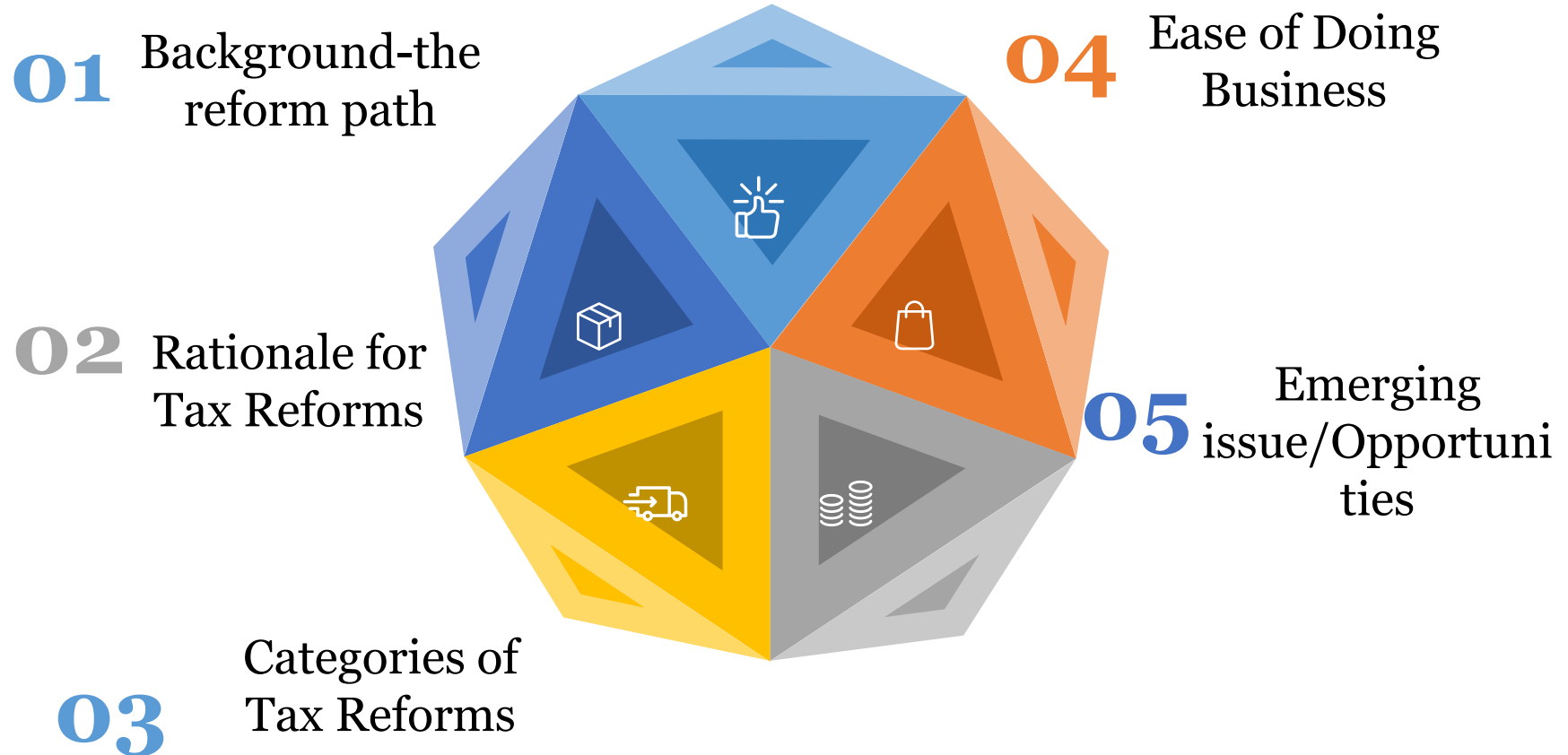


ICPAK, 28th Economic Symposium

Tax Reforms for Economic Competitiveness

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Outline



Introduction

- Economic competitiveness is underpinned by various factors key among them, cost of operation, taxation and investment policies.
- KRA's role is therefore critical
- Tax reform measures are thus necessary to reduce compliance cost and cost of collections and ultimately reduce the cost of doing business

