

CHALLENGES AND OPPORTUNITIES OF MODERNISATION IN TAX ADMINISTRATION: THE EXPERIENCE BY KENYA REVENUE AUTHORITY

PRESENTATION TO THE ICPAK ANNUAL TAX CONFERENCE

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Content

❖ Why Reforms?

❖ Realization of Opportunities:

Challenges in Modernising tax

Administration

About KRA

Mission

‘Building Trust through Facilitation so as to Foster Compliance with Tax and Customs Legislation’

Vision

To facilitate Kenya’s transformation through innovative , professional and customer focused Tax Administration.

Core Values

Trustworthy, Ethical, Competence and Helpful.

- Our Reform Agenda is focused towards achieving our mission, vision and core values.

Mandate

- KRA's key mandate is to assess, collect and account for taxes generated locally, educate taxpayers, and ensure boarder control.
- Taxes collected include:-
 - ✓ Income Tax and Payroll Taxes
 - ✓ Value Added Tax (VAT)
 - ✓ Withholding taxes (Income Tax and VAT)
 - ✓ Domestic Excise
 - ✓ Import Duties
 - ✓ Agency Revenues etc

Why Reforms in Tax Administration?

1. Enhanced customer service
2. Reduced cost of collection
3. Efficient business processes
4. Transparency in tax administration
5. Increased tax compliance levels
6. Increase revenue collection

THE REFORM AGENDA

- KRA commenced its reform agenda as far back as 1995.
- Main objective – Create operational efficiency, through re engineered business processes and leverage on technology to drive revenue collection.
- Focus – the reform programme puts more focus on the **CUSTOMER** i.e the Taxpayer – Is the taxpayer Happy?
- What ? Create an enabling environment conducive to enhance taxpayer compliance through simplified processes.
- Output - Enhanced customer satisfaction which translates to willingness to comply without any intervention from the revenue authority – enhanced revenue collection at least cost possible

PRE-/ POST REFORM PERIOD

BEFORE

- Manual registration
- Manual filing
- Manual Payment
- Manual applications
- Data capture errors

AFTER

- Online registration
- 100% Online Filing
- Online payment
- Online applications
- Minimal errors

- Customer Satisfaction
- Enhanced Taxpayer Compliance
- Enhanced revenue at least cost possible.

**OPERATIONAL
EFFICIENCY**

OPPORTUNITIES

- Partnership with both international and National bodies (ATAF, CIAT, CATA, OECD etc)
- Linkage with other systems
- Information sharing
- Collaboration with other institutions e.g. SARS, Swedish Tax Authority (STA)
- Use of unique identifier
- Leveraging on best practice – not re-inventing the wheel
- Upcoming technological advances – Mpesa – simplified the payment process for small enterprises
- Innovative initiatives
- Broaden tax base & Enhanced revenue

