



The 2nd Annual Tax Summit Report

17th-19th October 2016
KICC, Nairobi



[@KRACare](#) [Kenya Revenue Authority](#) [Kenya Revenue Authority](#)

summit.kra.go.ke

KRA (2017) The 2nd Annual Tax Summit
Kenya Revenue Authority, Nairobi

Table of Contents

Foreward by the Commissioner General, Mr. John Njiraini	8
Message from Dr Mohamed Omar, Commissioner Strategy, Innovation and Risk Management	9
Executive Summary	10
PART ONE:	
UNIVERSITY TAX CONFERENCE AND TAXNOVATION CONTEST	11
1.0 Introduction	11
1.1 Opening Ceremony: University Tax Conference and Taxnovation Contest	11
1.1.1 Welcome Address by Dr Mohamed Omar, Commissioner Strategy, Innovation and Risk Management	11
1.1.2 Remarks by Mr. Martin Kimani, General Manager, Strategy, Kenya Pipeline Company (KPC)	12
2.0 Presentation of Research Papers	13
2.1 Effects of Tax Reforms on Value Added Tax (VAT) Productivity in Kenya.....	13
2.2 Challenges Facing Implementation of Turn over Tax (ToT) in Nairobi County.....	14
2.3 Productivity of the Kenyan Tax System	15
2.4: Are Presumptive Taxes the Answer to the Informal Sector Taxation in Kenya.....	16
2.5 The Use of Geo-Spatial Mapping In Promoting Tax Transparency, Building Trust in Society and Ensuring Accountability in Public Financial Management.....	17
2.6 Loopholes and Negative Psychologies as Impediments to Tax Collection in Kenya	18
2.7 The Relationship Between Tax Culture and Economic Development: Gaps and Solutions.....	19
2.8 The Relationship Between Tax Culture and Economic Development.....	20

Table of Contents

3.0 Taxnovation Contest – Presentation of Mobile Applications.....	21
3.1 Tax Helper.....	21
3.2. K-Tax- Payment System	21
3.3 Residential Rent Collection System	22
3.4. My KRA App.	22
3.5. ITax Mobi.....	23
3.6 KRA Mobile App.....	23
3.7. Ushuru Jijini	24
PART TWO – THE 2ND ANNUAL TAX SUMMIT	25
CHAPTER 1	25
1.0 Official Opening Ceremony	25
1.1 Opening Remarks by Dr. Mohamed Omar, Commissioner Strategy, Innovation and Risk Management.....	25
1.2 Remarks by KRA Commissioner General, Mr. John Njiraini.....	25
CHAPTER 2	26
2.1 A New Era in Taxation: Innovative Approaches to Improving Tax Administration in Kenya.....	26
CHAPTER 3.....	31
3.1 Harnessing Technology Advancement for Tax Administration.....	31
3.2 Launch of ICT Strategy.....	33
CHAPTER 4	35

Table of Contents

4.1 Towards a Gold Standard: Building Tax Compliance at the County Level.....36

CHAPTER 539

5.1 Tax Policy and Economic Growth.....39

CHAPTER 643

6.1 Corporate Lecture And Launch Of The KESRA Strategic Plan.....43

CHAPTER 7.....46

7.1 Towards A Positive National Tax Culture: Leveraging on Lessons Learnt to Drive Transformative Change Amongst Taxpayers47

CHAPTER 851

8.1 Transfer Pricing and Illicit Financial Flows: Arm’s Length Manipulation51

CHAPTER 953

9.1. Tax Base Enhancement53

CHAPTER 1056

10.1 Tax Culture56

CHAPTER 11.....59

11.1 Tax Base Enhancement59

CHAPTER 12.....62

12.1 Wrap Up and Official Closing Ceremony.....62

Table of Contents

12.1.1 Remarks by Dr Mohamed Omar, Commissioner, Strategy, Innovation & Risk Management, Kenya Revenue Authority.....62

A summary of key recommendations made at the 2nd Annual Tax Summit.....63

List of Acronyms

ADB - Africa Development Bank

AGOA - African Growth and Opportunity Act

Bn - Billion

CET - Common External Tariff

CRA - Commission on Revenue Allocation

CoG - Council of Governors

CRM - Customer Relationship Management

CSOs - Civil Society Organisations

DPC - Document Processing Centre

DRC - Democratic Republic of Congo

DTD - Double Tax Deduction

EAC - East African Community

EPA - Economic Partnership Agreement

EPZ - Export Processing Zone

ERP - Enterprise Resource Planning

ETR - Electronic Tax Register

FDI - Foreign Direct Investment

GIS - Geographical Information Systems

GDP - Gross Domestic Product

GIS - Geographical Information Systems

ICDC - Industrial & Commercial Development Corporation

ICPAK - Institute of Certified Public Accountants of Kenya

ICT - Information Communication Technology

ITA - Income Tax Act

KAM - Kenya Association of Manufacturers

KBA - Kenya Bankers' Association

KCB - Kenya Commercial Bank

KENIVEST - Kenya Investment Authority

KEPSA - Kenya Private Sector Alliance

KENHA - Kenya National Highways Authority

KESRA - Kenya School of Revenue Administration

KIFWA - Kenya International Freight and Warehousing

KIPI - Kenya Industrial Property Institute

KIRDI - Kenya Industrial Research and Development Institute

KNBS - Kenya National Bureau of Statistics

KNCCI - Kenya National Chamber of Commerce and Industry

KP - Kenya Power

KPC - Kenya Pipeline Company

KRA - Kenya Revenue Authority

MNCs - Multi National Companies

MSE - Micro and Small Enterprise

MSEA - Micro and Small Enterprise Authority

NTB - Non-Tariff Barrier

OECD - Organisation for Economic Co-operation and Development

PWC - PricewaterhouseCoopers

SEZ - Special Economic Zones

SGR - Standard Gauge Railway

SME - Small and Medium Enterprise

NSSF - National Social Security Fund

NHIF - National Hospital Insurance Fund

TOT - Turn over Tax

TP - Tax Payer

TPA - Tax Procedures Act

VAT - Value Added Tax

Acknowledgement

Kenya Revenue Authority recognises the kind support of many individuals and organisations who contributed to the great success of the 2nd Annual Tax Summit.

We would like to acknowledge the invaluable insights and knowledge shared by the speakers, moderators and panelists of the 2nd Annual Tax Summit. Their contributions went a long way in enriching the outcomes of the Summit.

Our appreciation goes out to all our stakeholders across the globe for their support and to the delegates who travelled from far and wide, and in large numbers to participate and contribute in the Summit.

We appreciate members of the conventions and conferences committee who put their best feet forward and relentlessly worked to ensure a world class coordination of the Summit. A special appreciation to Dr. Mohamed Omar and Ms. Grace Wandera for their leadership and guidance to the committee throughout the Summit planning and execution process.

A big salute to the Commissioner General and senior management of KRA who extended their full support to the Summit both financially and in kind.

Our sincere appreciation to the management of KICC for their hospitality throughout the Summit and all suppliers for their excellent service delivery.

We thank the moderator of the Summit for keeping it alive, and ensuring top-notch adherence to the program.

We also thank the team of rapporteurs for recording the proceedings of the Summit and thereafter preparing this report.

Last but not least, we place a deep sense of gratitude to the sponsors and partners for their generous financial and in kind contributions in support of the Summit, which helped in making the Summit happen. They include: Toyota Kenya, Centum Investment Ltd, East African Breweries Ltd, Kenya Commercial Bank, Vivo Energy Kenya, National Bank of Kenya, Kenya Pipeline Company, Kenya Power, Pevans East Africa Ltd, Pergamon Group, KPMG and Nation Media Group.

Foreward by The Commissioner General, Mr. John Njiraini



KRA Commissioner General John Njiraini during the Annual Tax Summit

I am pleased to prepare the foreward to the report of the 2nd Annual Tax Summit that convened between October 17 and 19, 2016. The Summit was by every account, a successful forum and built on the success of the inaugural Summit in 2015. As expected, this year's Summit provided a platform of healthy and enriching debate and deliberations on how to improve tax administration and ensure that Kenya Revenue Authority (KRA) delivers on its objective of increasing revenue collection.

I am pleased to note that the Annual Tax Summit is fast establishing itself as a must-attend event of KRA and an important platform of public participation as we open ourselves up to public introspection. The Authority appreciates the valuable input received from all those who attended this year's Summit. We commit to consider implementing the various proposals and recommendations proffered through the different presentations. Some may be implemented in the short term because they speak to areas and issues that the Authority is actively engaged on. Others lend themselves to medium and longterm consideration. On every account the views received will be taken into consideration as appropriate.

We believe that the annual tax Summit should continue to present a platform of reflection and an opportunity to draw lessons by tapping into the expertise, knowledge and experience of professional, academia and members of the public interacting with the tax system. KRA seeks to draw its lessons from the experience of those that it serves so as to undertake changes to address their needs and serve them better. It is only through shared learning that we can affirm what is working and identify areas in need of improvement and intervention.

The significant growth in tax collection is a result of the various reforms initiated on tax administration and a testament that the changes made to our tax processes and procedures has and continues to deliver tangible outcomes.

In our quest for further progress, we must stay the course and continue to focus on areas of further innovation, harnessing the use of technology and simplifying tax payment. KRA remains committed to this as a central underpinning of tax reform.

Message from Dr Mohamed Omar, Commissioner Strategy, Innovation and Risk Management



KRA Commissioner for Strategy Innovation and Risk Management Dr Mohamed Omar during the Annual Tax Summit

The 2nd Annual Tax Summit reiterated the growing importance of this annual convocation as an important forum of discourse on the delivery and performance of tax administration under the stewardship of The Summit provided an opportunity for KRA to share information on ongoing reforms in tax administration and benefit from the insights of its stakeholders on areas of further improvement. It is only from interacting with Taxpayers that the Authority can learn what is working well and the areas that we can do better and improve further. Indeed, our strategic focus is anchored on meeting the needs and expectations of Taxpayers.

A key message from this year's Summit was that tax administration must be continuously enhanced to make it more efficient and realise the overall objective of increasing the rate of compliance and hence, generating more resources. The various reforms that KRA has implemented and continues to undertake speak to our commitment on drawing lessons on a continuous basis and effecting changes that place us in better stead to serve our customers.

As an organisation, KRA must be alive to an ever-changing environment that presents new

opportunities and challenges. We must endeavor and purpose to meet these challenges and seize the inherent opportunities presented by say, technology advancements and the growth in gaming, betting and lottery.

A key learning from the Summit is that the Authority must be proactively engaged in the development and formulation of laws and policies that bear an impact on revenue collection and tax administration as a whole. While the connection to tax collection may not always be obvious and easy to approximate, it is important to consider the potential impact on tax revenue and hence the need to engage.

It is not in doubt that improving tax administration is critical to influencing development outcomes such as availing resources to fund the country's key development programmes including, the Vision 2030 Projects. We must, therefore, focus on innovation to enhance efficiency and ease the process of paying tax and stay the course in implementing ongoing administrative reforms that seek to simplify the processes and procedures for compliance.

Executive Summary

The Kenya Revenue Authority convened the 2nd Annual Tax Summit at the Kenyatta International Convention Centre on October 17th-19th, 2016. This was the second Annual Tax Summit – the inaugural one having been held in 2015.

The Summit was attended by senior government officials, global tax experts and practitioners, academia, members of the Private Sector.

The theme of the 2nd Annual Tax Summit was “Kenyan Solutions to Kenya’s Challenges – Taxation as a Catalyst for Economic Development”. The Summit was structured around three thematic areas namely: tax administration; tax culture; and, tax base enhancement.

The overall objective of the Summit was to deliberate on the possible solutions to Kenya’s tax challenges. The sessions at the Summit incorporated presentation of academic papers and showcasing of technological innovations on tax administration, plenary deliberations, keynote addresses and a public lecture. The KRA ICT Strategy and Kenya School of Revenue Administration’s Strategic plan were also launched.

The central focus of the Summit was improving tax administration processes by identifying, implementing and adopting strategic tax innovations drawing from KRA’s internal and external stakeholders.

The Summit reflected on various activities, reforms and initiatives undertaken by KRA towards meeting the needs of taxpayers and addressing specific challenges facing tax administration in Kenya. It was acknowledged that there is a need to continuously improve and enhance tax administration and make it more efficient to realise the overall objective of increasing the rate of compliance and hence, generate more resources. Improving tax administration was critical to funding the country’s key development programmes including Vision 2030 Projects.

The caveat, though, was that enhancing tax reforms should be anchored on sustainable use of tax revenue, which will reduce the need to borrow to plug budget deficits and thus spare future generations the burden of debt. An important adjunct is the need to entrench accountability and ensure value for money collected through tax.

The adoption of the devolved system of government, it was noted, required the Authority to collaborate with the counties. The Summit proposed that KRA

should be the sole collector of taxes at the two levels of government whilst recognising the need for strategic partnerships with the counties to motivate tax payment.

Simplifying tax processes was seen as key in fostering compliance by reducing the cost of compliance for Taxpayers and the cost of administration incurred and borne by KRA. In the main, this will motivate voluntary compliance which is much more efficient compared to undertaking tax audits. In the case of SMEs, simplification of tax processes will have a spin-off effect of making it efficient and cost effective for them to comply.

Initiatives such as integrating ETRs to KRA’s system were proposed to facilitate real time monitoring of business transactions. Integration of KRA systems to other platforms such as mobile apps, banking apps, USSD and IFMIS was also proposed. KRA must, therefore, continuously innovate and keep pace with changes such as the need to tax the growing number of transactions carried out on electronic platforms and adopt big data analytics to unlock potential tax revenue streams.

The Summit underscored the need for continuous monitoring and evaluation of tax incentives offered to investors pegged on clear milestones and defined criteria to ensure that the country benefits even as it for goes tax revenue.

There was an emphasis on the need for new approaches in tax administration such creating incentives to motivate compliance amongst non-filers and transitioning nil and credit filers to taxpayers in line with KRA’s strategic shift from enforcement to building trust through facilitation. This calls on the Authority to increasingly shift to a service-oriented organisation with a strong focus on facilitating taxpayers.

