



Framework For Tax Policy & Legislation

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Introduction

The current tax laws are complex and there is need to:

Simplify tax laws

**Simplify tax
administration**

**Have a tax policy
framework to guide
the taxation in
Kenya**

Presentation Outline



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● Situation Analysis



02

● Purpose of the Policy



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● Guiding Principles



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● Policy Objectives

Situation Analysis



Situational Analysis

Definition of Income

Any monies or benefits that accrue to all economic actors from all economic activities regardless of the source

Economic Diversification

The framework should be responsive to emerging sectors to enable taxation of all sectors

Tax Incentives

Should provide relief across the value chain, motivate investment and align to the economic agenda

Digital Economy

Benchmarking against global standards – BEPS & OECD
Should provide mechanism for taxing digital intangibles

Data Management

Procedures to facilitate the acquisition, validation & storage of data
Information gathering should be digitized

International Taxation

Clarity and predictability in taxation in order to provide international coherence in taxation - DTAs

Situational Analysis cont'd

Harmonization with accounting standards

The Tax regime should be harmonized with IFRS & IAS

Tax on Capital Gains

There should be clear policies on taxation of capital appreciation in line with the development agenda

Inflationary Adjustment

The tax framework should incorporate inflationary indexation in the taxation.

Definition of Terminology

Some definitions have become inadequate and obsolete to provide clarity for tax purposes

Harmonization with the constitution

The ITA should be aligned to the constitution, existing revenue statutes & the Companies Act 2015

Purpose of the Policy



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**To design an Tax system that
efficiently facilitates equitable
revenue mobilization to enable
sustainable social economic
development in Kenya**

Guiding Principles



Simplicity

Certainty

Equity

Productivity

Efficiency

Neutrality

Policy Objectives



1. A simplified Tax System

Policy Objective

To create a simplified Tax system that enables tax payers to understand, compute & comply with their tax obligations

Key Concerns

- ✓ Complexity in filing returns
- ✓ Complexity in IT infrastructure
- ✓ Lack of clarity in definition of Income
- ✓ Complexity in computation mechanisms

Policy Actions

- ✓ Review complexities & design a more responsive regime
- ✓ Stakeholder engagement
- ✓ Harmonize taxation of income

Policy Outcome

- ✓ Enhanced ownership of the tax process
- ✓ Increased tax compliance
- ✓ Enhanced revenue collection

Policy Risks

- ✓ Review of the tax system & tax laws is time consuming requiring political will
- ✓ Varied interpretation may arise from over simplification

2. Equitable, Neutral and Predictable Tax System

Policy Objective

To facilitate equitable neutral and predictable tax regime

Key Concerns

- ✓ Design of incentives
- ✓ Basis for exemption & exclusions
- ✓ Double taxation for businesses
- ✓ Frequency of tax law amendment

Policy Actions

- ✓ Design incentive schemes
- ✓ Unilateral tax credits
- ✓ Clarity in definitions
- ✓ Harmonize broader taxation system

Policy Outcome

- ✓ Redistribution of resources within the economy
- ✓ Reduction of inequalities
- ✓ Increased investments

Policy Risks

- ✓ Political goodwill
- ✓ Inadequate resources
- ✓ Change in political environment

3. Stability in Revenue Collection

Policy Objective

To enhance stability in revenue collection by broadening the tax base while facilitating equity in tax burden

Key Concerns

- ✓ Narrow tax base
- ✓ Non-conventional transactions
- ✓ Erosion of the tax base through growth of digital economy

Policy Actions

- ✓ Integrate systems for information sharing
- ✓ Utilize technology & data management
- ✓ Collaborate with stakeholders

Policy Outcome

- ✓ Increased number of tax payers
- ✓ Stable revenue collection
- ✓ Certainty in revenue forecasts

Policy Risks

- ✓ Corruption
- ✓ Resistance from stakeholders
- ✓ Public backlash
- ✓ Lack of comprehensive revenue data

4. Efficiency in Tax Administration

Policy Objective

To enhance efficiency in tax administration through integration of the identification of individuals and businesses

Key Concerns

- ✓ Limited access to tax payer transactions
- ✓ Lack of precision in identification of tax payers

Policy Actions

- ✓ Harmonize various laws to facilitate the registration of a single identifier

Policy Outcome

- ✓ Holistic view of the tax payer to monitor all economic activities
- ✓ Increased revenue
- ✓ Enhanced efficiency in tax administration

5. Accountable and transparent tax system

Policy Objective

To promote accountability and transparency by the tax payer, government and tax administrator

Key Concerns

- ✓ Revenue leakages
- ✓ Erroneous determination of tax liability by the tax administrator

Policy Actions

- ✓ Review penalty system on tax evasion
- ✓ Leverage on simplified technology
- ✓ Incorporate taxation courses in schools

Policy Outcome

- ✓ Transparent & accountable tax system
- ✓ Reduced leakages
- ✓ Reduced cost of tax administration

Policy Risks

- ✓ Resource constraints
- ✓ Low uptake of technological platforms
- ✓ Cyber security risk

6. Enabling sustainable economic development

Policy Objective

To promote sustainable economic development in Kenya

Key Concerns

- ✓ Support to the present economic growth agenda
- ✓ Environmental responsibility development
- ✓ Mobilization of all resources to drive productivity

Policy Actions


- ✓ Align tax regime to economic growth agenda
- ✓ Design a progressive tax regime
- ✓ Shift reliance from direct tax to consumption & indirect tax

Policy Outcome

- ✓ Sustained economic growth rates
- ✓ Reduced poverty levels
- ✓ Reduced inequality

Policy Risks

- ✓ Corruption
- ✓ Lack of political goodwill in implementing the policy

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The design of Kenya's Tax Regime
should enable a **rewrite of the law
to simplify the Tax Statute.**

This will ease **compliance for tax payers**
and **enhance efficiency** in revenue
administration



| Thank You!