

Utilization of Tax proceeds: Expectations from the tax payer



ANNUAL TAX CONFERENCE
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Presentation Outline

1. Background on Taxation and Development
2. Why Tax Matters
3. How to and Not to use Taxpayers Money

Introduction

Tax as the reliable and sustainable source of development finance

- ☐ Alternative to ODA, FDI and foreign credit as **major** sources of development finance.
- ☐ Creating a virtuous link between taxation and wealth creation
- ☐ Building productive capacity to promote value addition and employment creation as a major means of enhancing state revenue.

- ☐ Enhance linkages and stop leakages
- ☐ Address the tension between **pro-growth** tax policy to improve the “**investment climate**” and **pro-poor progressive** tax policy aimed at redistribution and poverty eradication
- ☐ View the two as mutually supportive
- ☐ Tax is more than revenue collection – Social Contract

Why Tax Matters to the Taxpayer



The Four Rs of Taxation

- ☐ **Raising revenue:** funding to deliver the services citizens need
- ☐ **Redistribution:** to address poverty and inequality
- ☐ **Re-pricing:** limiting public ‘bads’, (sin tax) encouraging public ‘goods’
- ☐ **Representation:** building accountability of governments and reclaiming policy space

Redistribution: to address poverty & inequality



- ❑ Tax systems can be ‘progressive’, but are too often ‘regressive’ – over-reliance on VAT, insufficient taxing of corporates or high earners (‘the tax consensus’)
- ❑ Tax systems can also exacerbate or reduce inequality (gender, regional and personal income)
- ❑ For social and economic justice the focus is on greater fiscal equity, including fairer and more equitable tax systems

Case

□ While tax collection in Brazil has increased, studies reveal that the poor pay substantially more with some paying nearly 50% of their salaries as taxes whilst the rich spend only 26% of their income as taxes.

□ In Kenya, the country's top 10% households control 42% of the total income while the bottom 10% control less than 1%. This means that for every shilling earned by the poorest 10% households, the richest 10% earn about Kshs. 56. (SID 2004 Report)

Re-pricing: limiting public bads, encouraging public goods



□ The design of a tax system can contribute to the achievement of social benefits by making it costly to engage in socially harmful actions

E.g. tax carbon emissions from aviation for addressing climate change;

E.g. ‘sin’ taxes on tobacco and alcohol consumption, to discourage smoking

Enhance Transparency and Accountability in Taxation plug the five main leakages that diminish tax revenue



- ☐ Tax due on income earned by multinationals and then moved offshore through **profit shifting** without paying appropriate tax (***Tax evasion and avoidance – Tax Dodging***)
- ☐ Tax due on income earned from assets which are held offshore
- ☐ Tax that would have been received had rates not been reduced by **tax competition and tax incentives** between countries seeking to attract foreign investment.

- ❑ Tax due but not paid – (due to corruption, weak enforcement mechanisms; low tax collection capacity, exemptions and privileges granted through the patronage system)
- ❑ Tax due on the informal or shadow economy
- ❑ *All of us must Pay our fair share of taxes*

Case

Zambian CSOs challenge mining tax exemptions

- ❑ Mining development agreements were negotiated with private enterprises over the copper mines. Huge exemptions of 0.6% of royalty rate and 25% corporate taxes were granted instead of the 3% and 30% respectively.
- ❑ In 2009, the government raised \$77m up from \$8m in 2004 in tax and royalty income from copper mining due to these new rates.
- ❑ Reforms in 2008 that restored of royalty to 3% and the introduction of windfall tax.

Revenue: funding to deliver the services citizens need



'Taxation funds the lion's share of the education budget, particularly the salaries of teachers, and so requires more attention.' Action Aid and Education International, 2009



Tax enables government to fund essential services and infrastructure, because it is more predictable than aid

With improved tax revenues, citizens can press governments to spend on services they need; and fulfillment of human rights obligations

Revenue

□ Bolivia tax reforms saw an increase in revenue from \$173m in 2002 to \$1.57bn in 2007. This has led to increased social spending. E.g. cash transfer prog, expansion of public pensions, school feeding prog etc.

□ The Government of Ghana introduced the communication tax. The government has since generated about GHS 247m to fund the National Youth Employment Programme

Representation: building accountability of governments to citizens

- ❑ Taxation is a fundamental part of state-building and democracy; collective bargaining around tax revenue creates a ‘social contract’
- ❑ To hold govts to account on how tax is raised and spent, citizens need access to information and ability to scrutinise budgets
- ❑ Many civil society campaigns have aimed to ensure greater tax transparency, along side budget monitoring and advocacy.

