



# **Income & Indirect taxes Seminar**

**Introduction to Income & Indirect taxes**

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**21 April 2021**



# Agenda

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- ❖ What is tax & why tax
- ❖ Incidence vs impact
- ❖ Introduction to income taxes and indirect taxes
- ❖ What is the difference between income and indirect tax
- ❖ Regressive or proportional or progressive tax
- ❖ Success in the use of income taxes and indirect taxes in Kenya



# What is tax & why tax

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Origin & history of taxation...

*...“But when the crop comes in, give a fifth of it to Pharaoh. The other four-fifths you may keep”... Genesis 47:24*

*...“Give to Caesar what is Caesar’s, and to God what is God’s.”... –  
Mathew 22: 21*



# What is tax & why tax

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## What is tax

- ❖ Compulsory levy on persons by the government
- ❖ Taxes are not paid in exchange of some specific benefit, benefits are presumed to be collective. There is no specific benefit attached to individual taxpayer's tax liability.



# What is tax & why tax

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## Key terms

**Tax base** - amount on which tax is charged

**Tax rate** - percentage applied on tax base to determine tax amount

**Average tax** - is the total amount of tax you pay divided by your total income.

**Marginal tax rate** - is the tax rate you pay on any additional income you earn



# What is tax & why tax

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## Why taxes

- ❖ **Revenue** - Funding government operations
- ❖ **Redistribution**- transferring wealth from rich to the poor
- ❖ **Representation** - social contract between taxpayer & government
- ❖ **Repricing** - encourages/discourages consumption



# Incidence & Impact of tax

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## Incidence

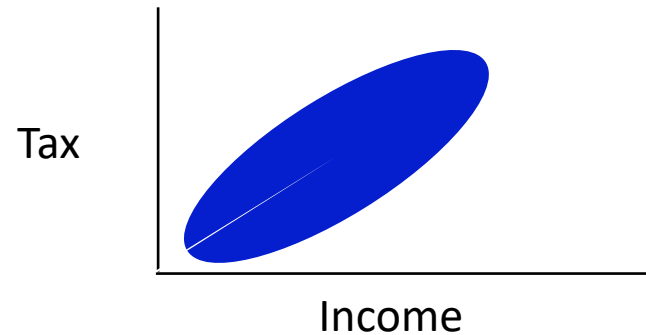
- ❖ Explains how the tax burden is shared between stakeholders
- ❖ Occur at the point of settlement
- ❖ Incidence rests on person who pays the tax
- ❖ Cannot be shifted

## Impact

- ❖ Who is affected by a certain tax.
- ❖ Occurs at point of imposition
- ❖ Impact falls on the person from whom tax is collected
- ❖ Can be shifted

# Progressive vs Regressive

Regressive taxes - tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. The average tax rate is higher than the marginal tax rate. Effectively low income earner carry a huge burden of tax proportionate to their incomes



Progressive – Tax burden increases with increase in income. The higher the income the higher the tax base, taxes increases proportionately with the increase in income levels.



# Income tax vs Indirect tax

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## Income tax

Taxes that are filed and paid by an individual/persons directly to the government. Tax incidence and impact are on the same person

Examples of income taxes: Pay as you earn, Corporate income tax, Withholding tax

## Indirect tax

These are taxes levied on good and services. Tax incidence on consumers while impact is felt by a different person.

Examples of indirect: Value Added Tax, Excise tax & Customs



# Advantages & Disadvantages

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## Advantages of income tax

- ❖ They are equitable - burden cannot be shifted
- ❖ Economical to collect – usually collected at source
- ❖ Certainty - tax payer know how much is due as tax

## Advantages of indirect tax

- ❖ Provides a wide tax base for the government
- ❖ It is convenient, for the tax payer, they included in cost of commodities
- ❖ Easy to administer
- ❖ Not easy to evade



