

8TH ANNUAL TAX CONVENTION

TOPIC: TAXATION AT THE COUNTY LEVEL

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Outline

- Perspectives
- Experiences
- Recommendations

Historical perspective

- Revenue management has evolved since independence from local authorities and now to counties
- Local authorities derived their revenue raising powers from various legal instruments such as:
 - ❖ Local Government Act(Cap 265, section 216 and 217)
 - ❖ Trading Licensing Act (Cap 497)
 - ❖ Local Government Act (Section 222)
 - ❖ Rating Act Cap 267
 - ❖ In the year 2013 County governments inherited all revenue streams that were previously being administered by the defunct local authorities

Historical perspective contd...

- County governments derive their revenue raising powers from the following legal instruments
 - ❖ Constitution of Kenya 2010, section 209 gives county governments revenue-raising powers as long as long as the this doesn't prejudice national economic policies
 - ❖ PFM Act, 2012 section 104 mandates the county treasury to mobilise resources for funding the budgetary requirements of the county government and putting in place mechanisms to raise revenue and resources
 - ❖ PFM Act Regulations 2015, section 57 recognizes tax revenues as county government receipts and provides on their management
 - ❖ PFM Act, 2012 section 132 requires that each financial year, the counties make a pronouncement of the revenue raising measures for the county government. Through the Finance Act

Sources of County Revenue

- **Equitable Share**- CoK, 2010 section 202, Revenue raised nationally shall be shared equitably among the national and county governments
 - **Own source revenue**- Counties raise revenues as mandated by the constitution, PFM Act, 2012 and Regulations 2015
 - **Conditional grants**: finances tied to specific activities/projects/programs
 - **Borrowings** –Article 212 of the Constitution of Kenya: A county government may borrow only if the national government guarantees the loan; and with the approval of the county government's assembly.
- Section 58 of the PFM Act 2012: conditions:
- a) Capital project
 - b) Borrower has ability to repay the loan and interest

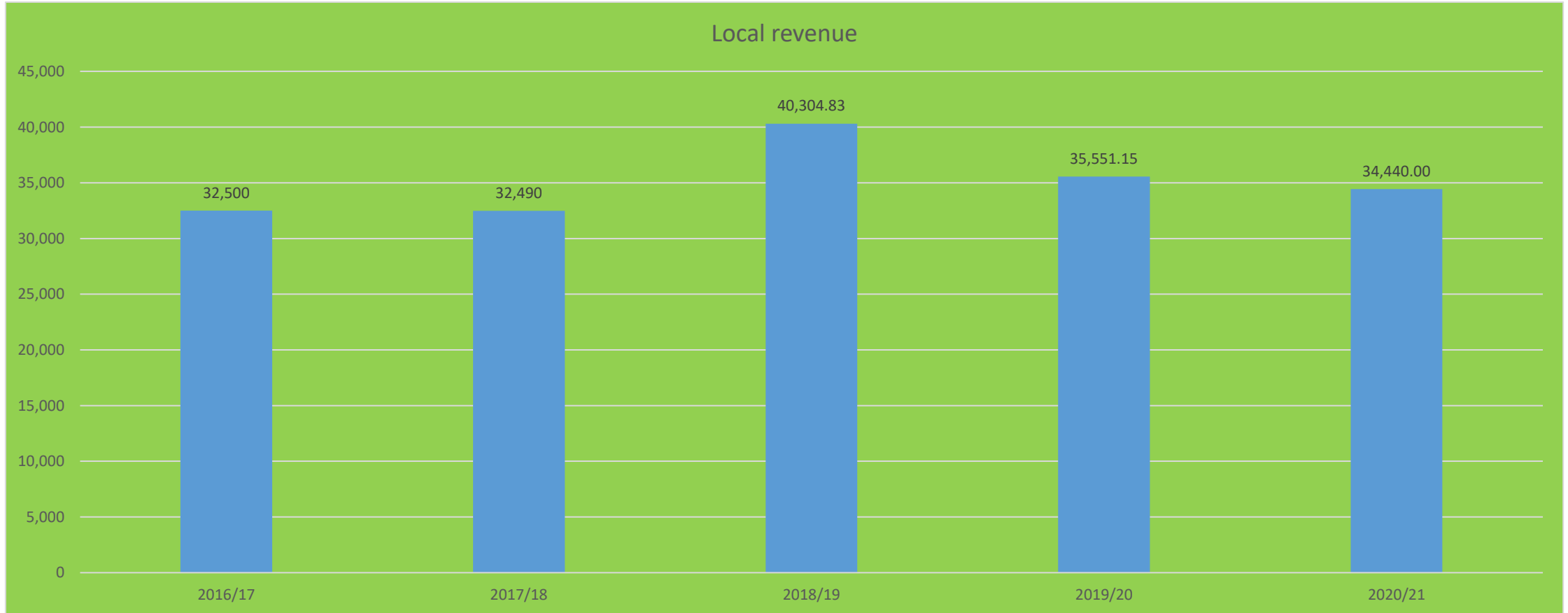
A perfect example is the Infrastructure bond of 1.2 Billion which is being raised by Laikipia