The Summit also underscored the need for KRA to focus on promoting ethics and integrity as a way of fighting corruption which not only threatens the country’s economy but impacts on tax revenue collection. The proposal to confiscate the wealth and assets of those engaged in the vice and imposing tax on corrupt transactions highlighted a clear call to action.

A key message from this Summit was the need to deepen collaboration between KRA and the National Treasury on areas such as tax and policy reforms and strengthen governance structures to improve Tax administration.

PART ONE: UNIVERSITY TAX CONFERENCE AND TAXNOVATION CONTEST

1.0 Introduction

The first day of the Summit was dedicated to the academia and featured presentation of eight (8) papers in three (3) sessions namely: Tax Administration; Tax Base Enhancement; and, Tax Culture. There was also an Innovation Contest, which showcased various applications developed to address specific areas of tax administration.

The presentation of papers and the Taxnovation contest was followed by the official opening of the Summit in the afternoon, whose key highlight was a keynote address delivered by the Commissioner General, Mr. John Njirani.

1.1 Opening Ceremony: University Tax Conference and Taxnovation Contest

1.1.1 Welcome Address by Dr Mohamed Omar, Commissioner Strategy, Innovation and Risk Management

Dr Omar opened this session by acknowledging that tax collection is critical in mobilising resources to fund public projects and programmes such as those enunciated under the Vision 2030 blueprint.

He explained that among other things, the Summit would explore means of enhancing a positive tax culture and increasing tax collection. The deliberations at the Summit would also focus on demystifying taxation; provide a platform to share ideas, insights and information on tax administration; generate policy ideas geared towards guiding and informing future tax policies.

Dr Omar explained that KRA is moving towards evidence-based tax administration and recognised, among other values, the need for equity and fairness in the payment of taxes. It is of essence that KRA meets its tax



Mr Kimani, General Manager, Strategy, Kenya Pipeline Company, giving his remarks at the Tax Summit

collection targets since any shortfall will necessitate borrowing from either the domestic market or external sources to meet budget deficits.

He noted that the Authority is open to transparency and facilitation and keen to benefit from innovation in the administration of tax. Hence, the reason for dedicating the first day to interaction with academia and involving a review of various papers highlighting propositions on efficient tax administration and innovative applications addressing different aspects of tax administration.

Dr Omar noted KRA's distinct effort to focus on trade facilitation, consultation and building trust which are all key elements addressed under the 6th Corporate Plan. He stated that building and creating a strong knowledge and skills base is essential to improving tax collection.

Dr. Omar then welcomed the keynote speaker, Mr. Kimani from the Kenya Pipeline Company, the main sponsor of the 'Taxnovation' contest, to deliver his speech.

1.1.2 Remarks by Mr. Martin Kimani, General Manager, Strategy Kenya Pipeline Company (KPC)

Mr. Kimani began by thanking the Authority for the invitation and congratulated KRA for hosting the Summit following the inaugural one in 2015. He proceeded to give a brief on Kenya Pipeline Company and its work both in Kenya and in the region including a highlight of some of the key projects the company was involved in.

Background information on Kenya Pipeline Company

Mr. Kimani explained that KPC is a company working in the area of oil and gas transportation with a great emphasis on safety and efficiency. The company has transformed into a key player in Africa on the delivery of oil and gas to various destinations including: Rwanda, Uganda, Burundi, South Sudan and the Democratic Republic of Congo (DRC)

The Company's current capacity stands at 612,000 cubic metres (0.6b litres) but this is still not sufficient to meet the demand for oil and gas in the region. As a result KPC is working on increasing its capacity and is currently involved in 6 projects. These projects are:

1. The setting up of four high capacity tanks in Nairobi whose objective is to increase capacity by a further 133,000 cubic metres
2. The initiation of high level discussions on the integration and incorporation of the Kenya Pipeline Refinery Limited which currently has a capacity of 400,000 cubic metres in order to enhance capacity to over 1 billion litres stock
3. The laying of an additional line from Mombasa to Nairobi (line no. 5)
4. The laying of a further line from Sinedet to Kisumu (Line no. 6) which has already been commissioned
5. Improving the load capacity in Eldoret to improve the turnaround time for trucks; and,
6. Undertaking feasibility studies to devolve the pipeline and thus reduce the distance covered by trucks and consequently, reducing costs.

Mr. Kimani emphasised the importance of paying tax noting that Kenya Pipeline Company is one of Kenya's large taxpayers with an established close working relationship with KRA. The company deals with KRA right from the time of the arrival of vessels until products are loaded to trucks at various depots. It has ensured that wet products are only accessed upon payment of duty.

Mr. Kimani further explained that the Company has registered an average 10 per cent annual growth and remitted over Ksh 25 billion in tax over the last 5 years. In 2016, it paid Ksh 6 billion. KPC is collaborating closely with KRA in the clearance of oil products and seeks to adopt a 24 hour schedule in order to become more efficient and competitive. This requires KRA to send more officers to its depots. Mr. Kimani observed that raising more tax revenue will make Kenya self-reliant and enable the country implement key projects such as those under the Vision 2030 blueprint besides impacting positively on overall economic growth.

KPC also recognises the need to increase the country's strategic oil reserves in view of the fact that the country currently has only about 20 stock days. In line with Vision 2030, the oil pipeline is being devolved to more regions not only to reduce the distance covered by trucks but to also enhance efficiency and safety.

Mr. Kimani noted that Kenya has been losing part of its market share to the central corridor even though economic imperatives make Kenya a natural choice in terms of economic competitiveness. He gave the example of Rwanda from which Kenya has lost some market share and noted that the distance between Western Kenya and Kigali is about 850kms compared to the distance between the Central corridor and Rwanda, which is 1500kms. KPC is interrogating the reasons why Rwanda has opted for the Central corridor and is in discussion with relevant authorities.

He observed that Kenya needs to evaluate its efficiencies to ensure that the country does not lose its business share in the region. In this regard he recommended that:

- KRA should increase the capacity of staff in KPC depots to improve the turnaround of cargo clearance
- KRA should decentralise the Document Processing Center (DPC) to ensure that wet cargo is not held over long durations
- The private sector, government corporations and citizens should be steadfast in meeting their tax obligations

2.0 Presentation of Research Papers

2.1 Effects of Tax Reforms on Value Added Tax (VAT) Productivity in Kenya

Presented by Daniel N. Maweu, Moi University

The objective of this research was to determine the effect of tax reforms on VAT productivity in Kenya and to compare Kenya's performance on VAT yields with other countries in the East African Region and beyond

The methodology of the study was primarily based on desktop research and involved review and analysis of secondary data sourced from KRA, Kenya National Bureau of Statistics (KNBS) and National Treasury. The study covered the period between July 2007 and June 2015 and made use of monthly time series data.

Summary of Key Findings of the Study

This study established that education and training do not necessarily increase VAT productivity, which has been the finding of some previous studies. It found that there are many traders who avoid using ETRs for all transactions and this has a negative impact on tax collection since not every eligible transaction is captured. There is hence a need to explore the potential of introducing real time capturing of transactions to address this problem.

It was also established that online filing of VAT has increased the amount of tax collected and all factors held constant, there is potential to increase VAT revenue in respect of every new return filed on i-Tax.

A further finding of the study was that the increase in the number of taxable items has improved tax collection. The filing of VAT returns online has on its part reduced the time taken and cost of filing besides simplifying the process.

Key Recommendations from the study

The study recommended that the impact of the increase on the number of zero-rated items on VAT collection should be reviewed and examined further. Tax education should include a focus on ethics and the importance of paying taxes. It further proposed further interrogation of the effect of education and training on VAT productivity To grow VAT productivity, more items should be included in the VAT bracket such as those traded online.

The current ETRs should be upgraded to those, with real time invoice management capability. The study also recommended undertaking further research on the effects of mobile and e-payments on VAT productivity

2.2 Challenges facing implementation of TurnoverTax (ToT) in Nairobi County

Presented by John Waweru

This study sought to explain the reasons for the lack of commensurate increase in Turnover Tax and to examine challenges faced by SMEs in the payment of Turnover Tax. The study was based on a descriptive research design and used primary data covering 285 SMEs based in Nairobi. A total of 230 businesses responded to the study questionnaires representing 85 per cent of the sample size.

Summary of Key Findings

The study established that a majority of potential taxpayers are not aware that they should pay TurnoverTax. Many of those interviewed considered the tax registration process cumbersome.

The tax rate of 3 per cent was also considered by some of the respondents as too high and it was suggested that a graduated tax structure based on the turnover of individual businesses be considered.

Some respondents found the mode of filing and payment complex necessitating the use of experts. Overall, 45.65 per cent of the respondents used experts to file returns; 43 per cent did not file any returns; while 10.86 per cent filed returns on their own.

The study identified the following challenges in implementation of TOT

On the part of taxpayers:

- Lack of knowledge on TurnoverTax
- A perception that the registration process is too complex
- Lack of accountability by the government on the use of tax revenue
- A perceived high cost of compliance
- The perception that the tax rate is too high
- The mode of payment being viewed as complex

On the Part of KRA:

The geographical spread and large number of SMEs is a challenge in undertaking registration and compliance checks in respect of Turnover Tax. There are also insufficient resources to support effective implementation of Turnover Tax.

Key Recommendations From The Study

The study recommended that KRA should undertake public education and sensitisation on TurnoverTax. The process of registration and payment of the tax should be simplified; and, a graduated scale for payment of turnover tax should be considered.

It was further recommended that KRA penalises evaders with high tax and increase the frequency of audits. The frequency of filing returns on turnover tax should also be increased while the Authority should enhance public participation in the formulation of policies on Turnover Tax.

Feedback Received from Open Plenary

The open plenary session raised questions on whether SMEs should be registered to pay TurnoverTax through the use of their registration PINs. The PIN was favored on account of the fact that this is a common denominator

for SMEs and would be more convenient rather than imposing additional requirements such as the need to register a business name. It was also suggested to further analyse the contribution of TurnoverTax to overall tax collection.

2.3 Productivity of the Kenyan Tax System

Presented by Judah Waweru Nganga, Juliana Muteti and Moses Nyangu; Strathmore University

The objectives of this study were to establish the adequacy, complexity and competitiveness of the Kenyan tax system. It sought to compare Kenya's tax system with South Africa's.

Overall Observations

The study explained that the key indicators for review in determining the complexity of a tax system include:

- The efficiency of the tax refunds process
- The simplicity of the tax system
- The frequency of litigation- high number of litigations manifest complexity of the tax system
- The time taken to file and pay taxes
- The multiplicity of taxes

Key Findings from the Study

The study established that Kenya had an average tax rate of 44.69 per cent for the period 2010-2016 compared to South Africa's 30.69 per cent over the same period. South Africa is billed to be among the leaders in sub-Saharan Africa.

In comparing the tax to GDP ratio, the study established that Kenya has the highest ratio (18.7 per cent 2014/2015) in the East Africa region. However, this is comparatively lower than that of South Africa, which stood at 25.4 per cent over the same period.

The correlation is that the higher the ratio, the more developed a tax system is and the lower the cost to revenue ratio the better the tax system. The best ratio is estimated at 1 per cent. Kenya's ratio has improved from 1.7 in 2007 to 1.3 in 2015.

In terms of revenue to staff ratio, a high ratio is indicative of high efficiency and KRA posted the highest ratio in the East African region. The Kenyan tax code is complex since 3 out of 4 parameters used indicate complexity. 61 per cent of the respondents did not understand it.

While there is a good understanding of the common types of taxes and ICT, there is a poor understanding of financial records, available tax incentives and the legal framework. The Kenyan system is competitive and the parameters indicate that it is only second to South Africa, which has the best practice in the region

The number of tax payments is generally higher in Kenya compared to the rest of Sub-Saharan Africa, which increases complexity and reduces the ease of doing business. In East Africa, Kenya has the lowest cost of revenue collection a factor that is attributed to computerisation and automation.

Tax fraud is a major threat to tax revenue in the telecommunications sector and Kenya loses an estimated Ksh 500 million annually which contributes to tax inadequacy. Mis-invoicing in transfer pricing is another factor hampering revenue collection and Kenya loses an estimated Ksh 11 billion annually.

The failure to tax a large portion of the informal sector accounts for an annual tax loss estimated at Ksh. 200 billion. The study also established that corporate tax incentives do not contribute to improved inflows in Foreign Direct Investment(FDI) and account for a significant amount of revenue loss estimated at Kshs 27 billion.

Kenya loses 27 per cent of possible revenue collection to tax spillage.

Key Recommendations from the Study

The Study established that tax productivity has not improved at a level commensurate with the changes in the macroeconomic environment and that this can be remedied, in part, through widening the scope of utilisation of ICT including the incorporation of mobile phone applications in tax administration. The Government should consider scrapping taxes whose cost of collection is more than 1 per cent and those which do not contribute significantly to total revenue collection.

2.4: Are Presumptive Taxes the Answer to the Informal Sector Taxation in Kenya?

Presented by Anne Maina; Kenya Revenue Authority

The objective of the research was to investigate the effectiveness of presumptive taxes in Kenya in the taxation of the informal sector. The specific objectives included examining Kenya's presumptive tax regime and identifying the reasons for the underperformance of presumptive tax.

Methodology and Scope

This study was based on literature review on the application of presumptive taxes in Kenya's informal sector. The paper analysed the different forms of presumptive tax in Kenya and investigated the suitability and practicality of these forms of presumptive taxes on the different businesses in informal sector.

Key Findings on Presumptive Taxes in Kenya

It was noted that some of the presumptive taxes in Kenya include TurnoverTax (TOT) and the presumptive residential income tax introduced in the 2015 Finance Act. A good presumptive tax system should meet the principles of good taxation namely simplicity, efficiency and equity.

Turnover Tax fulfils the simplicity principle of tax in terms of consistency, certainty, flexibility and low administration and compliance cost. Turnover Tax in Kenya has a single rate of 3 per cent, requires minimal bookkeeping and is based on self-assessment.

The study however noted that presumptive tax is considered unfair since it ignores the profitability threshold of different businesses. Sales can be easily falsified, and it has a cascading effect. The fact that minimal books are kept to account for the tax does not encourage eventual formalisation of businesses and its low threshold excludes large informal businesses.

