

Adequacy & Sustainability of our  
revenue raising mechanism for  
2017/18  
ICPAK Annual Budget Seminar

By Phyllis N. Makau  
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# Introduction

- The 2017/18 Budget is finalized and highlights of measures given several months before the time :
  - (i) Budget estimates usually submitted by April 30<sup>th</sup> each year
  - (ii) Highlights of the measures given by mid June each year together with the other countries in the region

# The Overall Budget financing framework

- According to the macro framework as expounded in The BPS and Budget statement the Budget will be financed as follows
- (i) Revenue=====74.5%
- (ii) Grants===== 2.6 %
- (iii) Borrowing (Domestic +External)== 22.9%

# The Underlying economic Situation

## (i) The drought:

- Rise in food stuffs and other related items:- High inflation rate
- Increased spending on drought mitigation activities
- Tax exemptions on food stuffs, and related items
- Reduced prices in the agriculture sector (maize) and loss of income

The tax exemptions and reduced production combined could lead to less tax collection but as has been the case the rains will finally come and the positive impacts will be in 2018.

# The Underlying economic Situation

(ii) The electioneering mood that may dampen investments

- wait and see attitude for the first half of the year
- Loss of Jobs as a few investors reduce their capital injections into the industries

This coupled with the interest capping could lead to lower than anticipated growth in manufacturing hence may have negative impact on the revenue collection in FY 2017/18

# Projection for Income Tax

- Income tax has been the major driver of revenue growth in the recent past and it will continue in FY 2017/18
- pay as you earn will slightly be boosted by the adjustment of wages of civil servants
- However corporate tax and capital gains may just remain subdued due to the investor confidence

Does the new tax bands and personal relief given lead to lower than expected PAYE??

# Tax increase in other goods and activities

- Beer and cigarettes: does this lead to less consumption or lower quality:- consumer choices: however a continuous policy reversals!!!
- Betting: a punitive tax to the uncontrolled but huge industry:- These resources need to be harnessed for supporting the economy

# Tax waivers and reliefs

- The government has released a pro poor tax burden strategy
  - Food stuffs:- maize and wheat flour---- but this may not be transferred to the poor
  - Health Sector: Vat removed from on hospital equipment
  - Tourism sector:- Locally assembled vehicles for tourism exempted from VAT
  - Tax Amnesty to repatriation wealth from abroad but declare source of income
  - Blue economy:- Investment deductions to reduce tax liability
  - Tax relief: This is automatic affects those in the payroll



# Administrative measures: Opportunities

- Digital age:- is KRA moving fast enough to catch up with technology?. On line forex trading, online shopping and purchases, entertainment
- Transfer pricing:- Multinational and tax avoidance.

# East Africa region the case of Taxes under CET

- Measures not outlined means there are tax measures yet to be announced.
- Effectiveness of the measures: Do the measures become effective from now or in July 1.
- Effect of legislature in review and enactment of the various revenue measures.

# Conclusion

- A policy of redistribution of wealth is more effective using expenditure policy than tax policies
- The over estimation of revenue in 2016/17 means the baseline has a bearing on the projections of revenue in 2017/18.

- Q&A