Own Source Revenue-County Taxation

- **Main revenue streams**


- ❖ Vehicle Parking Fees,
- ❖ County's Natural Resources Exploitation
- ❖ Public Health Facilities Operations
- ❖ Building Approvals
- ❖ Rent
- ❖ Cess
- ❖ Liquor Licences
- ❖ Land Rates
- ❖ Single Business Permits

County Own Source Revenue Summary



- Achievement of annual revenue target is between 60% and 70%
- In 2020/21, Five counties surpassed their annual target; On the contrary, five counties recorded below 50 per cent

Reasons for missed revenue targets

- Inadequacy and lack of clarity on county revenue legislation
- Multiplicity of fees and charges
- Unclear and inconsistent process for issuance of waivers and variations
- Failure to anchor the fees and charges in clear policy and legislation
- High cost of revenue collection vis-à-vis yields
- Outdated laws on property taxation
- Weak revenue administration - human resources capacity & low level of professionalism 
- Low levels of automation and integration of revenue administration systems

Reasons for missed revenue targets

- Weak accountability and by extension governance structures;
- Unpredictability of local revenues due to a lack of information, poor planning and implementation of the plans;
- Lack of capacity skills in counties to collect and effectively account for local revenues;
- Over dependence on National Government transfers;
- Lack of awareness by the small business enterprise on county taxation
- Limited research and innovation on the new tax sources

Experiences

Improved Revenue Management

Establishment of County Revenue Boards/Authorities

Case study of Laikipia:

- The Revenue Board was established by the County Revenue Board Act, 2014. The Board is a body corporate with perpetual succession and a common seal.
- Objects and Purpose of the Act is to provide for the Establishment of Legal and Institution Framework for Revenue Administration in order to:
 - ❖ Ensure effectiveness and efficiency in revenue administration
 - ❖ Facilitate transparency in Revenue Administration
 - ❖ Enhance County Income

Functions of the Board

- Collecting and receiving all County Revenue
- Administration and Enforcing of the County Laws related to revenue
- Assessing, collecting and accounting for all revenue in accordance with the County laws related to revenue
- Advising the County Executive Committee on all matters related to Administration and collecting of revenue under County Laws
- Human Resource Recruitment and Development
- Facilitate Civic Education to the tax payers on Tax Matters

Composition of the Board

- Non-Executive Chairperson appointed by the Governor in consultation with the Executive Committee and with the approval of the County Assembly.
- The Chief Officer, responsible for Finance
- Chief Executive Officer who is an ex Officio member and a Secretary to the Board
- Five other persons with Knowledge and practical experience in revenue matters under County Laikipia County

Achievements of the Board

- Recruitment and deployment of staff at all revenue points
- Automation of revenue collection processes-Cashless system
- Enforcement of revenue collection –Growth of registered businesses from 14,000 in 2018 to 25,000 in 2020
- Growth of revenue streams-Land subdivision fees, Survey Fees, Buildings Plan Preparation Fee, Building inspection fees,
- Revenue system connectivity in wards
- Autonomy in budget management

Revenue Performance Laikipia County



- This represents 79% growth in revenues i.e **by 371M** in four years
- This growth is attributed to increased efficiency in revenue collection through the County Revenue Board.