2. Tax policy – guiding principles



Equity and fairness

Simplicity

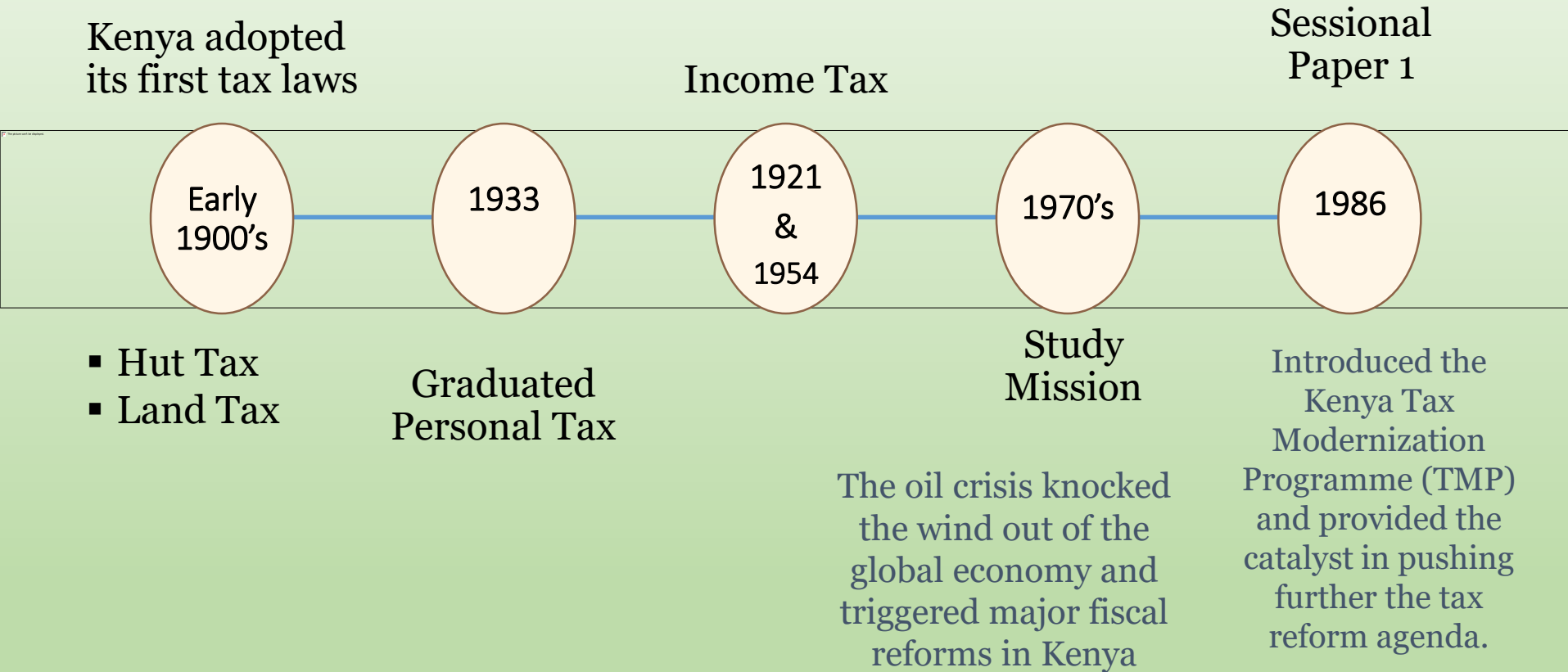
Predictability - certainty

Low compliance and administrative cost

Neutrality

Sustainability

1. Background-the tax reform path



Background-the tax reform path-cont'd

Incorporation of
Kenya Revenue
Authority (KRA)

- VAT Act (2013)
- TPA(2015)
- EDA(2015)
- TATA (2015)
- Income Tax(2019/20)

1995

2004/05

Post 2010

Revenue
Administration Reform
and Modernization
Program adopted by the
KRA

2. Rationale for Tax Reforms



Enhance efficiency and effectiveness in tax administration - reduce cost of compliance for taxpayers and cost of tax collection for KRA

Increase tax productivity - Broaden the tax base by shifting tax policy towards greater reliance on indirect taxes as opposed to direct taxes

Achieve a tax system that is sustainable in the face of changing conditions domestically and internationally