# Differences

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## Incomes taxes

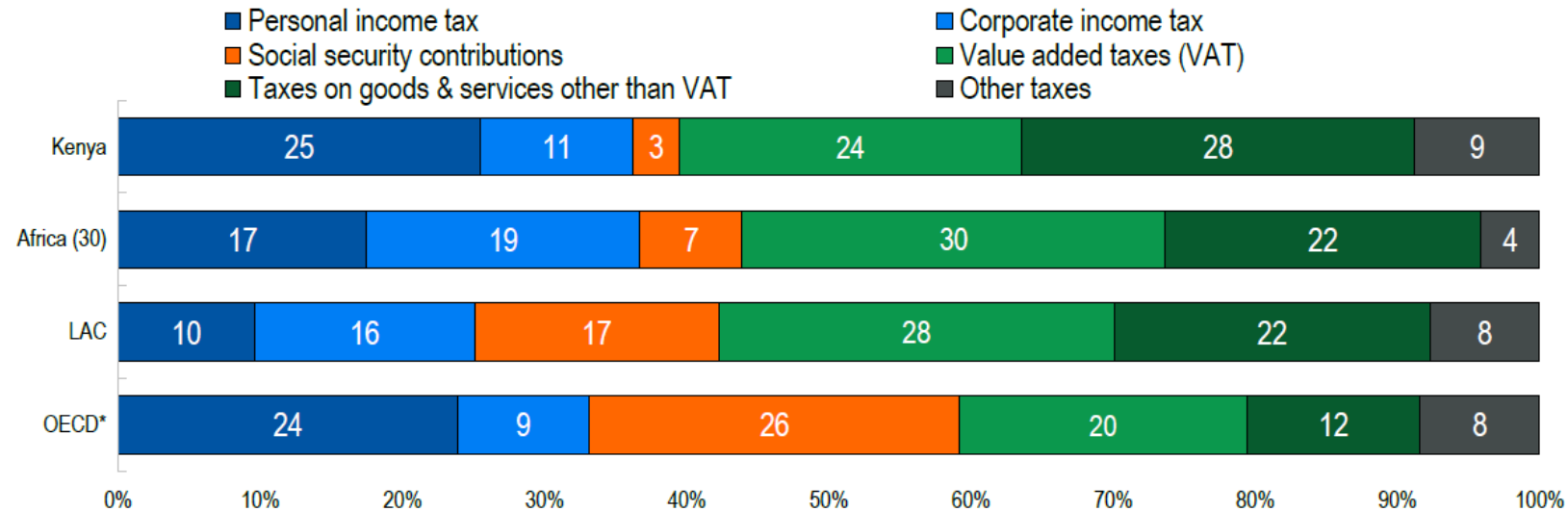
- ❖ are imposed on persons
- ❖ Tax is borne by the person on whom its imposed
- ❖ Can easily be evaded – responsibility of taxpayer to disclose
- ❖ Can help address inflation
- ❖ Discourages savings and investments
- ❖ Imposed only on people that earn and attain various income brackets.

## Indirect taxes

- ❖ Imposed on goods and services
- ❖ Is imposed on one person and borne by another.
- ❖ Not easy to evade- charged prices of goods & services
- ❖ Can lead to inflation, tax
- ❖ Indirect taxes encourage savings & investments
- ❖ Impact felt by everyone who consumes goods and services.

# Success in the use of income taxes and indirect taxes in Kenya

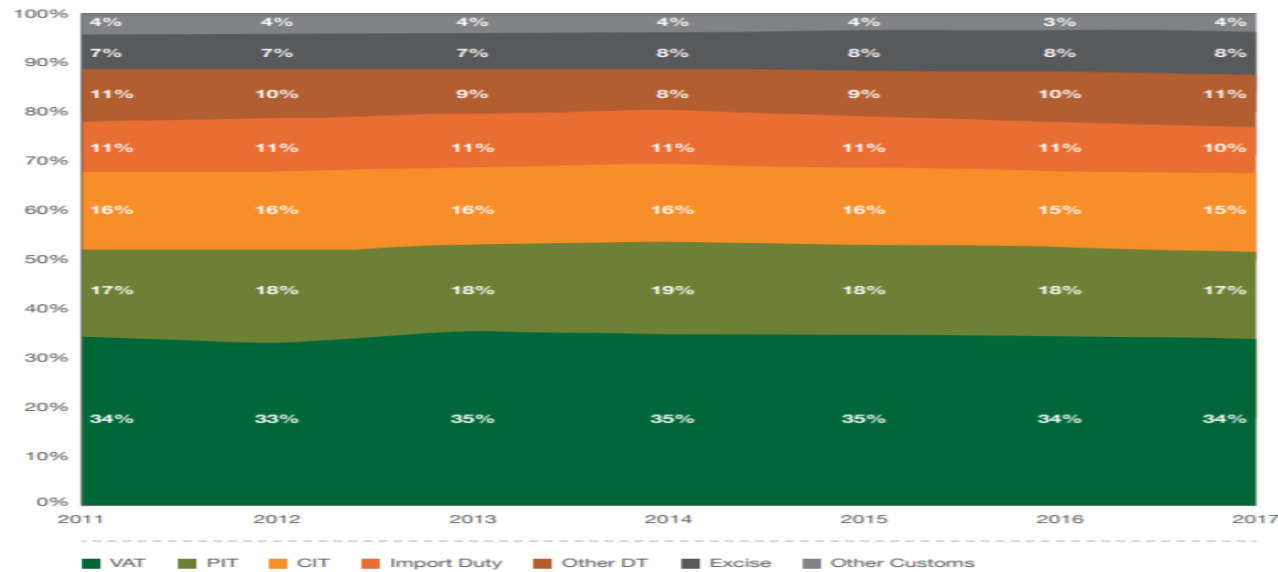
Trends of income taxes vis a vis indirect taxes



Source: OECD Revenue Statistics

# Success in the use of income taxes and indirect taxes in Kenya

Trends of income taxes vis a vis indirect taxes



Source: Africa Tax Outlook, 2019

**Q&A**

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Should you have any questions please let us know

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