

Framework For Tax Policy & Legislation

FRANCIS KAMAU

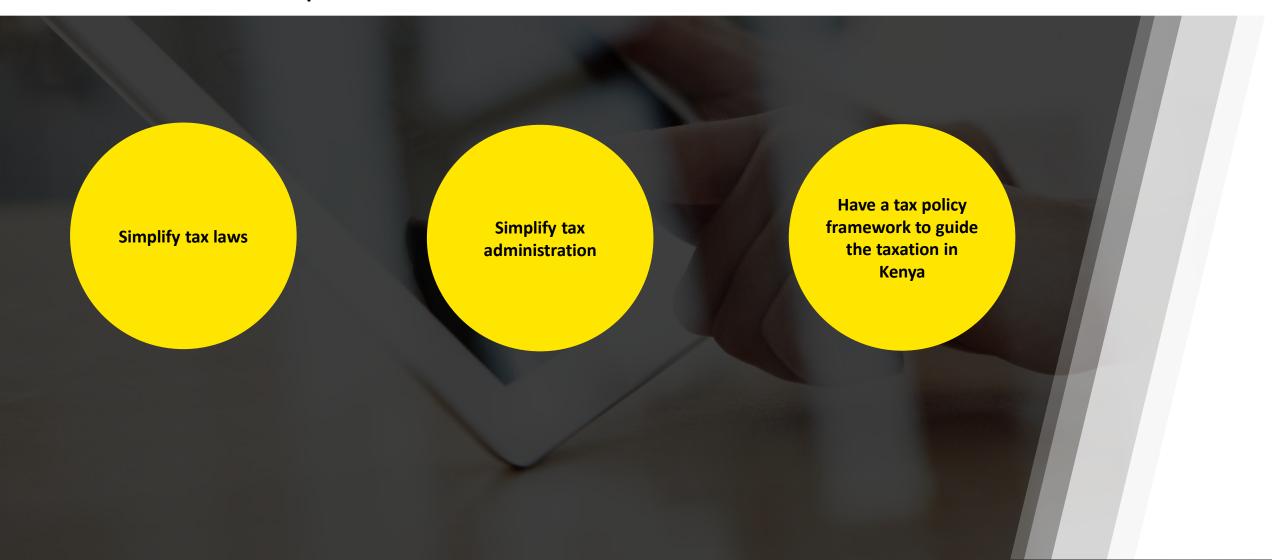
EA LEADER & TAX PARTNER

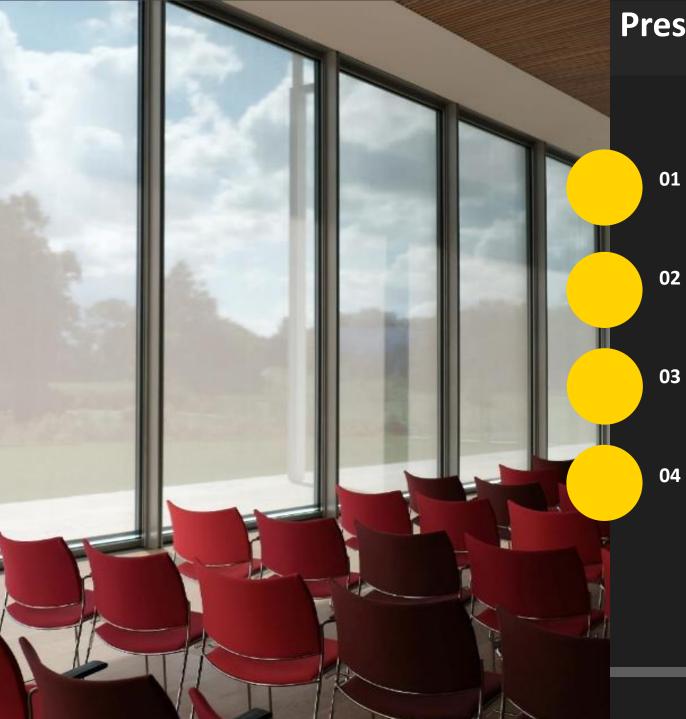
- EY



Introduction

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





Presentation Outline

O1 Situation Analysis

Purpose of the Policy

Guiding Principles

Policy Objectives



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











1. A simplified Tax System

Policy Objective

Key Concerns

Policy Actions

Policy Outcome

Policy Risks

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

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

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

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

- ✓ 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

Key Concerns

Policy Actions

Policy Outcome

Policy Risks

To facilitate
equitable
neutral and
predictable tax
regime

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

- ✓ Design incentive schemes
- ✓ Unilateral tax credits
- ✓ Clarity in definitions
- ✓ Harmonizebroader taxationsystem

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

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

3. Stability in Revenue Collection

Policy Objective

Key Concerns

Policy Actions

Policy Outcome

Policy Risks

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

- ✓ Narrow tax base
- ✓ Nonconventional transactions
- ✓ Erosion of the tax base through growth of digital economy
- ✓ Integrate systems for information sharing
- ✓ Utilize technology & data management
- ✓ Collaborate with stakeholders

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

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

4. Efficiency in Tax Administration

Policy Objective

Key Concerns

Policy Actions

Policy Outcome

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

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

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

Key Concerns

Policy Actions

Policy Outcome

Policy Risks

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

- ✓ Revenue leakages
- ✓ Erroneous

 determination of

 tax liability by

 the tax

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

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

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

6. Enabling sustainable economic development

Policy Objective

Key Concerns

Policy Actions

Policy Outcome

Policy Risks

To promote sustainable economic development in Kenya

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

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

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

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

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