BENEFITS/ OPPORTUNITIES OF MODERNIZATION

BENEFITS

1. IMPROVED QUALITY OF THE HUMAN RESOURCE

Staff have benefit from training opportunities and redeployments to new sections

2. BETTER SERVICE EXPERIENCE

Use of automated services requiring less of taxpayers visiting our offices

3. IMPROVED REVENUE COLLECTION

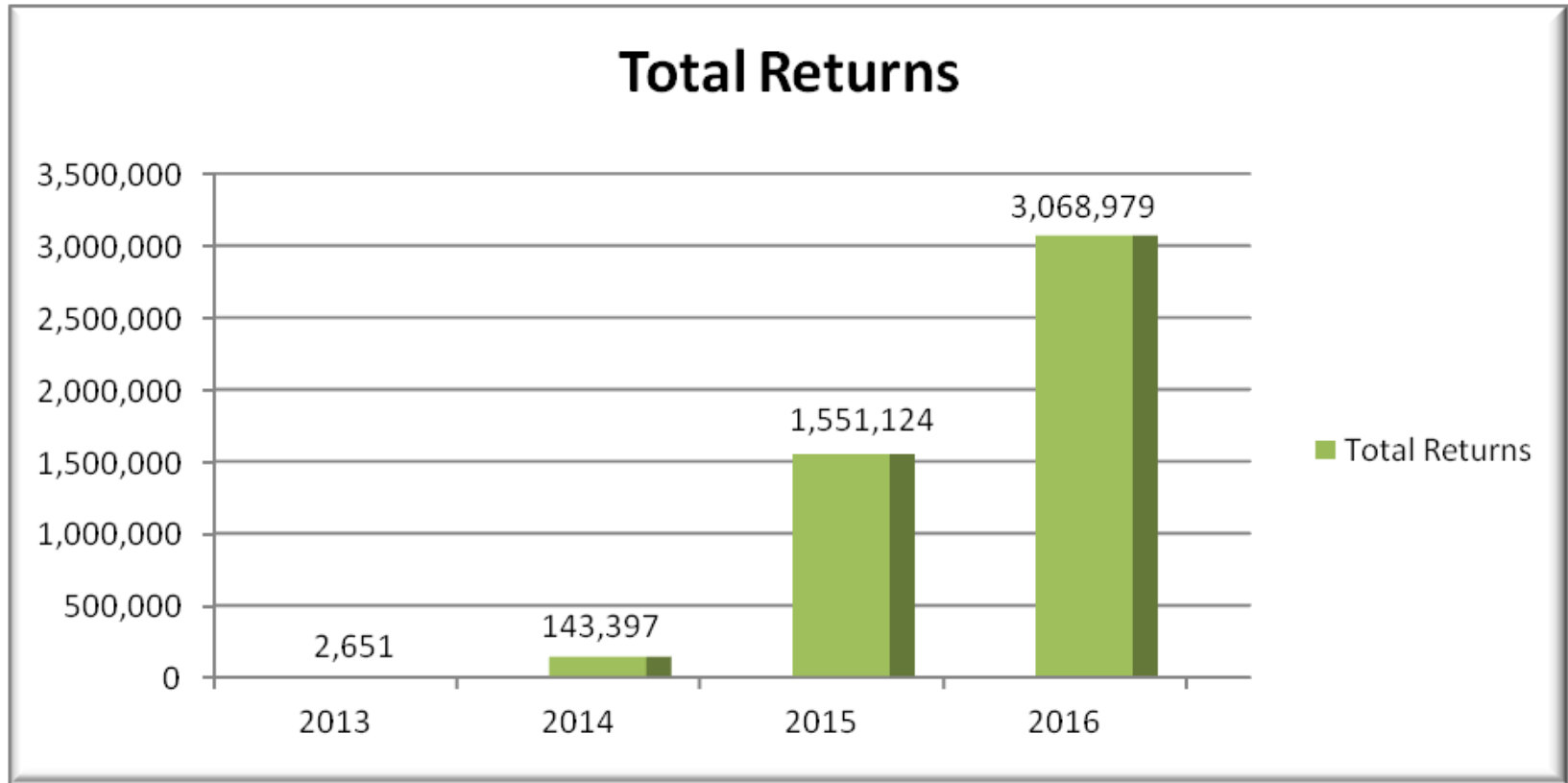
Through reducing revenue leaks, better intelligence reports generated, ease of compliance and deterrents e.g. system audit trails