Turnover Tax was introduced in 2007 but only contributes an average of 0.1 per cent of total tax revenue (KRA, 2007-2015). This is in spite of Kenya having a large informal sector estimated at 33.7 per cent of GDP.

The poor performance of presumptive tax is attributed to poor tax design, uninformed taxpayers and their negative attitude. Informal businesses are diverse and range from street traders, small entrepreneurs and farmers to professionals. These different businesses require different presumptive tax designs as opposed to a uniform regime.

Recommendations from the Study

The study calls for a proper design of presumptive taxes. Different presumptive taxes should be designed to target specific sectors such as agriculture and professionals. It is important to combine presumptive taxes with other forms of indirect taxes such as VAT to bring most of those operating in the underground economy into the tax net.

The study further recommends that tax enforcement takes into consideration, measures to increase tax compliance such as levying hefty penalties, simplifying business regulations; and, increasing transparency and good governance.

2.5 The Use of Geo-Spatial Mapping In Promoting Tax Transparency, Building Trust in Society and Ensuring Accountability in Public Financial Management

Presented by Okongo Kimari Orlale; Kenya Revenue Authority

Objectives

The overall objective of the paper was to assess how Geo-Spatial (GIS) mapping can be used to promote transparency and compliance. Specifically, the paper sought to:

- a. Examine how geospatial technology can be leveraged upon to provide a platform for the government and Kenya Revenue Authority to become more open, accountable and responsive to citizens by enhancing access to information
- b. Assess the utilisation of tax revenues by Nairobi, Nyeri, Muranga and Kakamega counties
- c. Examine the benefits of merging information in a single data source to identify tax collected and its utilisation on public projects

Key Findings

The paper noted that geospatial data is premised on the fact that data has a geographic component to it which means that the records in a dataset have location information tied in the form of coordinates, addresses, city or ZIP codes among others. All persons including small and medium-sized enterprises (SMEs), infrastructure and many other social amenities have a particular physical location and hence, have geospatial attributes.

It was noted that the Kenya Revenue Authority is pursuing various policy initiatives, strategies and programs to create ICT-based solutions to administrative challenges within the tax environment that impact on tax compliance.

Decisions made at policy, strategic/planning, management/tactical or inventory levels should be based on the accuracy of available information. GIS provides a wide range of solutions encompassing the entire tax administration chain and the digital system provides timely, accurate and easy ways of acquiring information, which supports decision-making.

By mapping the revenue collected in a fiscal year and how the government's annual budget is appropriated, GIS can help promote tax transparency, build trust in society and ensure accountability in public financial management and hence promote sustainable economic growth through co-operative compliance. The merging of data in a single data source facilitates identification on where tax revenue has been collected and its utilisation.

Conclusion and Recommendations

The paper noted that geospatial mapping provides room for analysing relationships and patterns that create new means of monitoring tax collection, promoting tax transparency, building trust in society and ensuring accountability in public financial management.

Geographical information Systems (GIS) can play a critical role in governance and communication on how taxes are utilised. Accurate spatial data and geographic information systems will support evidence-based decision-making.

In this regard, it was recommended that KRA partners with local Geomatic Engineering Universities such as the University of Nairobi and foreign countries like the USA, which have successfully implemented mapping of real estate and other public records.

2.6: Loopholes and Negative Psychologies as impediment to Tax Collection in Kenya

By Melvin Mulanda, Victor Otieno, Santa Wangechi and Moses Nyangu; Strathmore University

Objectives

The objectives of this study were to examine the importance of taxation in fostering sustainable economic development, tax culture and its impact on economic development. The study also sought to determine the role of tax authorities and taxpayers in influencing the overall efficiency of the tax system.

Further, the study sought to analyse the challenges that tax culture creates to economic development and propose solutions to these challenges.

Key Findings

The study established that tax culture in a country is dependent on the inter-phase between cultural values like honesty, justice and sense of duty with taxation. It was noted that Kenya faces budget deficits and this creates an impetus to seal loopholes in order to enhance tax collection.

The main gaps in the Kenyan tax system that adversely impact on revenue collection include corruption, poor accountability, negative tax culture and a lack of systems to tax the informal sector.

There are also concerns over the accountability of the government at both levels (National and County) in the utilisation of tax revenue. Poor accountability breeds disenchantment, lowers tax morale and increases the likelihood of tax evasion, corruption and tax avoidance

Corrupt tax officers colluding with Taxpayers to evade payment of taxes represent an additional loophole in tax administration.

The study classified taxpayers based on the attitudes that they manifest towards tax payment:

- Social Taxpayer- influenced by social norms and feelings of guilt and shame and reacts sensitively to other peoples' beliefs
- Intrinsic Taxpayer- feels obliged to comply voluntarily and is sensitive to institutional facts
- Honest Taxpayer- does not search for ways to cheat on taxes
- Tax Evader - acts in line with the Standard Economic Rational Choice Theory under which the expected value of evading taxes is compared with the value of honesty

Key Recommendations

This study found that there is a need to enhance tax awareness and educate people on tax payment to enhance compliance. It was further noted that there is a need to upscale transparency in tax policy making since such transparency encourages voluntary compliance and remittance of tax.

The study further recommended that tax administration procedures should be modernised and accountability over the utilisation of tax revenue enhanced since the provision of public services such as health and education (which are funded from tax revenue) are of paramount importance.

Further, there is a need to enhance deterrent measures to increase the perception that tax evaders are likely to be detected and punished. Eradication of corruption should be prioritised.

Conclusion

The concluding thesis of this study was that the main loopholes/gaps in the Kenyan tax system include corruption, poor accountability, negative tax culture and lack of systems to tax the informal sector.

There is need to address these issues to facilitate financing of both the recurrent and development expenditure.

2.7 The Relationship Between Tax Culture and Economic Development: Gaps and Solutions

Presented by Francis Mburu; KCA Univesity

The objectives of this study were to examine the relationship between tax culture and economic development; and, identify gaps and possible solutions.

Introduction

The presenter began by noting that tax culture in Kenya was dependent on the attitude of the people towards the tax system. There were gaps that were important to address in relation to tax culture and administration.

The first relates to the Government and the tax authority. The gap between these two can be addressed by the government providing a good working environment for the tax authority (KRA) including the provision of competitive remuneration for staff.

The second relationship to be addressed is that between taxpayers and the tax authority, which can be addressed by educating taxpayers on the importance of tax remittance and giving them tax incentives.

The final relationship is that between taxpayers and the government under which, taxpayers expect services from the government in respect of tax revenue. This will in turn improve the tax compliance culture.

Key findings

This study found that most taxpayers view the Kenyan tax system as unfair. As a result, they are indifferent to paying tax fines and penalties; do not appreciate the aggressive tax enforcement efforts of KRA such as through carrying out tax audits and prosecution of tax evaders. This means that taxpayers prefer a friendly approach.

Among the factors that explain non-compliance are the complexity of tax laws and the feeling that the tax burden is heavy. The study established that there is a strong relationship between people's attitude towards the government and the existing tax culture. Where taxpayers believe taxes will be spent on infrastructure and other beneficial social programmes, they are more likely to trust the government and enhance compliance.

It was noted that enhancing public education and targeting key stakeholders especially the informal sector could help improve compliance and draw in more tax revenue.

Key Recommendations

To change the tax culture and improve tax administration, the study made specific recommendations on improving relationships at different levels as follows:

On the relationship between the government and tax authority, there is need to foster a good working environment such as providing staff with competitive remuneration.

Regarding the relationship between taxpayers and the tax Authority, there is a need to educate taxpayers on the importance of tax remittance and providing them with incentives.

On the other hand, as relates to the relationship between taxpayers and the government, it is important to focus on the quality of service delivery in order to improve tax compliance

2.8 The Relationship Between Tax Culture And Economic Development

Presented by Jeremiah Muniu; KCA Univesity

Objectives

The overall objective of the study was to assess the importance of building a tax paying culture as a means of fostering sustainable economic growth.

Key Findings

This study observed that over 60 per cent of the annual national budget funding comes from local taxes collected by the Kenya Revenue Authority (KRA). Tax performance has improved tremendously over the last decade averaging 24 per cent of the size of the economy.

But the demand for resources continues to grow and since the implementation of devolved government, KRA has been under pressure to increase its collection to cater for ever increasing government expenditures.

It was noted that the two levels of government were empowered to impose specific taxes. In the case of the national government (income tax, value added tax, excise tax and customs and import duty) while county governments may impose property and entertainment tax.

The study noted that tax culture in Kenya was undermined by a lack of moral ethics and that tax avoidance was manifest as companies seek to report less tax obligations.

There is need to engage the public in the formulation and implementation of tax policies to create awareness and motivate compliance to help realise sustainable economic growth. The Kenya Revenue Authority has an important role to play in establishing such a culture through the use of sanctions and penalties and by a fair application of incentives.

Recommendations and Conclusions

It was recommended that tax incentives and restrictions such as tax reliefs for income tax should be provided on the basis of clear justification. There is also a need to review tax incentive policies to enhance government revenue and seal revenue loopholes.

Kenya needs to review its tax policies especially as regards efficiency and flexibility since significant revenue is lost through tax avoidance and evasion.

The study recommended that due consideration be given to declaring tax avoidance illegal and have it treated in similar manner with other serious crimes such as terrorism, human trafficking and corruption in view of the fact that tax is the main source of government revenue.

It was also recommended to incentivize local investors in order to enhance a tax paying culture.

To further compliment i-Tax, KRA should exploit the benefits of big data technology to help verify the accuracy of tax returns by taxpayers in addition to reviewing the effectiveness of tax reforms to further enhance tax collection.

The study also recommended that the Kenya Revenue Authority should customise the tax system to target the growth of specific sectors of the economy the way Japan did to encourage the growth of SMEs.

On its part, the Kenya Revenue Authority should establish a platform for digitization of all its operations since many businesses are increasingly being conducted online. KRA should also invest in continuous training of tax administrators to update them on current issues facing revenue collection and tax administration.

3.0 Taxnovation Contest – Presentation of Mobile Applications

3.1 Tax helper

Presented by Zack Mwangi; KCA Univesity

Description

This mobile application was defined to be what its name is – a helper! It assists and facilitates Taxpayers file their individual self-assessment tax returns by use of a mobile phone and eliminates the need to use spreadsheets. The app runs on android operating system –the most common operating system running on mobile phones today.

The app guides a taxpayer through a step-by-step prompt aligned to the structure and design of the current IT 1 form on iTax.

Functionality/ Features of the app

- It facilitates filing tax returns through iTax by use of mobile phones
- It simplifies filing through in-built prompts that guide the user
- It is applicable to filing individual returns by salaried employees
- It is user friendly since it does not require the use of spreadsheets to file returns
- It is fast, convenient and easy to use.
- It is loaded with a P9 form

Benefits to KRA

This app will help KRA enhance service delivery by improving efficiency in tax administration by enabling the Authority to have a much wider reach. The app will not require any additional overheads or structural changes.

Further, the app is well aligned to KRA's goals of innovative and customer focused tax administration and poses no risk to KRA since there is no need to access its servers.

Benefits to the User

The benefits that this app presents to users includes the fact that it provides great user experience and can be used by both laymen and experts. It also shortens the process of filing to only two steps besides simplifying the process of filing returns by eliminating the need to log on to iTax, downloading spreadsheets, zipping and uploading. It also only requires one to fill in the mandatory data and send the information to KRA through a mobile phone.

3.2. K-Tax- Payment System

Presented by Kenneth Kuria Kimani ; KCA Univesity

Description

K-Tax payment system consists of both android and USSD application. It targets the informal sector in general, particularly landlords and matatu owners.

Functionality/Features of the Application

This app facilitates filing and payment of taxes by the informal sector. It can send out monthly and yearly notifications including reminders to pay tax or file returns. In addition, it facilitates processing of tax refunds and verifies the authenticity of documents issued by KRA. Users can communicate using either English or Swahili, which increases its convenience to the informal sector. The app is convenient to use since it has an inbuilt tax calculator.

Advantages of using the Application

This application will enhance revenue collection because of its efficiency and simplicity. It has the convenience of allowing the tax authority trace Taxpayers besides the fact that it can be incorporated into the iTax system.

3.3 Residential Rent Collection System

Presented by Faustin M. Mwangela; KCA Univesity

Description

This is a concept for an app which is still under development and which seeks to ease collection of the 10 per cent withholding tax applicable to rental income. It allows splitting of tax and the amount due to the landlord at the point of payment.

The app is applicable to landlords with an annual turnover of Kshs 10 million while those above this threshold can claim for tax credit at the end of the year.

Features / Functionality of the App

This app has a unique withholding tax system. It facilitates the opening of special accounts and ensures that the bank accounts/mobile transfer are programmed in a manner that splits any amount sent through between tax due to KRA (10 per cent) and landlord (90 per cent).

Besides, the application incorporates a special identification code that may be acquired by every tenant and maintains a database that tracks all payments and which can be used to generate reports that can be attached to tax returns.

Use of Special Identification Code

The concept paper proposed the use of a Special Identification Code instead of meter number because of high tenant turnover. Under this system, landlords will be issued with their own special codes upon proof of ownership of the property for which rent is payable.

Partnership with Third Party Intermediaries

The government can enforce compliance through partnership with other agencies like Kenya Power (KP). It is noted that electricity meters are usually issued to the developer, who eventually either becomes a landlord or sells the houses. Where houses are rented out, the meters remain under the custody of the landlord while where houses are sold; the meters are transferred from the developer to the new homeowner. Such transfers should be carefully tracked and taxes due collected.

3.4. My KRA App

Presented by Munene Kuria

Description

This is an app, which works on the M-platform and provides elaborate and quick information on various

services offered by KRA. This includes the procedure of filing tax returns, KRA PIN applications, information on tax laws and also information on imports and exports. It also incorporates frequently asked questions (FAQs).

Features of the App

This application offers real time notification in the form of tweets from the official KRA twitter handle and also provides county government tax news. It provides information on the tax laws of Kenya. In addition, it provides information on taxation of local products as well as imports.