Case

□ In Kenya progressive monitoring of Constituency Development Fund (CDF) “managed” by MPs has seen many MPs loose their seats. In the 2007 General Elections the turn over was at 68% mostly a result of mismanagement of CDF (See pictures below for impact)

WHAT TAXPAYERS EXPECT FROM THEIR TAXES

Sampled images

Category A – Well implemented and completed project.



Constituency	Mwingi North – Kyuso Girls Secondary School
Project Activity	Construction of a dormitory, 3 classrooms and staff houses
Total Funds Awarded to Date	5,802,981
Total Funds Spent to Date	5,802,981
Total Unaccounted Funds	Nil

Category A (90%) – Well implemented and completed



Constituency	Gatanga – Youth Empowerment Centre
Project Activity	Construction of youth centre-Recording Studio.
Total Funds Awarded to Date	5,000,000
Total Funds Spent to Date	5,000,000
Total Unaccounted Funds	Nil

Category A (85%) – Well implemented and completed project



Constituency	Gichugu - St. Elias and Goretti Secondary School
Project Activity	Construction of 3 classrooms, Laboratory & Dinning Hall
Total Funds Awarded to Date	3,566,236
Total Funds Spent to Date	3,566,236
Total Unaccounted Funds	Nil

Category A (83%) – Well implemented and completed project



Constituency	Saboti - Bondeni Dispensary
Project Activity	Construction of maternity ward
Total Funds Awarded to Date	1,000,000
Total Funds Spent to Date	1,000,000
Total Unaccounted Funds	Nil

Category A (90%) – Well implemented and completed project



Constituency	Eldoret North – Kamagut Secondary School
Project Activity	Construction of laboratory
Total Funds Awarded to Date	1,000,000
Total Funds Spent to Date	1,000,000
Total Unaccounted Funds	Nil

Category A (85%) – Well implemented and completed project



Constituency	Sabatia – Bukulunya Secondary School
Project Activity	Construction of Dormitory
Total Funds Awarded to Date	3,550,000
Total Funds Spent to Date	3,550,000
Total Unaccounted Funds	Nil

HOW NOT TO USE TAXPAYERS

Category B – Badly Implemented project – Official Cost 100,000 (Estimated cost Ksh. 15,000/=)





Category B (45%) – Badly implemented, incomplete project

From 2009



Constituency	Gichugu – St. Peter’s Karumandi South Primary School
Project Activity	Construction of exhaustible toilets
Total Funds Awarded to Date	600,000
Total Funds Spent to Date	600,000
Total Unaccounted Funds	Nil

Category B (45%) – Badly implemented, incomplete project



Constituency	Langata – Chiefs Office, Langata Location
Project Activity	Purchase of container, toilet construction & Civil works
Total Estimated Cost	440,090
Total Funds Awarded to Date	1,800,000
Total Funds Spent to Date	1,800,000
Total Unaccounted Funds	Nil

Category B (33%) – Badly implemented



Constituency	Mwingi North – Kavaani/ Mutairu Earth Dam
Project Activity	Construction of an earth dam
Total Funds Awarded to Date	1,400,000
Total Funds Spent to Date	1,400,000
Total Unaccounted Funds	0

Category B (38%) – Badly implemented, demolished project

2007



Constituency	Sabatia – Sports Complex-From 2007
Project Activity	Purchase and fencing of land for sports complex
Total Estimated Cost	2,600,000
Total Funds Awarded to Date	5,180,000
Total Funds Spent to Date	2,680,000
Total Unaccounted Funds	2,500,000

Category B (35%) – Badly implemented, incomplete project



Constituency	Eldoret North – Sigowet Cattle Dip
Project Activity	Construction of a cattle dip
Total Funds Awarded to Date	225,000
Total Funds Spent to Date	225,000
Total Unaccounted Funds	Nil

Kisauni constituency

Rehabilitation of Maunguja cattle dip in 2011
-Ksh.1M



Category D (68%) – Abandoned Project



Constituency	Eldoret North – Kisor / Tebeswet Footbridge
Project Activity	Construction of footbridge
Total Funds Awarded to Date	100,000
Total Funds Spent to Date	100,000
Total Unaccounted Funds	0

Category E – Ghost projects



Constituency	Mwingi North – Mutwang'ombe Polytechnic
Project Activity	Construction of a Workshop
Total Funds Awarded to Date	1,050,000
Total Funds Spent to Date	0
Total Unaccounted Funds	1,050,000

IMPACT OF TAXPAYERS MONITORING

BEFORE NTA ASSESSMENT:

Category B (38%) – Badly implemented, incomplete project



Constituency	Sabatia – Nadanya Health Centre (2004 project)
Project Activity	Maternity Wing and gate construction
Total Funds Awarded to Date	1,920,000
Total Funds Spent to Date	400,000
Total Unaccounted Funds	1,520,000

AFTER NTA ASSESSMENT:



The building assessed earlier will be converted into a laboratory because it could not serve as a maternity ward.