4. PLATFORM FOR INTER-GOVERNMENT AGENCIES' CO-OPERATION

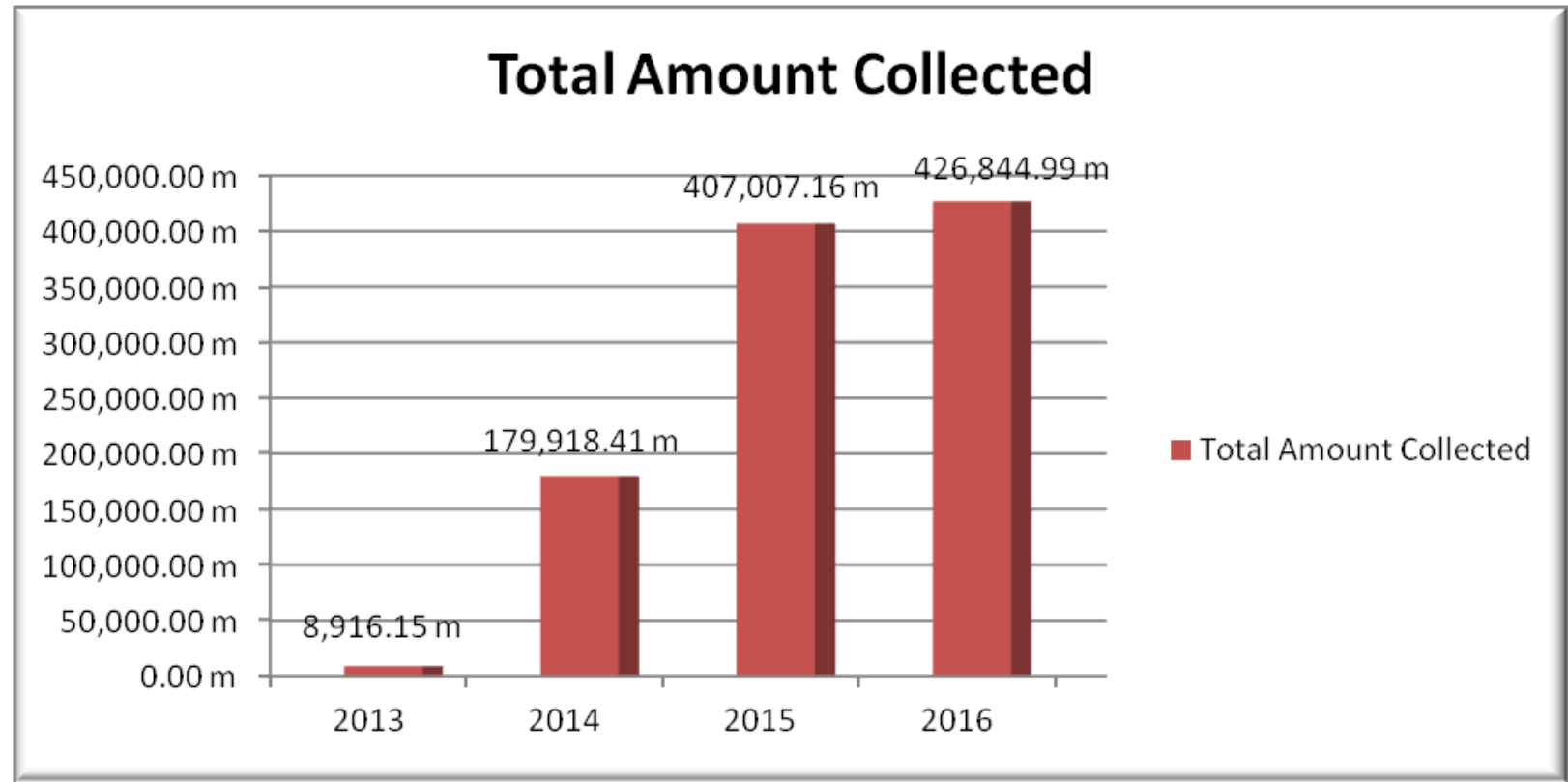
Various govt agencies can now link databases, share information and capitalize on synergies whose net effects include improved security for the nation, financial independence, improved living standards etc

KEY OUTCOMES

- Improved organizational capacity
- Improved business processes through automation
- Enhanced customer satisfaction
- Enhanced compliance level
- Rapid growth in revenue collection
- 90% contribution of the National Recurrent Expenditures Budget
- Cost of collection - below 2%



