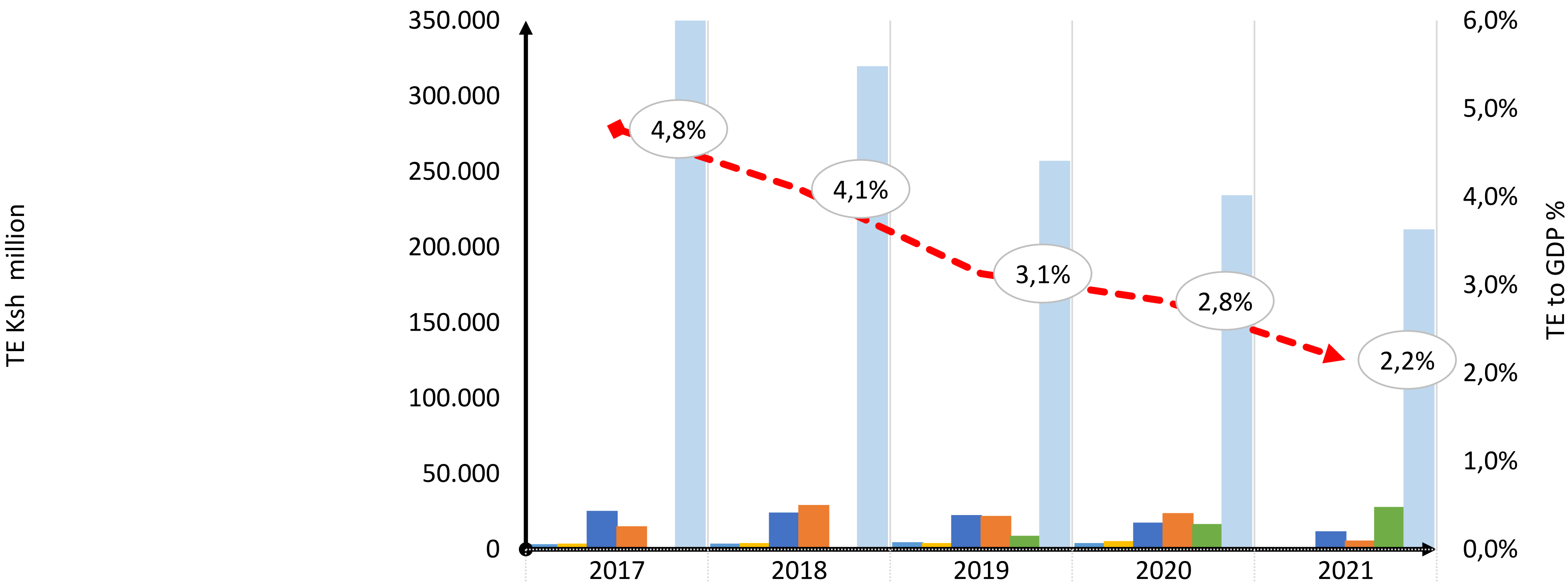
Rationale of tax expenditure in Kenya

- The principal function of the tax system is to raise revenues to fund government expenditures.
- However, tax system can also be used to achieve public policy objectives through the application of specific measures such as preferential tax rates, exemptions, deductions, deferrals and tax credits.
- These measures are described as **tax incentives**. The revenue foregone is known as **tax expenditure**.
- In Kenya, the key reasons for tax incentives include:
    - i. Promoting domestic investments
    - ii. Attracting foreign direct investment (FDI)
    - iii. Promoting trade
    - iv. Cushioning specific segments of consumers against excessive tax burden and economic hardships.

TE estimation and Reporting

- Tax expenditure report is prepared jointly by the National Treasury (NT) and the Kenya Revenue Authority (KRA) as part of the structural benchmarks between the Government of Kenya and International Monetary Fund (IMF) Programme.
- The programme requires NT to publish Tax Expenditure and its budget implication report by end September of each year.
- As an international best practices, expenditure reporting is meant to foster government budgetary and fiscal transparency.
- KRAwith support of the world bank developed a benchmark tax system and repository of tax expenditures in (2019) which are critical in TE estimation.
- The benchmark provides the baseline for determining which tax measures constitute the tax expenditure.
- Tax expenditures are described as tax measures that deviate from the established benchmark system.

Tax Expenditure Estimates In Kenya



	2017	2018	2019	2020	2021
Personal Income Tax	3.526	3.816	4.654	4.125	1.157
Excise on Imports	3.777	4.127	4.221	5.389	537
VAT on Imports	25.546	24.415	22.795	17.695	12.009
Corporation Income Tax	15.345	29.397	22.134	23.956	5.857
VAT on imports (8% reduction rate of VAT on fuel)	0	0	9.087	16.789	28.009
Domestic VAT	356.707	319.886	257.206	234.378	211.943
Tax Expenditure as % of GDP	4,8%	4,1%	3,1%	2,8%	2,2%

Tax Head Contribution to the total TE

	Percentage to the total					
Tax Head /Years	2017	2018	2019	2020	2021	Average
Domestic VAT	88.1%	83.8%	80.4%	77.5%	81.7%	82.3%
VAT on imports (8% reduction rate of VAT on fuel)	-	-	2.8%	5.6%	10.8%	6.4%
VAT on Imports	6.3%	6.4%	7.1%	5.9%	4.6%	6.1%
Corporation Income Tax	3.8%	7.7%	6.9%	7.9%	2.3%	5.7%
Excise on Imports	0.9%	1.1%	1.3%	1.8%	0.2%	1.1%
Personal Income Tax	0.9%	1.0%	1.5%	1.4%	0.4%	1.0%
Total Expenditure	100%	100%	100%	100%	100%	100%

Kenyan TE trends from 2017 to 2021

- The Kenyan tax expenditure has been decreasing from 2017 to 2021 in both absolute values and as a percentage to the GDP.
- TE declined from Ksh.405 Billion in 2017 to Ksh.260 Billion in 2021. In terms of proportion to the GDP, the percentage of TE to the GDP dropped from 4.8% in 2017 to 2.2% in 2021.
- Domestic VAT contributes the largest proportion to the total TE across all the years of analysis.
- This is followed by VAT on imports and CIT while Personal Income Tax has been contributing the least to the total tax expenditure.

END!!
THANK YOU