Advantages

The main advantages of this application is that it is able to provide some of the most sought after information on KRA to the public and enhance ease of access to information.

3.5. iTax Mobi

Presented by Tony Miyoro

Description

This is an application that is built to run on mobile devices using the android operating system. It was presented as a concept app since the developer did not have access to KRA's server.

Features and Functionality of the App

The main features and functionality of the application include the fact that it allows Kenyan citizens create an i-Tax account. It also allows payment of taxes and viewing of previously filed returns. Users can file returns online using mobile phones while one can get online help on issues of tax payment.

Users can also download a compliance certificate and receive timely reminders on filing of returns. The application is linked to social media and allows users to share status online upon successful filing of tax returns, which can be one way of motivating others to file. The app is available on Google play making it easy to download.

3.6 KRA Mobile App

Presented by Okongo Orlale; Kenya Revenue Authority

Description

This is an application that enables the payment of tax from a person's bank account and also enables one to track the progress of one's tax compliance certificate upon filing an application requesting a tax compliance certificate.

Features and Functionality of the App

Among the main features of this application is that it comes equipped with the option of finger print recognition for those who are registered by the national registration bureau. It also enables easy payment of taxes from one's bank account through the use of debit/credit cards or through the use of mobile money.

Users logged to this app can register and log in using their PIN, ID number or fingerprints. The app can generate a KRA PIN and is able to capture the geographical location of a user. It can calculate taxes on a daily, weekly, monthly, quarterly or annual basis and can also be used to file returns.

The application allows one to apply and receive a tax compliance certificate on the mobile phone and it is able to notify users on the status of their tax compliance certificate. Besides, it offers a free and secure payment method to individual taxpayers.

3.7. Ushuru Jijini

Presented by Kimani Kirumbi; Kenya Revenue Authority

Description

This app is designed to support tracking business performance in the informal sector and is geared to ease the filing of tax returns. It can be accessed on M-platform (Android, Windows & iOS) and USSD platform

Functions

This app facilitates PIN registration for businesses and generation of tax reports. It has an in-built help menu with customer care features and FAQs.



L-R, Okongo Orலை (Winner, Taxnovation contest); Commissioner General John Njiraini

Advantages

Among its main advantages is that it provides a platform for daily and weekly tax payments. It also has easy navigational steps and can be integrated to i-Tax. The App can generate and maintain records hence SMEs can use it to secure loans for business growth. It is GPS enabled making it easy to locate the nearest KRA Customer Care Centre. In the main, it is one that will help enhance tax compliance.

Note: It was observed that due to the high mobile phone penetration in Kenya (about 83 per cent of registered users and about 60 per cent of active users) the use of mobile applications on tax matters is ideal.

PART TWO – THE 2ND ANNUAL TAX SUMMIT

CHAPTER 1.

1.0 Official Opening Ceremony

The official opening took place at 2.30 pm and was aired live on NTV.

1.1 Opening Remarks by Dr. Mohamed Omar, Commissioner, Strategy, Innovation and Risk Management

Dr Omar began his remarks by noting that improving tax administration is critical to the realisation of tax collection targets and was essential to avail resources to fund the country's key development programmes including, Vision 2030 flagship projects.

He explained that the theme of the conference was on tax administration and noted that KRA is focused on 3 key areas namely:

- Improving tax administration systems
- Enhancing tax culture including boosting tax morale; and,
- Expanding the taxpayer base which speaks to the need of sharing out the burden of taxation. (Taking into consideration that under the new framework of devolved government, KRA needs to get a fair share of taxation)

1.2 Remarks by KRA Commissioner General, Mr. John Njiraini

The Commissioner General noted that the significant interest generated by the Summit in terms of participation was an indication of tremendous interest on tax administration.

He noted that the tax summit will be held annually and scaling up engagement with universities is essential in order to reach out to the youth. KRA is keen to tap into the wider knowledge base outside the organisation and engage the public more proactively on tax administration matters.

The Commissioner General further emphasised the need to recognise that there are now many services offered by private enterprises that were previously in the domain of the public sector. Therefore, the debate on what services should be provided by the private sector vis a vis the government is an important one in determining the appropriate role and size of government. The future tax burden is likely to be determined by how we perceive and conceive the role of government.

He emphasised that KRA's strategy must be geared towards enhancing appreciation of taxation and the guiding principles on its administration amongst taxpayers. In this regard, it is important that tax processes are simplified in order to foster compliance.

Simplicity affects the cost of compliance for taxpayers and the cost of administration incurred and borne by KRA. Simplification of tax procedures will also encourage voluntary compliance which is much more efficient compared to undertaking tax audits.

Mr. Njiraini explained that KRA will continue to focus on simplifying compliance measures and in particular highlighted the following:

- Increasing uptake of technology to reduce the need for interaction with KRA staff;
- Enabling and facilitating online access to tax accounts; and,
- Enhancing ability to process tax clearance without the need for KRA intervention

The Commissioner General further observed that KRA is undertaking reforms in its internal administrative processes and moving away from the traditional policing mentality. This means that KRA will focus on allowing those who are in breach to get back on track and comply hence building trust and enhancing compliance.

He observed that tax compliance is influenced by social norms such as citizens' confidence in government. For this reason, building a culture of nationalism and public confidence in the State is important to make tax compliance everyone's business. Creating national cohesiveness is equally important in engendering tax morale.

Mr. Njiraini concluded by stating that the outputs from the 2nd Annual Tax Summit will be put to good use as KRA seeks homegrown solutions to tax administration in Kenya.

CHAPTER 2

2.1 A New Era in Taxation: Innovative Approaches to Improving Tax Administration in Kenya

Keynote Speaker: Dr. Julius Kipng'etich, CEO, Uchumi Supermarkets

Panelists

1. Prof. Gituro Wainaina, Associate Professor, University of Nairobi & former Acting Director General Vision 2030
2. Mr. Richard Ndung'u, Head of Tax, KPMG East Africa
3. Dr. Eric Aligula, Economic Advisor, Executive Office of the President
4. Mr. James Ojee, Deputy Commissioner, Policy Coordination Unit, Kenya Revenue Authority
5. Ms Alice Owuor, Immediate Former Commissioner, Domestic Taxes Department, Kenya Revenue Authority



Vivo CEO Polycarp Igathe with Farasi Strategy Advisors CEO Sam Mwale during the Annual Tax summit

Moderator: Mr. Polycarp Igathe, Managing Director, Vivo Energy

Session Proceedings

Keynote Address

The keynote speaker Dr. Kipng'etich focused his remarks around two key issues namely, behavioral change on tax payment and KRA internal reforms. He observed that tax compliance improves when revenue raised from taxation is utilised appropriately which in turn, has a positive impact on tax compliance.

He further observed that changing behavior will result in netting more people into the tax net and create incentives to formalise businesses. This will ease capturing and sharing of vital information on taxpayers among government agencies and other key stakeholders.

Dr. Kipng'etich pointed out that there are many businesses that are wary of formalising out of a fear of "harassment" by KRA once information on their operations is disclosed. To address this, KRA should come up with ideas that encourage businesses to formalise their operations and bring them into the tax net.

He observed that taxation involved the collection of money to support public projects and programmes against the expectation that tax revenue will be utilised appropriately. It was observed that corruption undermines this expectation and is a disincentive to compliance since it favors those evading payment of tax and discourages those willing to comply.

Dr. Kipng'etich pointed out that to enhance compliance, it is necessary to continue implementing internal reforms within KRA and in particular focus on the following areas:

- Improving customer service;
- Re-engineering KRA tax processes;
- Reconfiguring KRA structures to better serve the needs of the customer; and,
- Automating manual processes to augment efficiency

To further enhance the Authority's operational efficiency and delivery, he proposed that KRA focus more on strengthening 3 key units namely:

- a) Research – KRA should strengthen its linkage with Treasury on policy reforms which impact of tax revenue collection;
- b) Investigation – KRA should enhance its investigation function as relates to the assessment of taxpayers eligible to rewards and penalties; and,
- c) Enforcement – KRA should focus on sanctions due to non-complaint taxpayers.

Dr. Kipng'etich also highlighted the need for a complete overhaul of culture (including a change in the attitude of staff) within KRA to enhance efficiency and to better serve the needs of customers. Further, KRA in collaboration with Treasury needs to strengthen its governance structures to support the attainment of these objectives.

He highlighted several pertinent issues that KRA must pay due attention to in dealing with stakeholders with an emphasis on the following:

- a) Incentives should be created to support the uptake and use of technology by businesses. An example was given of the attempt to formalise the payment of matatu fares through the use of smart cards – an area that the Authority should have been more proactively engaged in.
- b) KRA should explore integrating ETRs with its system for real time monitoring of business transactions
- c) The KRA audit framework should be strengthened to facilitate voluntary compliance.

-
- d) KRA should minimise the use of discretion in the tax system by automating processes and procedures. Discretion creates the potential for unfairness and is prone to abuse
 - e) Dispute resolution through the Tax Appeals Tribunal should be expedited to improve the business environment
 - f) To enhance tax collection from the informal sector, imposition of a presumptive tax should be considered. This will create an incentive for businesses in the informal sector, which account for 21 per cent, to join the tax net and spread out the tax burden.
 - g) KRA should be the sole collector of revenue at both county and national government levels. This will leverage and maximise on the existing structures and platforms for tax collection. He noted that many county governments are struggling with tax collection due to inefficiencies. For example, Nairobi county government accounts for 60 per cent of Kenya's GDP, yet it is struggling to meet its obligations – an indication of poor tax administration.
 - h) Tax administration should be simplified as a means of fostering and encouraging compliance. KRA currently collects Kshs 1.2 trillion; an amount that can be doubled with innovation on tax collection processes and procedures. Increased tax revenue will ensure that the present generation does not burden the next generation with debt.



Invited guests pay attention to the proceedings during the Tax Summit

Panel Discussions

Moderator's Question: How do we broaden the tax base and encourage payment of tax (bringing "swag" to tax collection)?

Responses from the Panel

The panel noted that KRA should enhance automation and integrate its systems with other platforms such as mobile apps, banking apps, USSD and IFMIS among others. In view of the fact that many businesses transacting with counties are not declaring or are under declaring due tax, KRA should flush them out by integrating its systems with other third party platforms such as NSSF, NHIF, IFMIS among others.

There should be increased use of technology especially mobile platforms to bring more people into the tax net. It was proposed that KRA considers adoption of the agency model akin to that of equity bank to facilitate filing and payment of tax by creating more pay points that are closer to the people.

KRA should also initiate and roll out a modern ETR system that can interact seamlessly with its system and simplify tax processes in recognition of the fact that there are many people who encounter challenges with compliance when it comes to filing returns and making payments.

The panel further noted that KRA should be flexible on timelines for filing returns and making payments. Payment of tax should be eased in similar ways as is the case with the payment of utility bills. It was suggested that KRA systems should be incorporated in banking apps in the same way as other utility providers like DSTV. Further, the use of M-Platform, which enables payments through the mobile phone, should be explored and enabled for tax payments.

The Authority should make the payment of tax fun through initiatives like creating a VAT lottery using ETR receipts which will encourage customers to demand ETR receipts and in the process create greater awareness on tax payment.

There is need for a shift of mindset on tax payments by placing emphasis on enhancing ethics and integrity. It was further observed that there is a need to focus on non-filers and identify the necessary incentives required to motivate compliance. There is an equal need to transition nil and credit filers to taxpayers.

It was noted that an investment framework must be created to raise revenue and support growth. KRA should take the approach of trusting, facilitating and verification.

The panel proposed that the Authority should be segmented into Inland Revenue Service and Customs & Border Control to enhance operational efficiency.

In recognition of the fact that corruption is a potential disincentive to tax collection, it was suggested that KRA should be part of the war against corruption. It is necessary to focus on promoting ethics and integrity as a way of fighting corruption, which is also a threat to the country's economy. Research has indicated that a 1 unit increase in the corruption index results in 76 per cent of compliant taxpayers beginning to evade tax payment.

Strong leadership leads to reduced corruption and lower incidence of tax evasion. To deter the latter, initiatives such as naming and shaming in the media plus jailing tax evaders should be considered. It is important to identify and strike at the pain points of taxpayers engaged in tax evasion.

The panel noted that a corrupt government is likely to have an ineffective tax system hence the need to mobilise technological initiatives such as the use of the card system to penalise violators of traffic laws and force them to pay fines at the time of renewing driving licenses.

Additional Observations by the Panelists

Mr. James Ojee, Deputy Commissioner, Policy Coordination Unit, KRA

Mr. Ojee noted that KRA has and continues to undertake several measures to address the challenge of non-filers, nil and credit filers and make them begin remitting tax. These measures include encouraging voluntary tax compliance and implementing the Tax Procedures Act enacted in 2015.

He added that the VAT Act has also been simplified to promote compliance and KRA targets to reduce non-compliance significantly. The Authority has acknowledged the need to change the mindset of KRA staff on tax matters through culture change.

The Authority has changed its strategy from enforcement to building trust through facilitation to encourage voluntary compliance amongst those willing to remit tax while sanctioning those unwilling to comply with penalties. The use of Alternative Dispute Resolution in settling tax disputes is also being encouraged.

Dr Eric Aligula, Economic Advisor, Executive Office of the President

Dr Aligula noted that Kenya's population is projected to hit 65.4 million by 2030, which presents a need to reflect on how the country will support an aging population and an overall increase in population.

He noted that Kenya's current tax revenue to GDP ratio stands at 19 per cent compared to an average 27 per cent in the emerging economies. Other comparator countries are Lesotho 34 per cent, Angola 38 per cent, Seychelles 31 per cent, Nigeria 8 per cent and Sudan 9.7 per cent.

Prof. Gituro Wainaina, Associate Professor, University of Nairobi & Former Acting Director General Vision 2030

Prof. Wainaina observed that a corrupt government is likely to have a significant problem with tax evasion and manifest an ineffective tax system. High levels of corruption increase the rate of tax evasion.

On the other hand, a strong tax system bears a high correlation with low corruption. For that reason, it is necessary to strengthen research as a means of bringing out such issues on corruption and tax administration.