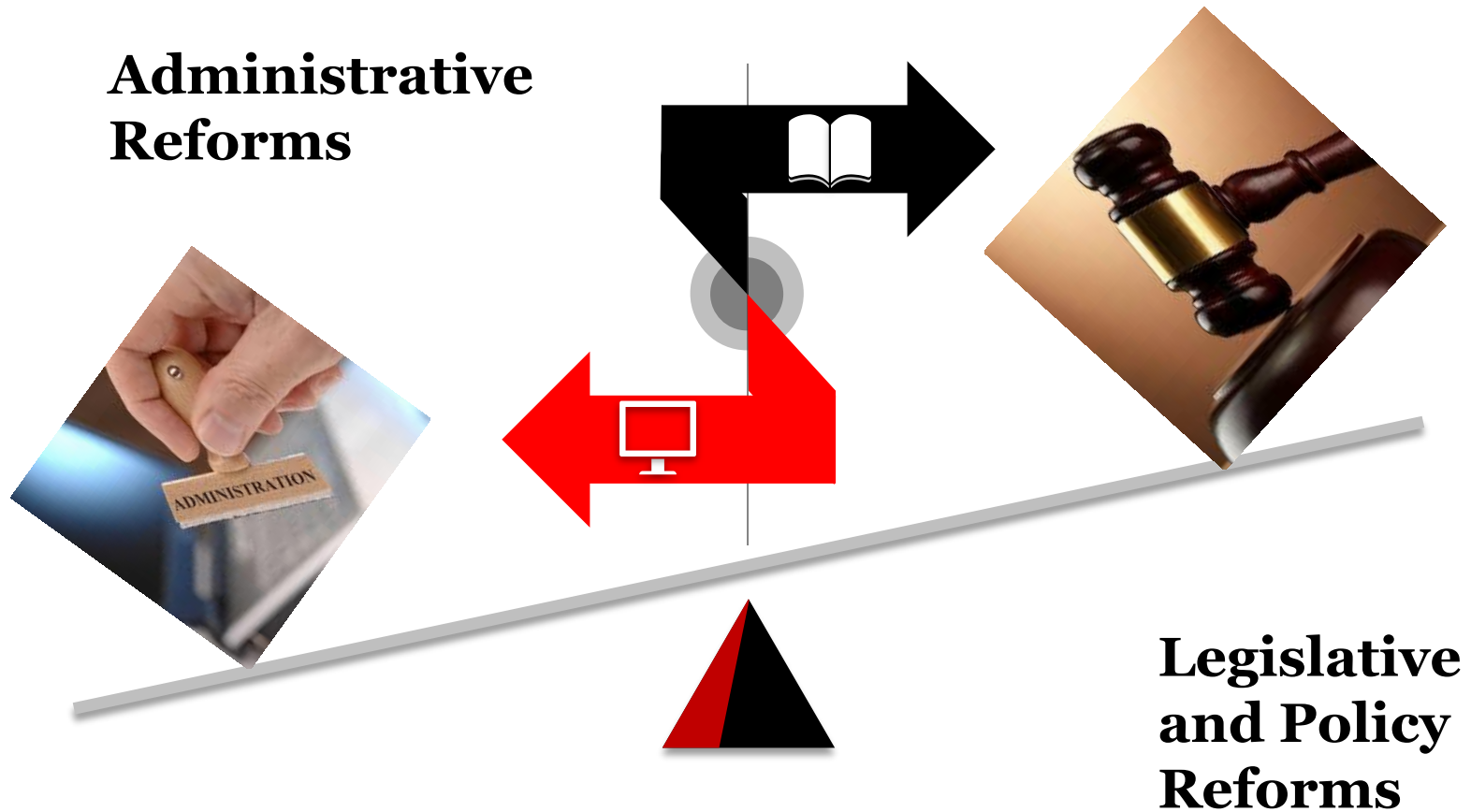
Align with evolving business models e.g in the case of digitization where the market has moved from a physical location to a virtual space

