

# Taxation of Income vs Taxation of Capital

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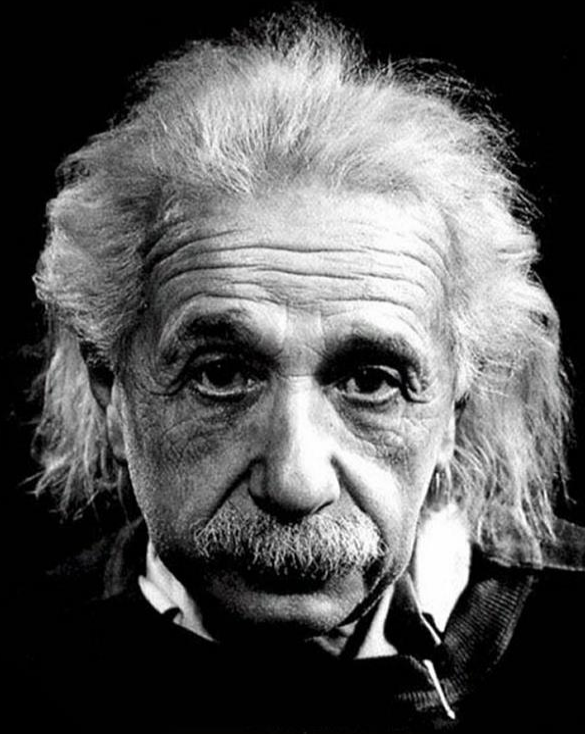
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# Introduction...



THE HARDEST  
THING IN THE  
WORLD TO  
UNDERSTAND IS  
INCOME TAX.



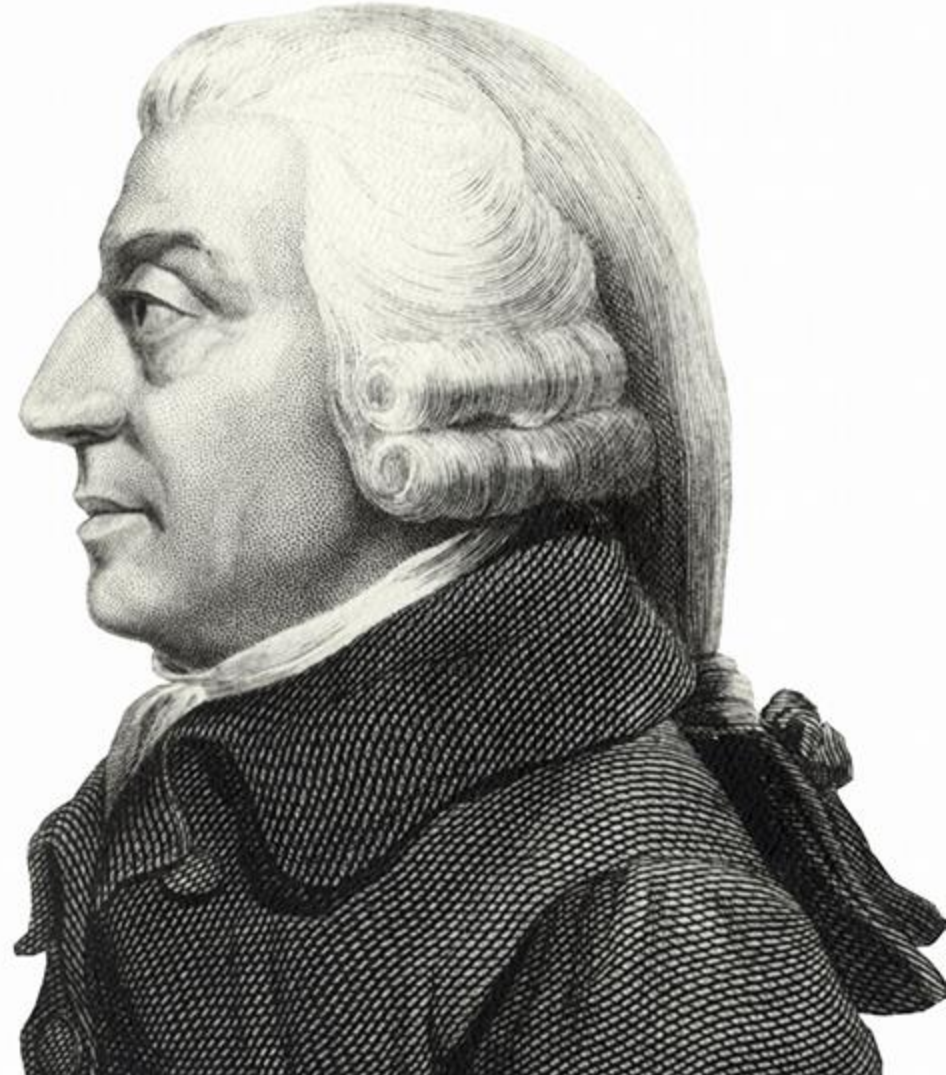
Albert Einstein

# Introduction...



*"It is not very unreasonable  
that the rich should  
contribute to the public  
expense, not only in  
proportion to their revenue,  
but something more than in  
that proportion."*

*--Adam Smith,  
"The Wealth of Nations"*



# Overview of taxation of income



What is an income?

- Income is a stream of money, which a person receives from different sources.
- It includes:
  - Wages and salary
  - Rental income
  - Capital gains
  - Interest and Dividend income
  - Income from business or profession.

# Overview of taxation of income



How is income taxed?

- Corporation Tax
- Turnover Tax
- Pay As You Earn
- Withholding Tax
- Capital Gains Tax
- Compensating Tax

So what is Income tax?