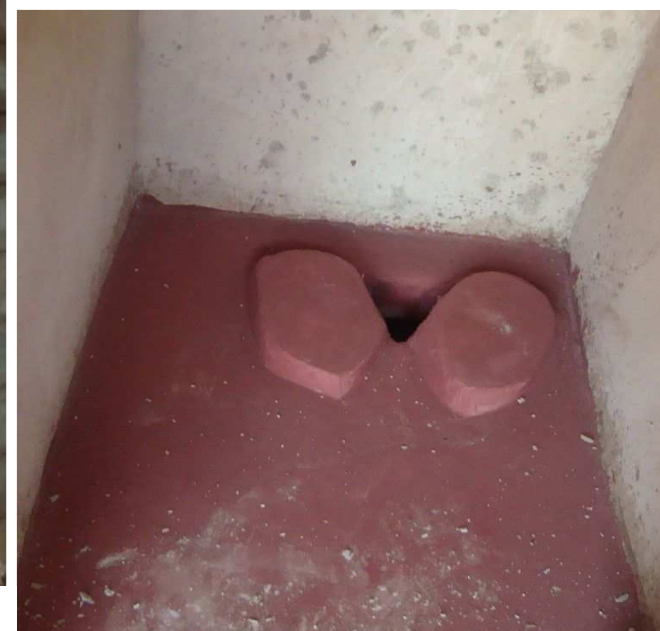
BEFORE NTA ASSESSMENT:

Category B (38%) – Badly implemented, incomplete project



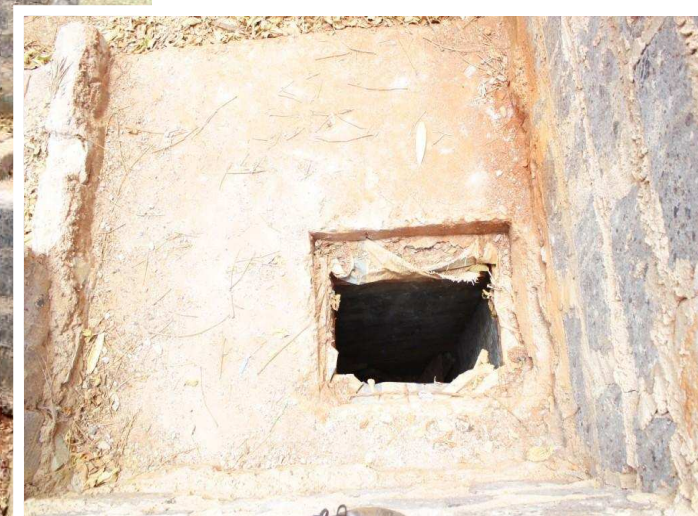
Constituency	Gichugu – St. Peter's Karumandi South Primary School (2009)
Project Activity	Construction of exhaustible toilets
Total Funds Awarded to Date	600,000
Total Funds Spent to Date	600,000
Total Unaccounted Funds	Nil

AFTER NTA ASSESSMENT:



BEFORE NTA ASSESSMENT:

Category B (48%) – Badly implemented, incomplete project



Constituency	Gichugu – Raimu Primary School
Project Activity	Construction of a toilet block
Total Funds Awarded to Date	150,000
Total Funds Spent to Date	150,000
Total Unaccounted Funds	Nil

AFTER NTA ASSESSMENT:



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BEFORE NTA ASSESSMENT:

Category B (45%) – Badly implemented, incomplete project



Constituency	Langata – Chiefs Office, Langata Location
Project Activity	Purchase of container, toilet construction & Civil works
Total Estimated Cost	440,090
Total Funds Awarded to Date	1,800,000
Total Funds Spent to Date	1,800,000
Total Unaccounted Funds	Nil

AFTER NTA ASSESSMENT:



BEFORE NTA ASSESSMENT:

Category E – Ghost projects (Project on ground estimated to cost Kshs. 350,000)



Constituency	Langata – CDF Office
Project Activity	Building of ultra modern CDF Office-3 years ago
Total Funds Awarded to Date	8,309,517
Total Funds Spent to Date	Nil
Total Unaccounted Funds	8,309,517

AFTER NTA ASSESSMENT:



BEFORE NTA ASSESSMENT:

Category B (35%) – Badly implemented, incomplete project



Constituency	Eldoret North – Sigowet Cattle Dip
Project Activity	Construction of a cattle dip
Total Funds Awarded to Date	225,000
Total Funds Spent to Date	225,000
Total Unaccounted Funds	Nil

AFTER NTA ASSESSMENT:



Funyula constituency

- Bwangangi primary school in 2008
Budget Ksh.2M



- Bwangangi primary school in 2011
Budget Ksh.7.4M





THANK YOU

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