Reduce inequality and economic distortions created by taxes

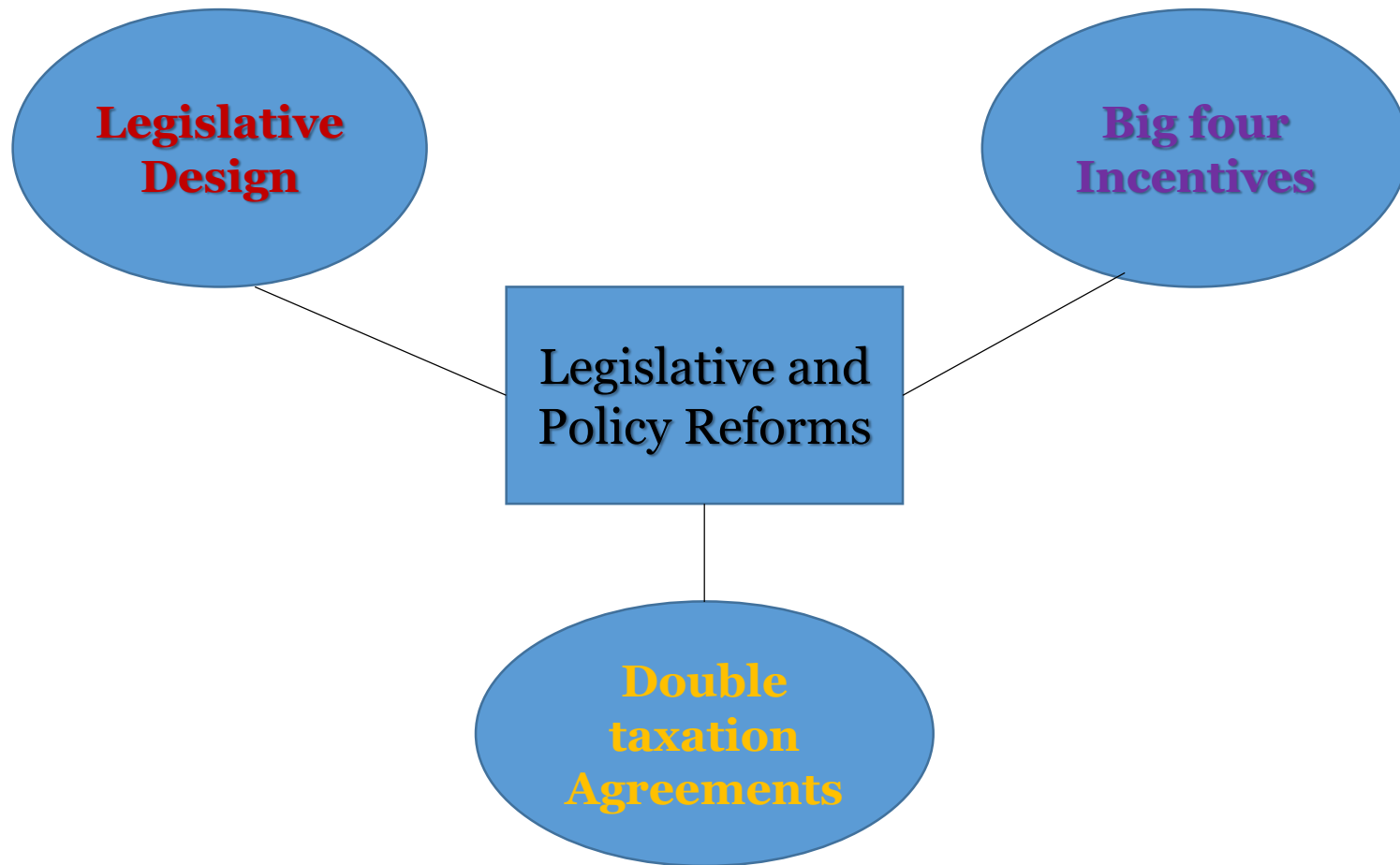
Improve efficiency, fairness and administrative feasibility of the tax regime

3. Categories of Tax Reforms

Tax reform has focused on the following two aspects:



i) Legislative and Policy Reforms- Highlights



a) Legislative Design-Key Highlights

A number of Tax statutes have either been amended or overhauled: VAT Act (2013); TPA(2015); EDA(2015); TATA (2015); Income Tax Bill(2019/20).

1

Broadening Taxpayers Base

Taxation of the informal Sector and the digital economy.

2

Focus on Indirect Taxation

Tax policy should put more focus on indirect taxes which are easier to collect, administer and difficult to evade.

3

Minimizing Cost of Collection

Minimize collection cost to attain the 1% international practice.

4

Reduction of tax expenditure

Proliferation of incentives - Exemptions should be rationalised to ensure they meet the intended objectives.

5

Neutrality

Tax incentives are rationalised in the law so as not to bring about market distortion.

b) Incentives to Support Big4 Plan

Several incentives have been given in support of the government's Big4 Agenda. These include, among others:

1

Electricity
Rebate for
manufacturers

2

Lower IDF and
RDL rates for
raw materials
and intermediate
products
imported by
approved
manufacturers

3

Tax incentives
for Export
Processing
Zones (EPZ),
Special
Economic
Zones (SEZ)
and Special
Operating
Framework
Arrangements
(SOFA).