# Overview of taxation of income



Type of income	Income Tax
Business profits- incorporated persons	Corporation Tax
Interest	Withholding Tax
Dividend	Withholding Tax
Rent	Rental income tax
Salary and Wages	Pay as you Earn
Business profits- unincorporated persons	Pay as you Earn/ Turnover Tax
Capital gains	Capital gains tax

# Overview of taxation of Capital



- What is Capital?
- Is capital the same as wealth?
- What constitutes of Wealth?



# Overview of taxation of Capital



- Capital/wealth is the total market value of all the assets possessed, stored or saved by a person for future use.
- Wealth includes:
  - owner - occupied housing;
  - cash deposits and bank deposits;
  - money funds, savings in insurance and pension plans;
  - investment in real estate and unincorporated businesses;
  - corporate stock, financial securities and personal trusts

# Overview of taxation of Capital



## What is Capital Tax?

- A tax levied on the total net value of a persons assets
- Capital tax is also called a wealth tax, equity tax or net worth tax
- Capital tax is levied on the following :
  - possession of wealth;
  - transfer of wealth; and
  - appreciation of wealth.

# Overview of taxation of Capital



- Other forms of capital tax include:
  - Net wealth tax;
  - Inheritance tax;
  - Real estate tax;
  - Gift tax; and
  - Land tax.

# Overview of taxation of Capital in Kenya



- Inheritance tax
- Land rate

# Income Vs Wealth



	INCOME	CAPITAL/WEALTH
<b>Meaning</b>	Refers to the money received or earned on a continuous basis, as a return for work or investments.	Implies money or valuable possession accumulated by a person during the course of life.
<b>What is it?</b>	Flow of money	Stock of assets
<b>Acquisition</b>	Generated immediately.	Created over time.
<b>Tax levied</b>	Income tax	Wealth tax

# Objectives of levying Income Tax



- Finance government expenditure
- To Reduce Income Inequality;
- Remove Regional Disparities
- Economic stability

# Pros of levying Income Tax



- Its cost effective;
- Its simple;
- Its inclusive
- Its Neutral;
- It has minimum tax gap



# Cons of levying high Income Tax



- Economic distortion;
- Increased unemployment;
- Capital flight;
- Discourages work;
- Discourages savings and entrepreneurship; and
- Inequity – the higher income individuals pay less tax

# Objectives of levying Wealth Tax



- Finance government expenditure;
- Improve horizontal and vertical equity;
- Reduce unemployment.

# Pros of levying Wealth Tax



- Reduced government budget deficits;
- Increased employment.
- Horizontal equity
- Efficiency
- Vertical equity – progressive taxation

# Cons of levying Wealth Tax



- High administration and compliance costs
- The Valuation Problem
- The Liquidity Problem
- Economic distortions
- Capital flight

# Income & Wealth Tax Trends in Kenya



## Income Tax

- Income Tax Act Review;
- Rental Income Tax
- Capital Gains tax
- Transfer pricing

## Wealth Tax

- Inheritance Tax - reintroduction
- Taxation of idle land
- Gift Tax –CGT

# Income and Wealth Tax Trends globally



## Income Tax

- Transfer pricing
- Income tax legislation review
- Tax morality and Transparency

## Wealth Tax

- Inheritance/estate Tax
- Gift Tax
- Wealth tax abolishment

# Countries that do not levy Income Tax



Country	Country
Qatar*	The Bahamas*¥
Oman*~	Monaco*
United Arab Emirates*~	Kuwait*¥
Saudi Arabia*¥β	Bermuda*¥
Bahrain*¥	The Cayman Islands*

**Key:**    \* No tax on personal income

      ~ No Capital Gains tax

      ¥ Social security payments

      β Capital Gains tax paid



# Countries that levy Wealth Tax



Country	Wealth Tax-Rate
France	Progressive tax (0 to 1.5%)
Norway	Progressive tax (0.7% to 1.5%)
Switzerland	Progressive tax (0.13% to 0.94%)
Spain	Progressive tax (0.2% to 2.5%)

# Countries that levy Wealth Tax



- Inheritance is taxed in all EU Members except:
  - ❖ Sweden
  - ❖ Austria
  - ❖ Latvia
  - ❖ Romania
  - ❖ Estonia
  - ❖ Bulgaria
  - ❖ the Czech Republic
  - ❖ Cyprus
  - ❖ Malta
  - ❖ Spain
- World over, tax on real estate and land are common

# Countries that have abolished Wealth Tax



- ❖ Austria(1994)
- ❖ Denmark(1997)
- ❖ Germany(1997)
- ❖ Finland(2006)
- ❖ Iceland(2006)
- ❖ Luxembourg (2006)
- ❖ Netherlands (2001)
- ❖ India(2016)

# Reasons for Wealth Tax Abolishment



- High administrative expense in ascertaining wealth tax
- No sound and comprehensive evaluation system
- Public opposition - Netherlands
- Violates the principle of equal taxation of all property - Germany
- Double taxation
- Encourages hiding of assets
- Deemed to be punishing success
- Assessment problems - Austria

# Which one is economically Viable?



- Wealth Tax;or
- Income Tax;or
- Mixture of both.

# Which one is economically Viable?



- No country in Africa has imposed net wealth tax
- Income taxes are the major source of government revenue
- The high rate of repeal of net wealth tax requires introspection before imposition
- Can social reengineering be achieved through other taxes?
- The contribution of net wealth tax to GDP in EU is on average 0.5%

# Which one is economically Viable?



- Kenya Wealth base
- Elasticity of the type of wealth



# Which one is economically Viable?



- After all in Winston Churchill's words

“I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle”. ”

# Q & A



# Contact details



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