Summary of Session Observations

The moderator summarised the session of interaction with panelists by acknowledging that the problem of businesses failing to pay their fair share of tax created unfair competition and emphasised the need for deterrent measures such as jailing of tax evaders.

He reiterated the importance of sealing tax loopholes through mobilisation of automated processes that reduce human interaction in addition to other initiatives such as naming and shaming the purveyors of corruption and tax evasion.

The moderator pointed out that corruption can also be addressed by enhancing integrity. It is, therefore, important to consider and borrow from innovative approaches applied in countries like Singapore where pay increments for public servants is tied to GDP growth. This places emphasis on mobilising domestic resources, safeguarding these resources and thus avoiding the need to borrow in order to plug budget deficits.

It was suggested that corruption should be treated as a crime where the wealth and assets of those engaged in the vice are confiscated. Tax should be imposed on corrupt transactions even as legal processes are mobilised to serve as strong deterrence. Fighting corruption requires the involvement of all government institutions.

Feedback and Responses from Plenary

The participants made the following observations in reaction to the presentations by the panelists:

- The efficiency of the tax system can only be secured and guaranteed if corruption is addressed through a fair system that ensures all those eligible to pay tax do so. The political leadership, such as Members of Parliament must pay taxes.
- It is important to entrench accountability and ensure value for money collected through tax

Closing Comments

The moderator ended the open plenary by inviting the panelists to make their closing comments and observations. The following issues were highlighted:

First, that to increase tax revenue, there is need to address challenges facing compliance in order to improve tax administration. KRA needs to increasingly shift towards a service-oriented organisation with a strong focus on facilitating taxpayers and enhancing the use of technology among other interventions.

Secondly, creating a national movement (Ushuru Mashinani) was proposed as one way to rally and mobilise tax payment. Incentives should also be created to encourage compliance such as enrolment to membership clubs, award of government tenders to only those who are tax compliant; denial of the right to vote to those who do not pay tax; limiting enrolment to national schools to children of compliant taxpayers, among others.

Thirdly, there should be an emphasis on innovative approaches such as:

- Consolidating registration of citizens by making the PIN the primary identifier;
- Continued investment in a versatile and robust automation system to address integrity issues by reducing human interaction;
- Use of mobile applications especially targeted at the informal sector;
- Enhancing interaction on KRA services by bringing them closer to the people by rolling out KRA Mashinani initiative;
- Creating a one-stop shop which includes KRA in the registration of businesses;
- Enhancing tax reforms to ensure sustainability by basing spending on the resources mobilized locally thus reducing the need for borrowing to plug budget deficits and spare future generations the burden of debt; and
- Introduction of a single tax for the informal sector

CHAPTER 3.

3.1 Harnessing Technology Advancement for Tax Administration

1. Embracing the digital explosion: Harnessing opportunities in the e-commerce and m-commerce industry in Kenya
2. Big data: Real time data handling, data governance and advanced data analytics.

Panelists

1. Prof. Bitange Ndemo, Former Permanent Secretary, Ministry of Information & Communication
2. Dr. Katherine Getao, ICT Secretary, Ministry of ICT
3. Ms. Caroline Mukira, Global Business Services Leader, IBM

Moderator

1. Dr. Gilbert Saggia, Country Manager, Oracle Kenya.

Session Proceedings

The moderator opened the plenary by observing that there is a growing shift towards the use of electronic platforms in conducting business as an increasing number of transactions are through electronic platforms. KRA needs to take cognisance of this, review tax administration and establish a virtual infrastructure that will enable it draw tax from these transactions.

It was pointed out that tax rates in Kenya are high because not everyone who ought to pay tax is compliant. Information on transactions is hidden within the vast volume of data that businesses collect and the use of data analytics can help unlock potential tax revenue from these transactions.

Big data analytics has the potential to greatly benefit most areas of government by enabling a more holistic view of citizens and other entities including, information on their activities and events.

Other benefits that could accrue from the use of data analytics include:

- Zero-latency operations with immediate access to data and insights;
- Rapid delivery of information including insights into fraud or tax non-compliance; and
- Immediate retrieval of streaming data from instrumented assets

The moderator pointed out that KRA must focus on big data analytics to improve revenue collection as this data provides digital footprints with a 360 degree perspective of the taxpayer.

Panel Discussions

The panel identified the following as some of the challenges that technological advancements presents to tax administration:

Challenges in the E-Commerce Sector

E-commerce tends to increase hard to tax cross-border transactions and also increases the use of tax havens by multinational corporations to evade tax. Weak laws on e-commerce also enable multinational corporations to operate outside of the jurisdiction and law of a country, which then means that they cannot be held accountable for non-declaration of sales or tax.

Another challenge arises from the rules and agreements of the World Trade Organisation(WTO), which seek to make the internet tariff free. There are also difficulties in quantifying e-commerce transactions; identifying the source, origin and destination of transactions; and, verification of parties to transactions.

Challenges in Big Data Analytics

Some of the challenges raised by big data analytics include the inadequate training and capacity in big data concerns. KRA needs to equip its staff with the necessary skills and knowledge to tackle big data analytics issues.

Response from the Panel

The panel noted the need to create a digital footprint to enable KRA draw comparison between declared income vis a vis spending by establishing a common platform on registration of property. This will ease and facilitate the identification of taxpayers and highlight any variance between declared income and the taxpayer's wealth. Kenya needs to enhance its technological capacity to undertake such initiatives, which requires initiating training in view of the limited capacity within the country on big data analytics.

The panelists were unanimous that technology can play an important role in encouraging compliance and it was thus important to leverage on technological innovation to simplify tax payments and provide taxpayers with a plethora of payment options using mobile technology and other ICT-based platforms.

On big data analytics, it was noted that technology can be deployed to create a depository and 360 degrees view on those who need to pay tax which will support enforcement of tax compliance. Big data analytics can assist in presenting a variety of information, which can help unlock revenues by highlighting potential areas of undeclared income by individuals.

Operational efficiency can also be enhanced through the use of technology to create a database in areas such as customer segmentation. Analytical tools should be given to the right people to maximise on results and tax authorities should leverage on technology to aid traceability of assets.

It is important to review existing laws to ensure that they do not inhibit or impede the use of various technological platforms.

Given that a large segment of the Kenyan population owns mobile phones, KRA should exploit the use of these to enhance voluntary compliance through technological innovations that run on mobile platforms.

The growing shift to virtual transactions requires KRA to be well positioned to raise revenues from these new tax revenue streams. To incentivize tax payment, though, it is essential that people see value for tax money which means that the government must be accountable on its spending of tax revenue.

KRA needs to develop soft skills for effective engagement with taxpayers on issues such as fairness in payment of tax and how that is apportioned. The example given, by way of a question, was on whether it is fair for KRA to impose tax on a video developed in another country or levy tax on entertainment content streamed from outside the country?

It was noted that technology can also be relied upon and deployed to safeguard the sustainable and efficient application of tax revenue. For instance, detecting differences and variances in prices such as instances where goods are priced beyond the market value and also in identifying areas of revenue leakage.

Summary of Key Recommendations

It was recommended that KRA deploy big data analytics to aid with analysis, profiling and segmentation of taxpayers through creating a database that distinguishes compliant and non-compliant taxpayers. This will then enable the Authority to aggregate its focus on the latter as a way of enhancing compliance and raising more tax revenue.

Payment of tax should be a mandatory requirement with severe sanctions to discourage tax evasion. In order to promote data sharing the ICT Board should be actively engaged on the UN National Spatial Data Infrastructure Project and endeavor to borrow from best practice from countries that have successfully implemented a digital footprint.

It was proposed that KRA draws on expertise in areas such as law and technology to be well prepared and better anticipate future innovations that may require a shift or change in laws.

KRA should also be proactively engaged in the negotiation of bilateral agreements between countries and national tax agencies to mitigate tax evasion.

The Authority should focus on a three- pronged approach to encourage voluntary compliance. The key aspects of this approach are communication, regulation and motivating sustainable action by simplifying processes and increasing the tax base.

On its part, the government should use technology to communicate and clearly outline its expenditure, which will go a long way in motivating voluntary compliance. The government should create capacity on key areas such as big data analytics by introducing the subject at university level. Currently, this is not available in Kenya and students have to travel to South Africa to receive this training.

It was also recommended that all government agencies in Kenya need to automate their processes to enable proper integration of big data usage. This will then assist in the adoption of the Public Key Infrastructure (PKI) which is a key instrument in linking transactions.

3.2 Launch Of ICT Strategy

The launch of the KRA ICT Strategy sought to highlight the areas of the Authority's strategic focus in its ongoing implementation of various reforms that target the use of ICT to simplify tax administration processes and procedures. The ICT Strategy outlines initiatives that are either under implementation or are planned for implementation through the use of online and mobile phone services. The following is a highlight of remarks made during the launch.

Remarks by John Njiraini, KRA Commissioner General

Ms. Wairimu Nganga, Commissioner, Legal Services, representing the Commissioner General, explained that the underlying vision of the strategy is 'To Achieve Fully Integrated Electronic Customer Service'. The ICT Strategy will enable KRA leverage on technology to improve service delivery. It will enable taxpayers pay and file their taxes on time and at their own convenience by leveraging on both online services and mobile phone services. The strategy will also:

- Enhance customer service, expand access to services and improve the overall customer experience
- Develop platforms for self-service that require minimal manual processes
- Reduce the amount of time spent by both corporate and individual taxpayers on tax compliance
- Support business operations with appropriate and evolving set of tax administration applications and productivity tools
- Leverage on data from private organisations to curb both tax evasion and illicit trade

She explained that the Authority will continue developing business intelligence and data mining capabilities to support its focus on using risk-based approaches to tackle tax evasion.

It will also initiate continuous organisational improvements, innovation and enhanced staff productivity with a clear focus on customer service.

This requires establishing a business continuity management plan and embracing emerging smart technology investment decisions. The latter will enable realisation of strategic business objectives that embrace analytics to obtain information that improves tax compliance across different sectors and enhance reliance on fact-based decision making.

She observed that technology has eased access to government services as various public service organisations roll out technology-based solutions. This shift in public service delivery requires integration with KRA's systems as the Authority is now collecting both tax and non tax revenue on behalf of the government.

She noted that the iTax system has eradicated the need for manual filing of returns, saving thousands of man-hours spent by taxpayers trying to meet filing deadlines.

The system has also simplified management of returns and access to both individual and corporate tax records.

Ms. Nganga explained that KRA hopes to leverage on the success of the iTax system and lessons learnt from implementing the 2nd ICT Strategy to transform the Authority into a more customer friendly institution with which all taxpayers can freely access and interact.

She noted that SMEs perceive tax administration as an added cost because of the need to rely on third parties to undertake compliance procedures. The continued investment in technology aims at bridging this



ICT Strategy Launch

gap and making it efficient and cost effective for SMEs to become tax compliant. KRA will thus continue to leverage on new technology to innovate new solutions, which result in a fully integrated electronic customer services platform.

Remarks by Mr. Ezekiel Saina ;Commissioner, Corporate Support Services, KRA

Commissioner Saina began by observing that the ICT strategy is aligned to KRA's 6th Corporate Plan whose theme is 'Building Trust through Facilitation so as to enhance Tax Compliance'. It seeks to enhance customer service by leveraging on technology.

The strategy focuses on 8 thematic areas and 17 strategic initiatives to improve service delivery for both individual and corporate taxpayers. It will support the development of ICT software and infrastructure geared towards integrating electronic customer service.

The key themes of the strategy are:

- 1) Business Systems - offer integrated on-line services and self service to customers in an efficient and effective manner
- 2) ICT Infrastructure - enhance availability of business systems and ensure continuity of business operations
- 3) Enterprise Information Infrastructure - improve the quality of information by establishing a managed enterprise information infrastructure
- 4) Business Enablement through Technology - improve the Authority's ability to deliver services and enhance taxpayer compliance by leveraging on existing and emerging technologies and innovations
- 5) ICT Project Management - enhance value from project investments by institutionalizing professionalism in ICT project selection and management
- 6) ICT Risk Management - identifying and mitigating ICT risks
- 7) ICT Service Delivery - re-engineer the workings of the ICT Department under the 'Trust and Facilitation' approach to service delivery through supporting outsourcing of professional services as necessary
- 8) IT Governance - improve IT governance in KRA to enhance compliance with best practice frameworks, standards, procedures and governance policies

Commissioner Saina further explained that the strategy will incorporate various systems to maintain up to date taxpayer records and entrench ethical practices within the Authority; address challenges facing customers; and, tackle challenges and limitations within the organisation's internal operations.

The strategy will form the basis of all automation initiatives in the Authority and serve as the reference for strategic ICT initiatives as well as operational ICT Plans.

CHAPTER 4

4.1 Towards a Gold Standard: Building Tax Compliance at the County Level

1. Slaying the dragon: Innovative solutions to the tax collections challenge at county level.
2. Getting it right: Towards an enabling policy environment in the counties.
3. Building Kenya together: Responding to taxation challenges through strategic partnerships.

Keynote Speaker: Mr. Micah Cheserem, Chair, Commission on revenue Allocation

Panelists

1. Mr. Benson Korongo, Commissioner, Domestic Taxes Department, KRA
2. Hon Joshua Irungu, Governor Laikipia County
3. CPA Bernard Ndung'u, Accountant General, National Treasury
4. Mr. Kiprono Kittony, Chair, Kenya National Chamber of Commerce & Industry
5. H.E. Wycliffe Oparanya, Governor, Kakamega County

Moderator: Eng. Patrick Obath, Associate Director, Adam Smith International

Session Proceedings

The moderator opened by inviting the keynote speaker to make his remarks

Keynote Address

Mr. Cheserem observed that in its role of collecting tax, KRA must recognise that it works for the two levels of government – National and County. It was pointed out that county governments have limited sources of revenue under the constitution such as entertainment and property tax.

However, the counties have continued to grow revenue, Collection which reached Ksh 35 billion in 2015, translating to 13 per cent of their budget. Many counties continue to create a conducive environment for taxpayers.