Inter-county Taxation

- Existence of trading of goods and services across counties
 - ❖ Different licensing regimes, definition of terms, rates, and units of measurement /assessment. Finance acts
 - ❖ Inexistence of trade policies to guide decision making on ease of doing business-economic blocks
 - ❖ Levying of distribution fees and branded vehicles selling manufactured goods originating from a different county- cost of manufactured goods
 - ❖ Charging of cess and levies on products originating from a different county-county of origin
 - ❖ Restrictions for transporters of passengers and goods from a different county-public transport
 - ❖ Uncoordinated revenue management systems –fully automated

Regional Economic Blocks

- Counties have established Regional Economic Blocks based on historical, political and economic similarities-objective to promote trade
- ❖ **Frontier Counties Development Council (FCDC)** comprising of seven (7) counties namely; Garissa, Wajir, Mandera, Isiolo, Marsabit, Tana River and Lamu.
- ❖ **North Rift Economic Bloc (NOREB)** comprising of seven (8) counties namely Uasin Gishu, Trans-Nzoia, Nandi, Elgeyo Marakwet, West Pokot, Baringo, Samburu and Turkana.
- ❖ **Lake Region Economic Bloc (LREB)** comprising of thirteen (14) counties namely Migori, Nyamira, Siaya, Vihiga, Bomet, Bungoma, Busia, Homa Bay, Kakamega, Kisii, Kisumu, Nandi, Trans Nzoia and Kericho.
- ❖ **Jumuia ya Kaunti za Pwani** comprising of six (6) counties namely, Tana River, Taita Taveta, Lamu, Kilifi, Kwale and Mombasa
- ❖ **South Eastern Kenya Economic Bloc** comprising of three (3) counties namely Kitui, Machakos and Makueni.
- ❖ **Mt. Kenya and Aberdares Region Economic Bloc** Comprising of ten (10) counties namely Nyeri, Nyandarua, Meru, Tharaka Nithi, Embu, Kirinyaga, Murang'a, Laikipia, Nakuru and Kiambu.

Economic Blocks

To promote intra-County trade regional blocks must

- Develop common trade policies to guide decision making on ease of doing business
- Review and harmonize the licensing regimes, definition of terms, rates, and units of measurement /assessment.
- Consider reduction and/or waiver of distribution fees and branded vehicles selling manufactured goods originating from a member county. The proof of origin will be a single business permit issued by a member county government.
- Harmonize the description of economic activities in the respective Finance Acts by applying the International Standard Industrial Classification of All Economic Activities (ISIC) .
- To remove restrictions for transporters of passengers and goods operating within member counties, provided the business has a business permit originating from a member county. The transporters will pay parking fees
- Formulation and implement Single business protocols and other sectors
- To consider a structure for sharing revenues to compensate for revenues lost from these concessions.

Recommendations

It is in the interest of the county governments to raise their own revenues, which gives them latitude to do more development and provision of services beyond what the shared national revenue can achieve. Other sources predetermined.

- ❖ Review of the functions of county governments to broaden revenue streams e.g forestry products and exhaust revenues streams from the 14 functions of county governments
- Function 8. County planning and development, including—electricity and gas reticulation and energy regulation
- Function 6. Animal control and welfare, including— (a) licensing of dogs; and (b) facilities for the accommodation, care and burial of animals
- Function 10. Implementation of specific national government policies on natural resources and environmental conservation, including—(a) soil and water conservation; and (b) forestry.
- ❖ Establishment of common markets in regional blocks and related protocols e.g CEREB, Lake region ; Establish standard operating procedures in all trading areas i.e Transport and Logistics, Agriculture, Manufacturing, Technology etc ICPAK to lead the negotiations

Recommendations contd...

❖ Enactment of laws and Policies to Support Enhancement of County Governments Own Source Revenue

- Standardized institutional, policy and legal framework which is applicable in all counties for County Government own source revenue raising measures and enforcement.
- Measures to (i) Broaden County Governments' tax bases
(ii) Enhance County Governments' revenue administrative capacity

ICPAK to lead

End

Thank you