4

Tax incentives to
support local
assembly of
motor vehicles.

5

Tax incentives
for affordable
housing
schemes.

c) Double Taxation Agreements (DTAs)

- Kenya has signed Double Tax Agreements with key partners to facilitate foreign companies that choose to invest in the country.
- Examples of countries that Kenya have DTA with include; UK, Denmark, France, South Africa, Sweden, Germany, Canada, Zambia.

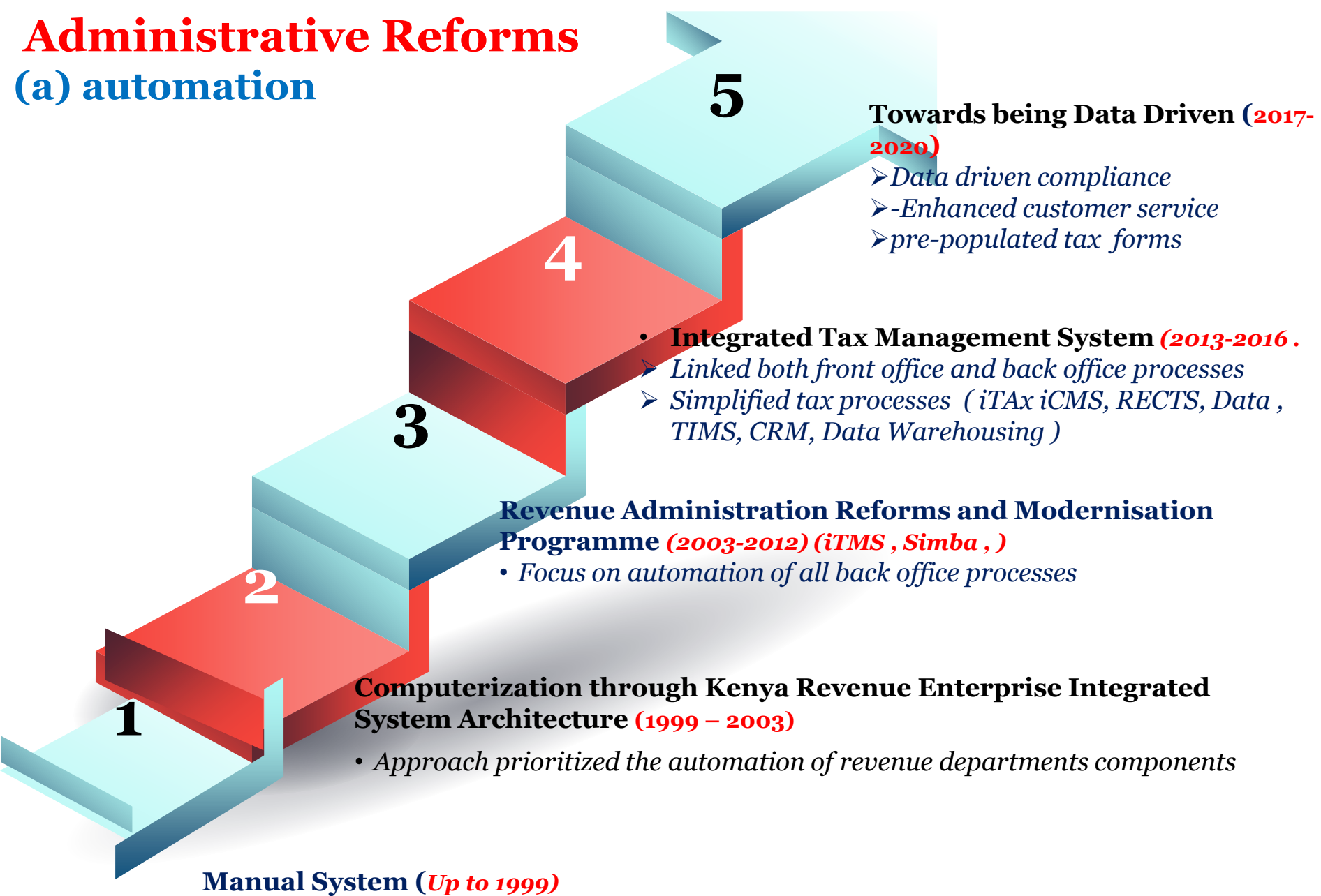
Administrative Reforms

a) Automation of processes:

- Simba 2005 upgrade to iCMS
- iTMS upgraded to iTax
- ETR being upgrade to TIMS
- Electronic Cargo Tracking System (ECTS)- Has enabled ease of trading across borders by facilitating faster movement of goods;
- Excise Goods Management System (EGMS) – Will help in fighting illicit trade thus protecting manufacturers and importers from counterfeits;
- Data Warehouse and Business Intelligence (DWBI) system
- Enterprise Resource Planning (ERP) system

Administrative Reforms

(a) automation



Administrative Reforms- Cont'd

| SYSTEM | ENHANCEMENTS |
|--------|---|
| iTax | <ul style="list-style-type: none">• IFMIS on PAYE PRNs & IPPD;• Integration with Ministry of Lands (LIMS);• Integration with NSSF & NHIF;• BRS Integration• NTSA Integration• ICMS Integration• IPMIS Integration |
| iCMS | <ul style="list-style-type: none">• Single Window – DRS• Shipping Lines Bulk• Regional Customs Transit Guarantee (RCTG)• PORTAL_LOGIN for non-registered users• KPC Integration• iScan• iTax• SGR_T. MANFST• KWATOs• IPMIS• ePromis• TIMS/NTSA |

Administrative Reforms- Cont'd

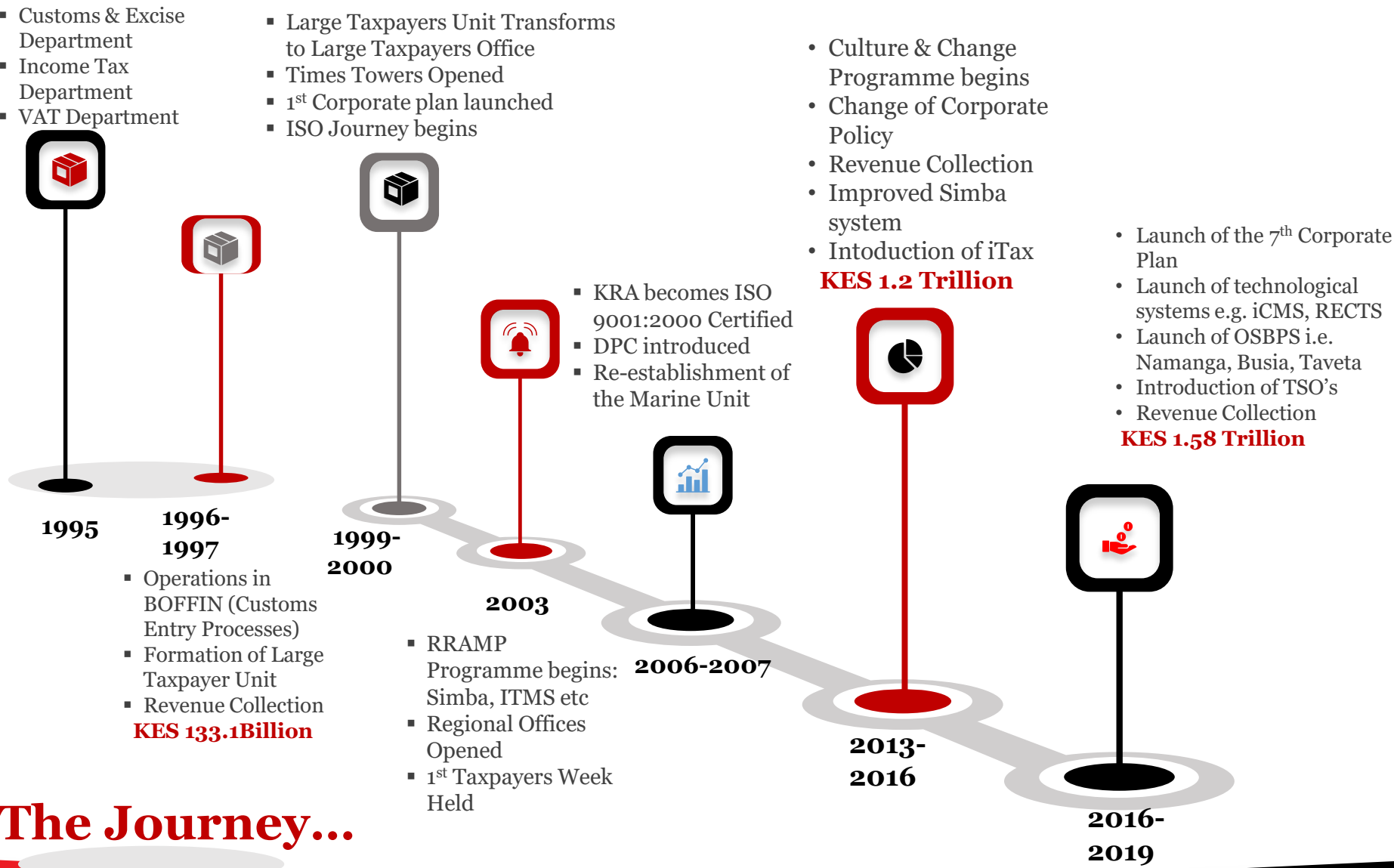
b) *Dispute Resolution*: The parties are required to make use of the existing mechanisms of resolving disputes including alternative dispute resolution.