Mr. Cheserem observed that the collection of property rates is a major challenge and there is need for KRA to explore how it can help and support Counties in this area. He challenged the Authority to devise ways of working closely with the counties to motivate tax payment. This required forging a strategic partnership to create solutions to challenges facing counties in tax collection.

It was proposed that KRA should consider establishing a unit and framework of support to the counties. The members of the proposed strategic partnership framework should include representatives drawn from the Council of Governors (to represent County Governments), National Treasury, KRA, Commissioner of Revenue Allocation and the Controller of Budget. Others should include the Kenya Association of Manufacturers and the Kenya National Chamber of Commerce and Industry.

Moderator's question: What role should KRA play in motivating tax collection efficiency in the Counties?

Response from the Panel

The panelists stated that KRA has a role of collecting national revenue – the biggest spending being at the national and county government levels. Developing strategic links with counties will enable KRA undertake its mandate more effectively and enhance revenue collection from the counties.

In view of the fact that county governments have a responsibility of collecting agency taxes such as VAT and withholding income tax, counties must develop the necessary capacity on tax collection. This could be supported through training county officers at the Kenya School of Revenue Administration, which highlights the need for collaboration with KRA.

It was noted that KRA is at an advanced stage of developing a model for county governments to integrate into i-Tax. The model is being piloted in 3 counties namely Laikipia, Kiambu and Makueni.

Moderator's question: How can we ensure that what is done at the 2 levels of government is aligned to the overall national budget process?

Response from the Panel

It was observed that counties are entitled to receive a share of the revenue collected by KRA. An important consideration is how revenue collection can be grown further since counties have limited sources of revenue.

In the case of the Laikipia County Government, it was explained that the county is focused on raising revenue from market fees, cess fees and the issuance of business permits. Through its close cooperation with KRA, the county is collecting Kshs570m; a figure that is targeted to grow to Kshs 750 million.

The county has established a county Revenue Authority and engaged the public on revenue collection. It has also taken measures to seal revenue leakage and as a result of these initiatives and performance, the county was voted the best in revenue collection in 2015 – a factor attributed to its close working relationship with KRA.



KNCCI Chairman Kiprono Kittony, Commission on Revenue Allocation Chairman Micah Cheserem and Kakamega Governor Wycliff Oparanya during the Annual Tax Summit

Moderator's Question: Are people happy with the revenue collection by the counties?

Response from the Panel

It was stated that Kenya has a strong tax collection framework and performs relatively well compared to many other African countries. However, there is need for public participation to address the needs of taxpayers in order to increase compliance. It is equally necessary to focus on innovation to enhance efficiency and ease the process of paying tax.

It was reiterated that the revenue collected by KRA is done for the benefit of all Kenyans and must, therefore, be shared equitably amongst all the counties. A major challenge facing counties in the collection of revenue is their limited capacity and KRA should help build capacity in the counties to address this challenge.

An acknowledgement was made of the lack of proper legislation to guide the collection of revenue by county Governments. But there are initiatives underway to address this. For instance, 13 counties in the western region have formed a regional block towards developing harmonised legislation.

Automation is equally important in enhancing revenue collection but this remains a challenge due to the associated high associated costs. It was noted that Laikipia County, through its partnership with KRA, has achieved a positive outcome on revenue collection.

Moderator's question: Will the National Chamber of Commerce and Industry support collection of revenue in the Counties?

Mr. Kittony, Chair of the Kenya National Chamber of Commerce and Industry, noted that it is important for counties to collect taxes in order to enhance their independence in financing expenditure. KNCCI is committed to encouraging businesses pay their share of taxes. But it is equally important to facilitate businesses by addressing the problem of delayed payments for services provided to government entities.

Mr. Kittony proposed the development of a MoU between KRA and KNCCI focused on building capacity on revenue collection. It is of essence that KRA looks at ways to broaden the tax base rather than collecting more taxes from those already in the tax net which burdens them further.

Moderator's Question: What can counties do to make the process of collecting taxes easier?**Response from the Panel**

Revenue collection should be a shared function between the national and county governments. To enhance efficiency, it is necessary to avoid duplication of roles in revenue collection at the two levels of government. KRA and the Counties should engage each other.

Feedback and Responses from the Open Plenary

Participants raised the following questions

- How do we ensure tax benefits women and the youth?
- How do we broaden the tax base?
- How do we address the issue of charges imposed by counties such as on the branding of vehicles?
- How do we address the problem of a two tier taxation at national and county levels which is increasing the cost of doing business?
- What measures are KRA taking to create awareness amongst those who are keen to pay taxes but have limited information?
- How can KRA and CRA help counties collect land rates?
- How does KRA plan to raise money from betting?

Response from the Panel

On the issue of branding charges, it was explained that Laikipia has an all-inclusive business permit and does not charge for branding of vehicles. The county government needs support with valuation to be in a better position to determine property tax more efficiently.

The repeal of the Cess Act has meant that cess is now only collected by county governments, which has helped avoid duplication at the two levels of government. Payment of tax facilitates the provision of services by and in the counties.

On providing support to women and the youth, counties should create a conducive environment for business that enables the youth and women benefit from the tax generated in the counties. This will require raising more resources through broadening rather than deepening taxation to support them effectively with additional resources.

From a business community perspective, it is important to address double taxation and reign in the replication of taxes across counties since this has increased the cost of doing business. It is important that tax collection measures are consistent with the Constitution and there is delivery of service from the tax revenue collected so that citizens see value in paying tax.

It was noted that KRA is restructuring to undertake outreach and awareness campaigns on various platforms for paying tax such as i-Tax. KRA has phased out compliance checks and audit checks are now done at regional centers only. To ease compliance, KRA has opened 38 i-Tax support centers and plans to ride on Huduma Centers to provide assistance to members of the public visiting the centers on tax matters.

The Authority is working on a template that will facilitate self-assessment in respect of payment of land rates which will also address the challenge faced by most county governments over valuation of land. Increased uptake of technology and forging strategic partnerships will, in part, help address the challenge facing county government in tax collection.

Conclusion

It is imperative that counties expand their revenue base by making use of technology and forging strategic relations with KRA and taxpayers

KRA should educate taxpayers and counties on revenue collection including building the capacity of the latter in this area.

Counties should scale up automation and form strategic partnerships to leverage on their strengths and competencies.

KRA and the county and national governments should deal with corruption in view of its negative impact on compliance and revenue collection

CHAPTER 5

5.1 Tax Policy and Economic Growth

1. Tax incentives and economic growth
2. Role of taxation in promoting regional and intra-Africa trade
3. Role of stakeholders in tax policy

Panelists

1. Ms. Patricia Ithau, Regional Director, Stanford Institute for Innovation
2. Dr. Moses Ikiara, Managing Director, Kenya Investment Authority
3. Mr. Maurice Oray, Deputy Commissioner, Corporate Policy Unit, Kenya Revenue Authority
4. Mr. Ahmed Farah, Kenya Programme Country Director, Trade Mark East Africa

Moderator: Ms. Betty Maina, MBS, Principal Secretary, East African Affairs

Summary of Session Proceedings

The moderator opened by observing that paying tax was a cardinal obligation of every citizen and an important element in mobilising resources to support the funding of public projects.

On the issue of tax incentives, it was pointed out that these play an important role in meeting specific objectives such as channeling investment to certain sectors, directing spending to specific priority areas and mitigating risks. It was observed that Kenya has a variety of tax incentives such as tax holidays aimed at attracting investment in areas such as Export Processing Zones (EPZs).

The moderator then proceeded to field questions to the panel.

Moderator's question: Do tax incentives work and under what conditions?



Guest paying attention at the Tax Summit

Responses from the Panel

It was pointed out that there is no conclusive evidence that incentives drive investment even though investors always seek them. There is tremendous interest on the availability of investment opportunities in Special Economic Zones (SEZs). However, it is not clear whether this is a result of the tax incentives in place or due to the clarity of investment policy.

Incentives are important but they are not the most important factor of consideration by investors and research has shown that incentives are not always a priority consideration for most investors. Investors were also keen on other factors such as the stability of the macro-economic environment and other production costs.

It was noted that there is need to align incentives to what an investor is offering for instance, the size of investment, transfer of technology and job creation. Incentives should not be blanket but should target particular sectors and be weighed against their benefits to the nation.

Continuous monitoring and evaluation of the tax incentives was deemed necessary and they should be pegged to clear milestones, which necessitates that incentives are evaluated and based on specific and clear criteria. Stakeholders should be involved in reviewing the performance of tax incentives.

It was pointed out that tax incentives meant foregoing revenue of about 1-1.2 per cent of GDP. The reason, it is necessary to have an evaluation mechanism to guard against abuse and confirm whether intended objectives are being met. This will dissuade investors who hop from one country to another primarily to take advantage of incentives and relocate once the incentives expire hence having a minimal impact on the economy.

Tax incentives were cited as an important tool of encouraging private sector investment but Kenya lacks a clear framework and timeline for most incentives. It is important to develop clear and transparent guidelines on incentives because investors need certainty.

Moderator's Question: Which incentives should we encourage to promote consumption and investment?

Response from the Panel

The abuse of incentives by some investors is an administrative and regulatory issue. Well fashioned incentives have significant potential to generate interest amongst investors but other policies are equally important and must be taken into consideration. Investors will still be motivated to invest where returns in a country are good and cost of doing business is low.

The experience with incentives given to support the production of Senator Beer that targeted the lower end consumer market was given to highlight the importance of policy certainty over incentives and the negative impact of a lack of policy certainty. In the case of Senator Beer, incentives provided on excise duty showed that investment grew across the value chain once this tax incentive was provided but collapsed once the incentive was reviewed and withdrawn. The panel reiterated the need to put in place tax incentives that spur investment and hence create more economic opportunities.

Regional Trade

The moderator then shifted the discussion to regional trade and pointed out that different countries were intent on boosting regional trade. In the East African region, it was observed that the Common External Tariff (CET) boosted trade but there was need to create policy certainty and address Non-Tariff Barriers.(NTB)

Moderator's question: How do we promote regional integration amidst protectionist forces?

The Panel cited trade taxes as an important source of revenue mobilization. However, regional integration eliminates these taxes highlighting the importance of countries entering into a partnership to have a shared vision, good faith and make compromises for regional integration to succeed.

The removal of trade taxes is important in promoting regional trade as evidenced by the establishment of the Customs Union in EAC. While it is important to focus on harmonization of tariffs, this does not mean making tariffs equal across EAC countries. Harmonization of taxes will continue to boost the flow of goods and services including labor across the EAC.

The tax system should be simplified and tax rates should be made low enough to encourage trade. It is worth noting that custom taxes are not only for revenue generation but also for border control and management.

In the EAC region, the panel noted that the removal of tariffs should be accompanied by elimination of non-tariff barriers to further promote intra-Africa trade. It is important to address Non-Tariff Barriers (NTBs) which manifest a growing trend towards trade restriction and transfer pricing.

It was explained that protectionism is mostly driven by fear and ignorance on the likely consequences of trade agreements, which explains why Kenya was initially lukewarm about entering into the Economic Partnership Agreements (EPAs). There must be concerted attention to invest more in prior impact assessment of trade agreements to inform decisions more objectively.

Role of Stakeholders in Tax Policy

A framework of inclusion and consultation in the budget process and tax administration is of essence while loopholes and gaps in the tax system must be sealed to safeguard revenues.

The panel noted that the budget making process involves both the executive (Treasury) and parliament (representing the citizens) which secures public engagement. The input of individual and corporate stakeholders is always sought through interest groups such as KAM, KEPSA, PWC, KBA, and ICPAK among others. Therefore, there is sufficient stakeholder engagement on tax policy even though there is room for further improvement.

Transparency in the tax system has been addressed through legal reforms such as the VAT Act 2013 that replaced the VAT (Cap 476) and the Tax Procedure Act 2015, which have sought to minimise the use of discretion in tax administration. The Cabinet Secretary responsible for Finance currently has less discretion over tax policy. The concerns expressed over transparency are due to poor communication and there is, therefore, a need to enhance transparency on tax policy.

Responses from the Open Plenary

The open plenary raised issues and questions on public participation over tax incentives, tracking benefits from the tax incentives and whether incentives only target foreign investors.

Response from the Panel

The panel observed that tax incentives are usually given on the basis of set objectives but it is important that they are evaluated and reasons provided in case there is need to scrap an incentive since this has implications on investors.

Tax incentives involve striking a delicate balance between the incentives and the accruing benefits to the economy given that the country foregoes some tax revenue when it provides incentives.

The panel reiterated the importance of transparency in determining incentives. Incentives must be developed through an inclusive process and stakeholders should be encouraged to give feedback and share information on incentives and tax policies. It is also important to have a framework that supports benefits drawn from incentives (incentives alone will not work).

It was agreed that incentives should and do apply to both local and foreign investors. The Kenya Investment Authority (KenInvest) is committed to sharing information on available incentives. There is an ongoing initiative to harmonise taxes and thus eliminate tax competition amongst EAC countries and a committee has been established to address this issue.

Conclusion

A good business environment that manifests low cost of production and internal security among others is bound to draw investors even in the absence of tax incentives. Tax incentives cannot work in isolation, which means that there should be a framework within which the tax incentives are given. Public input on tax policy is important and requires putting in place effective communication and mechanisms of inclusion.

Further, tax incentives should be disciplined and targeted at achieving certain goals – there must be conditions for giving tax incentives. Tax incentives should be available to all investors, both domestic and foreign, and they should be monitored to ensure that they meet the set objectives for which they were provided in the first instance.

Intra-Africa trade is about 11 per cent while Intra-EAC trade is about 25 per cent, an indication that elimination of tariffs in EAC has significantly promoted trade in the region. However, there is need for further elimination of non-tariff barriers to reduce protectionist tendencies.

CHAPTER 6

6.1 CORPORATE LECTURE AND LAUNCH OF THE KESRA STRATEGIC PLAN

Keynote Speaker: Mr. Gabriel Negatu, Regional Director, East African Regional Center, Africa Development Bank

Panelists:

1. Ms Anzette Were, Economist, Researcher and Analyst, Vantage Point Consulting
2. Dr Julius Kipng'etch, CEO, Uchumi Supermarkets Ltd
3. Dr Nara Monkam, Research Director, African Tax Administration Forum

Moderator: Dr Fred Mugambi, Deputy Commissioner, KESRA, KRA

The moderator for the session, Dr. Mugambi began by providing a brief on KESRA. He explained that KESRA's focus was training in the areas of tax, revenue and fiscal policy. It is accredited to train for the World Customs Union and is already offering training to tax authorities and agencies in the region.