Total Amount Collected



IMPLEMENTATION CHALLENGES

| | Challenges | Mitigating Factors |
|---|---|---|
| 1 | Resistance to change from internal & external stakeholders | <ul style="list-style-type: none"> • Undertaking change management programmes • Sensitization • Re-assurance |
| 2 | Inadequate resources (funds & human resources) | <ul style="list-style-type: none"> • Adequate budgeting • Seek additional sources of funding to fill gaps |
| 3 | Systems vulnerabilities:- Power failures, Cyber crime, Data theft, System performance challenges | <ul style="list-style-type: none"> • Power backup facilities • Invest in cyber security. • Optimize system performance |

IMPLEMENTATION CHALLENGES CONT'D.....

| | Challenges | Mitigating Factors |
|----|--|---|
| 4. | Inadequate skills & limited network coverage | <ul style="list-style-type: none"> • Training • Reward IT innovations. • IT infrastructure |
| 5. | Lengthy procurement processes | <ul style="list-style-type: none"> • Better procurement planning • Timely monitoring of procurement processes |
| 6. | Data integrity (especially for 3 rd party data) | <ul style="list-style-type: none"> • Seamless integration of relevant IT systems • Data cleaning |

IMPLEMENTATION CHALLENGES CONT'D.....

| | Challenges/Risks | Mitigating Factors/ Corrective Actions |
|---|----------------------------|--|
| 7 | High cost of modernization | Proper research, Prudent Tendering/Negotiations, Trainings, Knowledge Transfer and monitoring of projects. |
| 8 | Enabling legislation | Ensure change being made is supported by law... Resistance to have KRA have access to data on mobile money transfer. |

Challenges in Modern Tax Administration

- **Automation of processes in a dynamic environment:** Change is inevitable, yet Tax is sensitive. How flexible should you be?
- **Culture Change:** adoption to new ways of business for staff and taxpayers (including long-serving auditors)
- **User capacity:** adoption of users to a technology platform in a population of relatively low computer literacy. How much is enough education? What are the channels for awareness
- **Data challenges,** data migration, dirty' data, lack of capacity to clean data
- **Integration challenges** with OGAs and other stakeholders arising from procurement process, system maturity

Critical Success Factors in Implementation of Reforms

Senior Management Support

Funding & Resources

Strategic Plan

Government Support

Committed Team

Stakeholder Consultation

Legislative readiness

Clear Corporate Vision

LESSONS LEARNT

- Project sponsor/owner - power, authority, strong will
- Stakeholder engagement. (internal & external) in all stages of the project.
- Undertake change management exercise
- Business process re-engineering.- What should be automated?

LESSONS LEARNT CONT'D.....

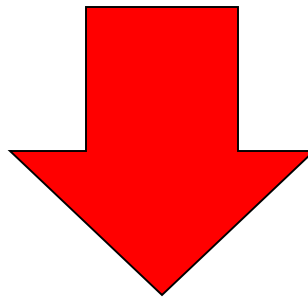
- Effective communication strategy
- Phased implementation approach
- Political goodwill is crucial in implementing reforms
- Balance between simplicity and information required by the tax administration

Conclusions

- Modernization programmes – (efficiency, better service delivery, enhanced customer satisfaction.)
- Satisfied taxpayers comply with minimal interventions.
- Leads to enhanced revenue collection at the least cost possible.

Conclusions


- Bottom line.....What is it that we have to do differently?
- New business model that reflects where we want to be.