- ADR mechanism is in place to enhance faster dispute resolution.
- Independent Review of Objections.

c) *Efficiency of tax refund processing*: Introduction of Green channel (Minimum checks); Speeding up of refund audits

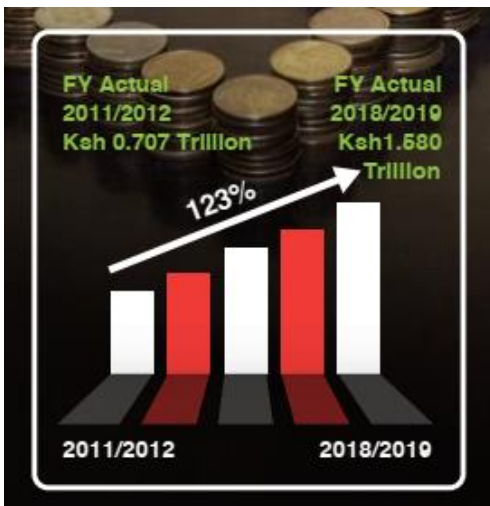
d) *Registration of Taxpayer*: Leverage on databases of other regulatory agencies for registration purposes.

ii) Administrative reforms-Key Highlights

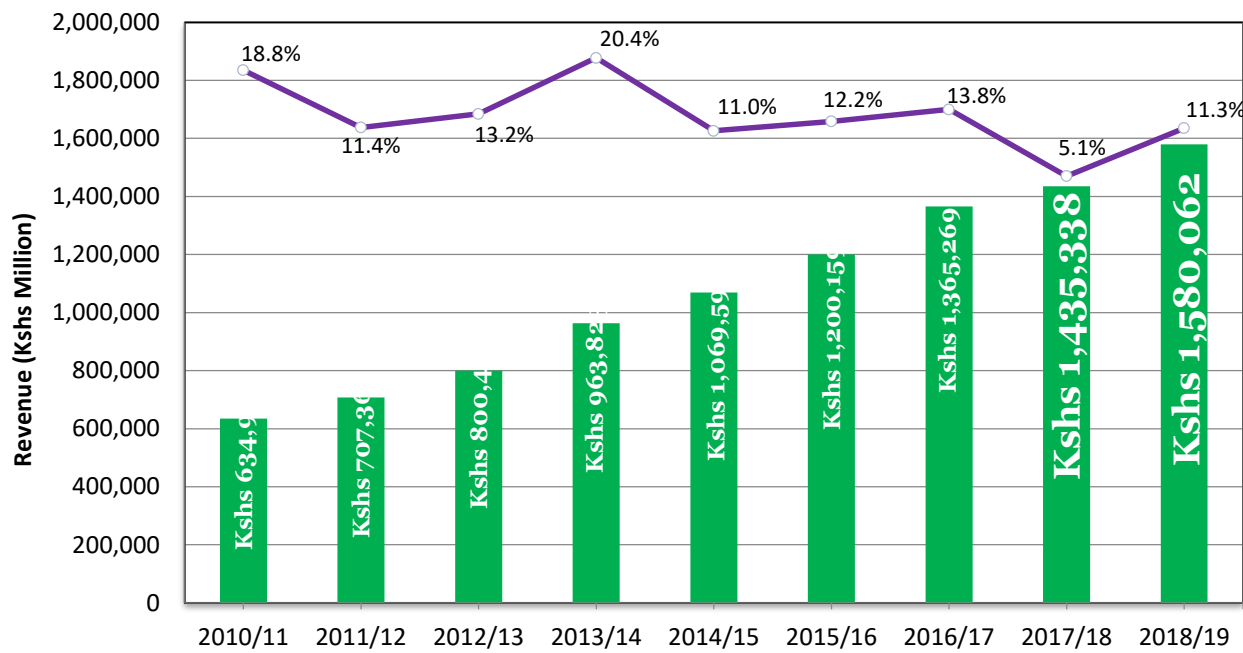


The Journey...