The lecture was the 3rd corporate lecture and part of a series of lectures delivered and organised by KESRA.

Remarks by Ms. Beatrice Memo, Commissioner, KESRA

KESRA was positioning itself as a premier business school and creating networks with distinguished leaders.

KESRA was keen on partnering with the bank in areas of mutual interest; pursuing partnerships with other institutes such as the Galilee Institute of Israel and bodies like the African Union in terms of its academic programmes.

Remarks by Mr. Gabriel Negatu, Regional Director, East African Regional Center, African Development Bank (ADB)

Africa has had impressive double digit growth in some countries but this has not resolved some challenges such as poverty. This is partly due to the inability to raise adequate revenues through taxation.

The challenge is that foreign resources that Africa traditionally relied upon are drying up. There is, therefore, a need for policies on domestic resource mobilisation to drive development agenda and support the realisation of development programmes such as those enunciated under Kenya's Vision 2030 blueprint.

Mobilising local resources is an important imperative for African countries for at least two reasons. Firstly, raising own resources reduces a country's need for external funding and hence reduces its vulnerability as happened during the global financial crisis. Secondly, African countries can own their development agenda with increased domestic resource mobilisation and also enhance their bargaining power and credibility.

Key issues and Challenges in Mobilising Domestic Resources

The tax to GDP ratio, which measures performance of countries, varies widely between and amongst African countries (Angola 38 per cent; Lesotho 34 per cent; Seychelles 31 per cent; Nigeria 8 per cent; Sudan 9.7 GDP to tax ratio). While there is room and need to improve these ratios, the following three main challenges hinder this increase:

1. The taxpayer base is constrained by low per capita income;
2. Predominance of a large informal sector outside the tax net; and,
3. Domination of agriculture which generally has a lower tax base

The tax rate must be in balance with the rest of the economy to address imbalance with the rest of the economy. In relation to taxation, it is equally important to bear in mind the following:

- VAT is still the dominant source of tax in most African countries – raises issues of efficiency, economic justice (i.e. is collection proportionate to incomes?)
- Regressive nature of taxation in terms of income tax burden – is the burden heavier on the poor compared to the rich?
- Under taxation of the private sector – domestic and foreign transnationals and multinationals are viewed as not paying commensurate tax.

Mr. Negatu noted that the failure to collect enough tax forces a government to borrow to fund development projects. It was essential to match ambition with a country's tax collection capacity. Further, divergent tax collection agencies and intermediaries need to be better coordinated to simplify tax payment. In addition, the adoption of technological platforms like M-Pesa could also help simplify tax payments.

The speaker noted it should be anticipated that trade liberalisation through regional integration will result in a decline of revenue collected by countries.

The government needs to do more to enhance KRA capacity by empowering it with tools and resources. A strong KRA is a precondition for collecting more revenue.



Dr. Julius Kipng'etich, Gabriel Negatu, Head of KESRA Ms. Beatrice Memo Dr. Nora Monkam Ms. Anzetsu Were cutting cake during the launch of KESRA strategy

Mr. Negatu then proceeded to highlight the areas in which African countries should focus on beyond tax revenues to support development programmes as:

1. Focus on growing savings as an alternative resource base –Kenya has a high bank penetration at 75 per cent.

2. Access to bonds and equity markets are important financial instruments that provide an alternative to domestic resource mobilisation but Kenya is an exception.

Royalties from the extraction of natural resources, should complement but cannot be a substitute to traditional domestic revenue sources.

Panel Discussions

Moderator's Question: Are we collecting enough tax?

Response from the Panel

Kenya Revenue Authority is not collecting enough and there is need to increase domestic collections through diversification of sources such as taxation of telecommunication sector, agriculture and e-commerce which represent room for further maneuver on tax collection. We must address leakages such as illicit financial outflows through corruption, money laundering and transfer pricing involving multinationals

Moderator's Question: Are corporates happy paying taxes?

Panel's Response

It is important and necessary to seal loopholes for tax avoidance so that the burden of tax is shared equitably and fairly. A graduated schedule should be considered – one that increases the burden of taxation on the rich in order to address inequalities and support wealth distribution. Inequalities create instability and it is of essence to make the tax system fair to everyone.

Moderator's Question: Does KRA make it difficult for corporates to pay taxes?

Panel's Response

KRA must be more ambitious and use innovations like M-Pesa to leap frog in the area of tax administration. It should focus on efficient administration of tax revenues and the Authority's ambition should match the country's vision 2030 objective to deliver a high quality of life. It is important to match spending to revenue collection.

Moderator's Question: What can we do from a policy perspective to mitigate low revenue collections?

Panel's Response

We need to look at our fiscal policies and determine whether our national spending is warranted. Extracting taxes from poor citizens is a challenge and it is, therefore, necessary to have a fiscal management policy that distributes resources equitably taking into consideration that 82 per cent of Kenyans earn their living from the informal sector.

Moderator's Question: Should we be spending more than what we are collecting the way we do?

Panel's Response

There is need to curb appetite for public spending but there is a dilemma on the funding of development programmes since Kenya needs foundational projects such as improving the port of Mombasa and the Standard Gauge Railway (SGR) to remain competitive

Moderator's Question: Is Africa borrowing too much?**Panel's Response**

Africa must borrow to fund investment in productive sectors. What is required is to address corruption so that money borrowed goes to the intended use and leveraging on domestic resources to reduce external borrowing. The challenge is that the OECD countries without African representation largely set global rules though Africa is increasingly coming to the table on global discourse.

Feedback and responses from Plenary**Question: What would the informal sector need in order to come to the tax net? What do we do to improve the informal sector and enhance its contribution to taxation?****Panel's Response**

Informal businesses need facilitation such as provision of land, electricity amongst other amenities. There is, therefore, a need to put in place the right fiscal policy framework to support their business capacity such as providing tax holidays. We need to make them more productive and profitable as this will create an incentive to formalise. This has significant beneficial effect in view of the fact that 82 per cent of Kenya's population is in the informal sector.

Question: Comment on Kenya's tax to GDP ratio?**Panel's Response**

Kenya has a clear institutional architecture to support the growth of local businesses. ICDC was set up to support SMEs; KIRDI to support research; the Kenya Industrial Property Institute (KIPI) to support innovation; Kenya Industrial Estates to support cottage industries; and, Uchumi to provide a platform for Kenyan SMEs to sell.

It is important to reflect on such support systems as we seek to grow our tax revenue and improve on our tax ratios.

Question: Have tax incentives outlived their usefulness?**Panel's Response**

AGOA has a large number of products that can be exported to the US duty free but we have been unable to take full advantage and exploit the preferential trade platform. We must focus on the cost of doing business. Kenya ranks highest compared to other countries on minimum wage which makes it less competitive. The public transport system is inefficient and social services like health are expensive – this speaks to the need to focus on public sector reforms.

Question: How do we use taxpayer education to broaden the tax base?**Panel's Response**

We need to incorporate the informal sector by understanding them better and bringing them on board the tax net through the use of technology. We also need to demonstrate how revenue is utilised by way of accountability on the part of the government to encourage compliance.

CHAPTER 7.

7.1 Towards a Positive National Tax Culture: Leveraging on Lessons Learnt to Drive Transformative Change Amongst Taxpayers

Keynote Speaker: Mr. Michael Waweru, Chairman, Alexander Forbes & Former KRA Commissioner General).

Panelists:

1. Mr. John Njiraini; Commissioner General, KRA
2. Mr. Aly Khan Satchu; CEO, Rich Management
3. Dr. George Njenga, Dean, Strathmore Business School,
4. Mr. Mike Eldon; Chair and Lead Consultant – Depot
5. Mr. Eric Kiniti, Head of Corporate Affairs, EABL

Moderator: Mr. Sam Mwale, Chief Executive Officer, Farasi Consultants

Session proceedings

KRA Commissioner General set the stage for the panel with a specific focus on the reforms that KRA continues to pursue and undertake since the period of former Commissioner General, Michael Waweru.

Mr. Njiraini acknowledged and welcomed the presence of former Commissioner General, Michael Waweru. He noted that during his tenure in office, Mr. Waweru championed automation of KRA processes and procedures. Specific examples include the rollout of the Simba system; the rollout of ITMS in 2007; and, the first phase of i-Tax in 2013. These reforms improved the business environment and facilitated taxpayers by simplifying and enhancing efficiency in tax payment.

KRA has shifted its focus to external customs and increasing internal domestic resources. The ERP system was supporting the automated systems currently in place at KRA.

The incorporation of the new structure has improved efficiency while the implementation of i-Tax has led to tremendous improvement in the collection of taxes. The second phase of i-Tax is now under implementation.

The Commissioner General explained that the integrated system would be launched in a few months' time while a data warehouse system would be implemented to further enhance compliance.

The rollout of the electronic Customer Relation Management System(CRM) will help KRA better understand the behavior of customers. A cargo tracking system is underway to help streamline the monitoring of goods in transit . An important goal is to make KRA the first paperless government institution in Kenya by 2018.

Mr. Njiraini observed that the reforms undertaken since 2013 aim at promoting collection of domestic resources and reducing reliance on external budget support.

In the financial year 2002/3, KRA collected \$2.2 billion, which has grown to \$11.8 billion in 2016. The Commissioner General noted that the National Treasury and the public have played an important role in supporting the existence and operations of Kenya Revenue Authority. In addition, those within the Authority (staff) and outside the organisation have an important role to play in determining successful domestic resource mobilisation.

It was reported that KRA has increased physical access by opening other centers besides providing automated services to ease the payment of taxes. The country's tax gap was as a result reducing, which indicates the need to make tax laws simple and easily understandable by the public.

The Commissioner General ended by elucidating some of the ongoing reforms being undertaken and noted that:

- KRA is increasingly focused on strengthening back office operations following the successful implementation of many of these reforms
- The pilot phase of the Integrated Customs Management System will come into operation in January and will be fully integrated with i-Tax. The Authority is also implementing reforms in the area of data management for statistical, research and compliance purposes
- The automation of administrative processes starting with the Enterprise Resource Planning (ERP) product is meant to facilitate the handling of internal processes without recourse to the use of papers

In addition, Mr. Njiraini pointed out that the Customer Relationship Management system will enable profiling of customer behavior and create a better understanding on the use of the system. Other ongoing areas of automation reform that are being undertaken include:

- The Regional Electronic Cargo System
- The Scanner Management System
- The Excisable Goods Management System
- The Intelligence Management System to facilitate reporting on corruption

Remarks by Michael Waweru, former Commissioner General



Mr Michael Waweru, Chairman, Alexander Forbes & former KRA Commissioner General giving a keynote speech during the Tax Summit

The former Commissioner General of KRA Mr. Michael Waweru focused his remarks on the following issues:

- An overview of KRA's achievements over the past 13 years covering the periods 2002/03- 2015/16
- Elaboration of key concepts relating to taxpaying culture, national culture and organisational culture
- Review of initiatives undertaken by KRA to enhance taxpaying culture; and,
- Proposed areas of additional emphasis and intervention to influence a taxpaying culture

The former Commissioner General, Michael Waweru, opened his remarks by pointing out that paying tax was a positive social value and Kenya must enhance a culture of voluntary payment of tax to meet the country's tax obligations. Building confidence with the citizenry was important because such trust motivated people's compliance in paying taxes and reduced the incidence of malpractices such as tax evasion.

Mr. Waweru stated that a positive taxpaying culture requires ensuring that compliance is looked at as a positive social value which is anchored on rights and responsibilities in which citizens view paying taxes an integral part of their relationship with the government.

He elaborated that taxpaying culture was influenced by organisational culture, which includes the climate and practices within a tax authority in handling taxpayers. For this reason, it is necessary to facilitate those willing to comply in order to foster voluntary compliance.

Mr. Waweru pointed out that since 2003, KRA has embraced transformational change as a means of reducing the country's external economic dependence through an increase in domestic revenue mobilisation. The Authority has realised transformation through institutional change, investment in modern instruments and practices as well as a change in organisational culture.

As a result, the organisation has generated strong and consistent growth over the past 13 years collecting over 95 per cent of exchequer revenue. In 2002/03, KRA collected Kshs. 202 billion (USD 2.8 billion) and this grew to Kshs 1.2 trillion (USD 11.8 billion) in 2015/16 representing an average revenue growth of 14.7 per cent in local currency terms (11.8% in USD equivalent).

He further noted that KRA has brought transformational change in its endeavor to increase domestic resources and reduce the country's reliance on external support. It was pointed out that national culture was a critical attribute in influencing peoples' response to legislation including their obligations pertaining to tax payment.

The former Commissioner General noted that there has been a clear move away from distortionary trade taxes in favor of domestic taxes.

KRA's commendable performance was as a result of a consistent focus on strategic planning underpinned by the implementation of various reforms. These include:

- Migration to the web based Simba 2005 which has enabled customers to be served 24/7 through the Document Processing Centre which will be further complemented by a move to the Integrated Customs Management System;
- Implementation of the Electronic Cargo Tracking System to eliminate physical escorts of transit/export cargo;
- Deployment of x ray scanners to allow for electronic scanning of cargo to eliminate physical cargo clearance processes and hence, facilitate trade within the region;
- Rollout of iTax System to provide online tax services and taking advantage of mobile telephony to facilitate payment of taxes
- Automation of the Support services through an Enterprise Resource Planning (ERP) to enhance operational efficiency within KRA

Mr. Waweru reiterated that KRA needs to have a clear tax policy design that incorporates organisational and national culture as this will engender citizens' trust. Such policy must be constantly reviewed due to the dynamic environment that the Authority operates in.

He noted that the majority of Kenyans appreciate the need for the government to levy taxes with 58% agreeing that citizens must pay their taxes in order for the country to develop compared to 36% who believed that the government can find enough resources for development from other sources without having to tax the people.