- **Mission** - Building Trust through Facilitation so as to Foster Compliance with Tax and Customs Legislation'


KENYA REVENUE AUTHORITY

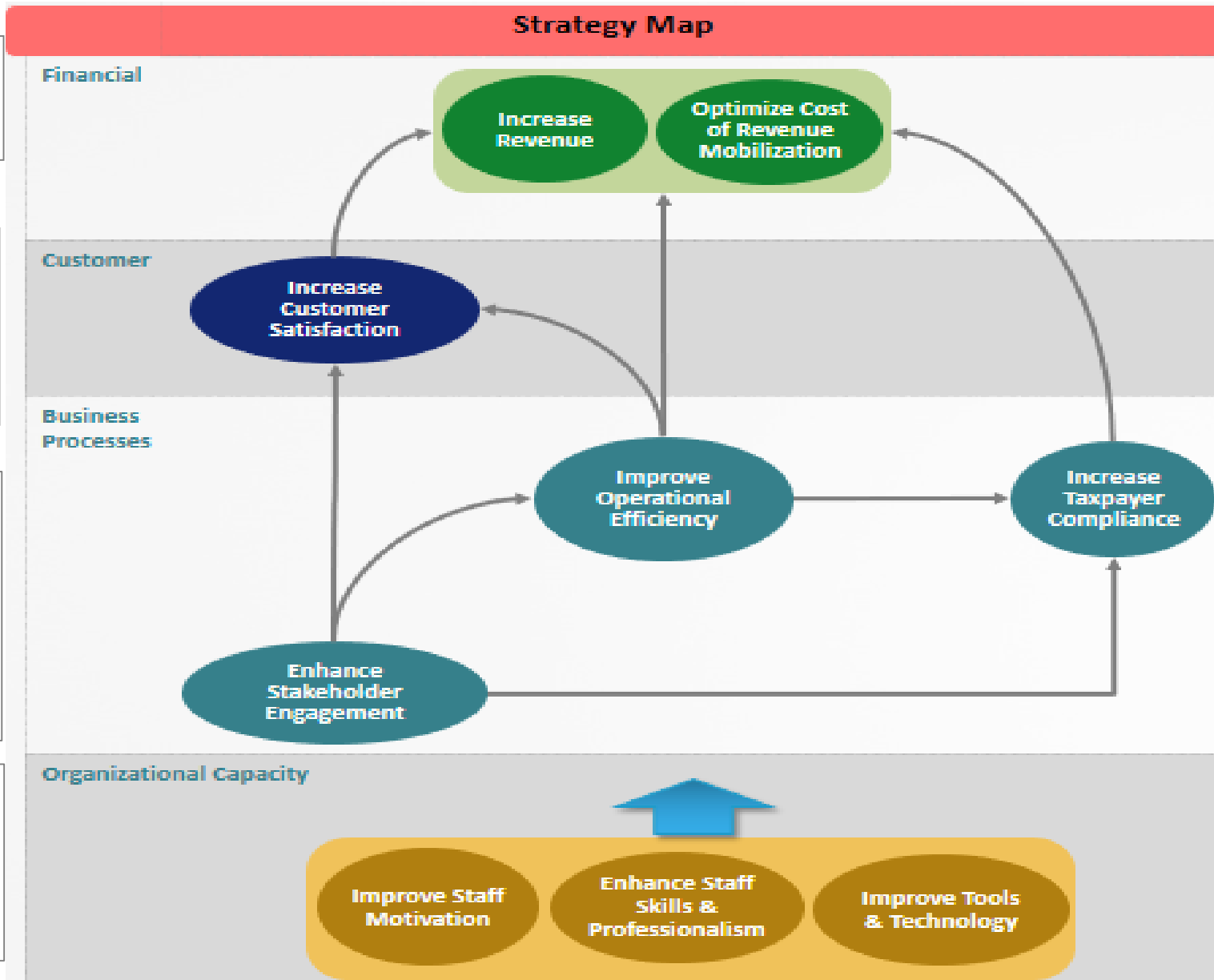
Mission: Building Trust through Facilitation so as to Foster Compliance with Tax and Customs Legislation'


We grow Tax revenues while optimizing the cost of collection


Taxpayers are satisfied with services that we deliver and the way we interact and engage them


Taxpayer processes and operations are driven by advances in technology and our taxpayers are compliant with the tax laws and provisions.


KRA has motivated & professional staff and we leverage technology to drive tax collection processes



Thank You