Impact of legal and administrative reforms



Growth Trend over time (2010/11 - 2018/19)



What we collected
in 2018/19

**KES 1.580
Trillion**

11.3% Increase from 2017/18

Generated for Kenyan public services and other government priorities

Economic Pillar - KRA to become the Single Revenue Collector for all government revenue.



KENYA REVENUE
AUTHORITY



REPUBLIC OF KENYA
THE NATIONAL TREASURY AND PLANNING



KENYA REVENUE
AUTHORITY

Tulipe Ushuru, Tujitegemeel!

PUBLIC

KENYA
VISION 2030

4. Ease of Doing Business

KRA plays a critical role in the following:

- **Starting a Business** - bureaucratic and legal considerations in registering a new firm;
- **Paying Taxes** - tax that must be paid and the administrative effort to doing that
- **Trading Across Borders** - procedural requirements for export and import

Summary of Kenya's Performance in 'ease of doing business' indicators

The table below summarizes the performance of the above three indicators in the last three years:

| Indicator | 2020 Rank | 2019 Rank | 2018 Rank |
|--------------------------------|-----------|-----------|-----------|
| Overall Doing Business Ranking | 56 | 61 | 80 |
| Starting a business | 129 | 126 | 117 |
| Paying taxes | 94 | 91 | 92 |
| Trading across borders | 117 | 112 | 106 |

5. Emerging issues/opportunities

Tax Simplification

Policy and administrative

Digital Economy

- Regulations, Guidelines

Micro/Informal

Focused support to small traders

National Tax Policy

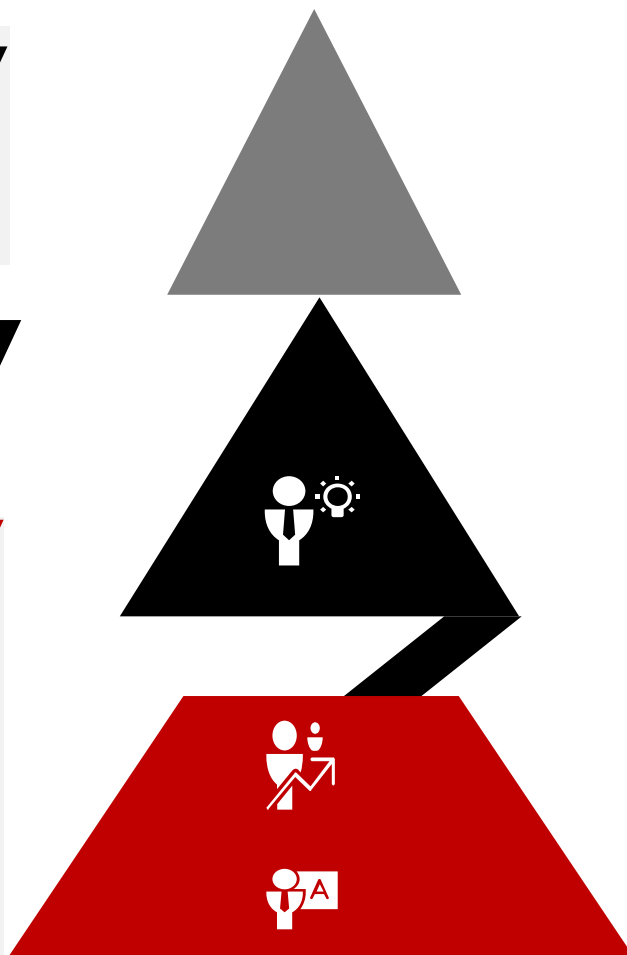
Overarching guide to taxation

Strategic Partnerships

- Professional bodies
- Interagency - government

Unified Tax System

Single revenue collection interface – national and county



THANK
YOU