Moderator's Opening Comment

The moderator then invited the panel to make their comments and observations on the impressive growth in tax revenue as highlighted by Mr. Waweru. The moderator noted that tax culture in any country is an important determinant of tax compliance but also on investment. Among the factors that are critical in influencing investment decisions include:

- Ensuring that taxes are predictable since certainty assists businesses plan better
- Reducing and lowering the cost of compliance by simplifying processes and procedures for paying tax
- Multiplicity of charges, fees and levies as evidenced with the coming of counties had further complicated taxation and increased the cost of doing business

Moderator's question: How can we enhance the ease of paying tax and impact on creating a positive investor culture?

Response from the Panel

KRA has set its focus on meeting its ambitious tax targets. It is important to create policy certainty over taxation because this enables better planning and motivates increased compliance. The government must also create a conducive environment for the private sector to operate in. It is important to reflect on the number of people investing in the country and expand the pool of those eligible to pay taxes.

Moderator's question: What should be done to counter the issue of multinationals seeking to locate to tax havens?

The panel emphasised on the need to examine the practice and operations in tax havens and try incorporating aspects that may be applicable to Kenya. There should also be a focus on reducing taxes as a means of encouraging tax compliance.

The challenge is that the OECD countries without African representation largely set global rules but Africa is increasingly coming to the table on global discourse.

The importance of undertaking research and creating a knowledge base in areas where taxes should be enforced and where they are applicable was also highlighted. It was pointed out that KRA had achieved dramatic transformation on revenue collection and the media should consider providing wider media coverage of such achievements.

In order to build a positive tax culture, the government must portray a positive picture of development and be accountable on the utilisation of taxes. It is important to contain and reign in the high level of wasteful expenditure at the county and national levels. This will foster confidence in the citizenry and motivate compliance.

In view of the fact that the size of government manifests a significant cost to the taxpayer, those elected into office should be people bringing value. Further, technology should be utilised to increase tax collection from the lowest taxpayer and across all cadres.

The introduction of taxpayer awards, which lay emphasis on recognising those who are honoring their tax obligations, was cited as one way of encouraging people to pay taxes besides developing a positive tax culture.

The development of laws that are driven by a clear policy framework is paramount and of the essence.

It is equally important to create a proper structure that drives and informs tax policy.

Response from the Open Discussion

It was noted that Kenya improved ease of doing business to number 99 globally and was ranked 121 for paying taxes which indicates the need for further progress.

KRA was encouraged to set a time limit on how long businesses should maintain physical accounting records as one way of enhancing compliance and creating a positive culture towards tax. KRA should also consider reducing the tax rate as one way of increasing tax compliance.

Tax education should be incorporated in the school curriculum from an early age. For instance, in teaching the alphabet, teachers should incorporate innovative tax education such as ascribing “T” for Tax.

Taxes should be made simpler to understand and comply to enhance the rate of compliance. Compliance will be further enhanced when taxpayers feel their money is put into good use and taxpayers demand service delivery from the government. It is essential that tax revenue is utilised towards improving the living standards of Kenyans and advancing the welfare of the youth who account for the majority of Kenya’s population.

It was proposed that KRA addresses challenges faced in collecting Withholding and VAT by service providers given that delays in processing is creating inconvenience.

In addition, it was pointed out that whereas KRA currently recognises the big taxpayers, there is need to recognise SMEs in order to entrench compliance and a tax paying culture.

Building a proper tax policy will help improve predictability of taxes, based on a clear policy that creates consistent policy parameters and harmonises national vis a vis county taxes.

The conclusion and recommendations from this session can be summarised as follows:

- Creating predictability of tax policy is essential over and above other issues such as reducing the cost of compliance
- Tax education should be initiated early in order to inculcate knowledge and influence the culture regarding tax payment
- Incentives should be created targeting not only large taxpayers but also small businesses
- The government should ensure proper utilisation of tax revenue, ensure value for money and provide goods and services to the people

CHAPTER 8

8.1 Transfer Pricing and Illicit Financial Flows: Arm’s Length Manipulation

Panelists:

1. Mr. Patrick Chege, Manager, Transfer Pricing Audits, Kenya Revenue Authority
2. Ms. Mical Maganda Agina, Group Tax Manager, Centum Investments Company Limited
3. Mr. Samuel Atandi, Director Institutional Banking, National Bank of Kenya

Moderator: Mrs. Wairu Kinyori- Gugu, Oxfam Kenya

The moderator began by providing some background information on Transfer Pricing before seeking the views of the panel on the subject. The issues highlighted are summarised below:

It was noted that Transfer Pricing is used to reduce the tax obligations borne by corporations operating in a complex web of international transactions. Research indicates that between 2002 and 2011, the loss arising from Transfer Pricing was USD 1.2b. In Kenya, the loss was estimated at approximately USD 430m. Between 2004 -2015, the global loss due to illicit financial flows was USD 80b and in Kenya the amount was USD 829M

There are ongoing efforts to reform and tighten legislation pertaining to transfer pricing which is important and necessary in view of the need to mobilise more domestic taxes. Transfer pricing is an important part of the agenda addressing specific challenges such as the flow of capital through cross border operations.

Capital flight arising from the abuse of transfer pricing will result in KRA being forced to seek more tax from the existing taxpayers to cover shortfalls and poor service delivery due to inadequate resources hence, the need for a clear framework on transfer pricing.

It was observed that Kenya was among the first countries to participate in the negotiations on transfer pricing and continues to play an important role in these negotiations.

Developing and developed countries have varied needs on the issue of transfer pricing and the initial priority in global negotiations on the subject was given to countries exporting capital rather than those that are recipients of capital.

In the ongoing negotiations, Kenya is involved in the forum on the digital economy; prevention of abuse of treaty provisions; and, the development of a multilateral framework on transfer pricing. The country is keen on having a say on the action points agreed upon under the G20 framework of the OECD Convention and is working closely with other countries such as India and South Africa to this end.

But even as the focus remains on transfer pricing, it is important to exercise vigilance on anti-money laundering laws whilst addressing the abuse of transfer pricing by shell companies which can be realised by seeking greater transparency from companies. It is important to recognise that there are benefits to the country's economy from firms seeking to establish in Kenya in an environment of intense competition for capital from other countries.

The Moderator then proceeded to pose specific questions to the panel:

Moderator's Question: What are the legal issues that need to be addressed regarding Transfer Pricing?

Response from the Panel

There should be international laws to deal with transfer pricing and we must pay attention to reform of relevant policies to support the law. Tax laws must be clearly interpreted and strictly enforced to respond to specific aspects that relate to transfer pricing. Kenya can and should allocate more resources towards the successful implementation of laws.

The asymmetry between countries in negotiations pertaining to transfer pricing should be addressed. Those outside the G20 do not have much traction to give views and have them considered in view of the fact that there is a lot of canvassing in these international negotiations. This has led to bias in policy formulation relating to transfer pricing and the issues discussed tend to focus more on developed countries. It is of the essence that a more collaborative approach is forged between developing and developed countries.

It was pointed out that shell companies have promoted capital flight and this is an issue, which must be addressed comprehensively. A shortfall in revenue leaves the KRA with no other option but to seek more revenue from existing taxpayers which further burdens citizens. This highlights the need to tighten any shortcomings on transfer pricing.

Responses from the Open Plenary

Question: How are we supposed to empower people and support domestic resource mobilisation considering the advantages being advanced to foreign investors?

Question: How do we integrate civil society in ensuring accountability of tax revenue?

Question: Should there be scientific formulae in use to determine tax liability in relation to transfer pricing?

Response from the Panel

KRA should ensure that policies that are put in place are not contravened by the public.

Transfer Pricing should not be about who is investing but whether the right steps and processes have been followed to deliver benefits to the economy from such investment.

It was noted that some Multi-National Corporations (MNCs) pay royalties to their mother companies abroad which is claimed as an expense against their taxable income thus reducing the taxes payable in the host country.

Kenya needs to benchmark against Mauritius in order to understand how it can incorporate strategies that can be implemented locally to attract foreign investment. It was noted, though, that whereas Mauritius is the best in Africa and it is okay to benchmark against as pertains to foreign investment, Kenya cannot borrow wholesale from it because it is a tax haven and that is not the direction Kenya should take. It is important to borrow and learn from best practice and also focus on service provision and ease of registering investors and setting up investment in the country.

Response from Open Plenary

Question: How do we support KRA mobilising resources where there is a review of 30% local equity requirement for foreign investors?

Question: What is the status of legislative review in this area of transfer pricing?

Question: How do we raise awareness amongst communities on tax discussions at the global level?

Response from the Panel

The illicit flow of capital can be curbed through greater transparency. KRA needs to work closely with the financial sector to guard against abuse of regulations and instil greater transparency on financial transactions.

There is concern over businesses that are not transparent and post perpetual losses. Mauritius has invested heavily in easing the burden of regulation and was ranked at position 46 globally compared to Kenya's 99 in the World Bank's Ease Of Doing Business Index. This has made it attractive to many investors and Kenya must borrow from its experiences and strategies draw in more investors.

Conclusion

The session concluded by observing the need to continue reviewing legislation and learning from best practice on transfer pricing in order to address the evident challenges.

There is need to exercise greater vigilance on anti-money laundering laws. The abuse of transfer pricing by shell companies must be addressed in part, by seeking greater transparency from companies seeking to establish in the country.

It is essential to put in place legislation that comprehensively addresses all issues and aspects relating to transfer pricing.

We must ensure that the conversation on transfer pricing is demystified and there is public participation and inclusion in such processes.

The conclusion from this session can be summarised as follows:

-
- Kenya needs to have legislation that is clear and simple and one that fosters collaboration with others
 - Efforts are required to demystify transfer pricing at the grassroots to create enhanced understanding from citizens
 - Multinational Corporations should reinvest their profits in the country in order to impact positively on the economy
 - A scientific formula is essential to help determine the tax burden of Multinational Corporations across the countries that they operate in to ensure that the tax administered on their profits is fair
 - Kenya needs to be more vigilant in monitoring money laundering to reduce or eliminate illicit financial flows

CHAPTER 9

9.1. Tax Base Enhancement

Keynote Speaker: Mr. John Njiraini, EBS, Commissioner General, Kenya Revenue Authority

Panelists:

1. Mr. Kibuga Kariithi, Director AIB Capital and Former Director, Kenya revenue Authority
2. Mr. Nikhil Hira, Partner and Tax Leader, Deloitte East Africa



Mr. Nikhil Hira, Partner and Tax Leader, Deloitte East Africa at the Tax Summit

Remarks by John Njiraini, Commissioner General, KRA

The Commissioner General opened his remarks by observing that available data suggests that Kenya has only 2.5 million taxpayers compared to 25 m persons who have identity cards and over 15m who are enrolled on the voters' register. He observed the need to benchmark against other Authorities to determine the expected proportions.

It was observed that third party data reveals a high rate of non compliance such as data from IFMIS and county governments. There is also a high incidence of nil and non filers. Compliance can be enhanced more by building trust through facilitation with the taxpayers with less focus on enforcement.

Mr. Njiraini emphasised the need for KRA to rethink its strategy and focus more on those who are outside the tax net to address non-compliance. The 6th Corporate Plan has deliberately shifted its strategies theme to “enhance compliance by building trust through facilitation” and part of the strategy is to provide an electronic support program such as through Huduma Centres.

KRA needs to mobilise sufficient resources through tax base enhancement and also re-organise its enforcement tools to address integrity issues. Changing culture is a major focus through developing high performance culture and encouraging voluntary compliance.

Mr. Njiraini then turned his focus on key strategies that KRA was implementing and those under consideration to enhance tax administration:

On the harnessing of third party data, Mr. Njiraini explained that KRA has tools for consolidating such data, which will allow the intelligent use of the data. Further, all KRA systems including i-Tax and Customs ICMS will be interlinked.

Regarding access to banking information, the Commissioner General noted that the Banking Act now allows KRA to access information held by banks which includes, electronic banking.

Mr. Njiraini explained that KRA is revisiting the SME strategy from reactive to proactive by introducing a presumptive tax on SMEs based on various identified parameters. Enhancing compliance in real estate was equally critical such as through the use of the simplified tax regime for landlords.

He highlighted the need to improve ETRs and work more towards an electronic invoicing system, which locks business transactions in a portal managed by the Revenue Authority. This will enable KRA to have real time information on the transactions of individual businesses. Such a system will need to be supported by a national strategy anchored on a strong ICT base taking into consideration, the high volume of transactions that must be processed. He gave the example of Mexico that processes 138,000 returns per minute.

The Commissioner General further explained that KRA now has a structure dedicated to dealing with international tax issues to provide coherent information and that Kenya is represented on the tax Information Exchange Board and is a global leader in this area.

Panel Discussions

It was suggested that there is a need to change attitudes such as making reference to SMEs instead of “informal sector”. This will help motivate policies that promote formalisation and bring the businesses into the tax net.

The debate is not on whether these businesses should pay tax but on how much they should pay.

The use of technology was highlighted as the way to go in expanding the tax base. Four specific areas of attention in the bid to increase tax base were cited as:

- I. Tax Avoidance, which refers to the use of the law and reliefs to minimise ones tax liability. This can be addressed by sealing loopholes in the law.
- II. Tax Evasion, which refers to a taxpayer deliberately not paying taxes which is criminal. Strict action should be taken to deter citizens from this practice.
- III. SME sector: This is the engine of future growth and thus legislation should be simplified to make it easy for the sector to comply with tax laws.

Informal (Jua kali) Sector: It was suggested that a flat rate be recommended for this sector such as one pegged to a daily charge. The panel further noted that for a country to develop, it must finance its development programme using internal sources as opposed to relying on external sources. This requires a large proportion of the population be brought into the tax net. Tax base enhancement will notably bring down the high tax rate.

Moderator's Question: How long will the suggested initiatives take to enhance the tax base?

The panel responded by observing that this requires a major change in strategy which includes reviewing the income tax laws. It is equally important that taxpayers are not overburdened with agency taxes.

Moderator's Question: What is the legal mandate of KRA to query individual bank accounts with regard to lifestyle audits and are these mandatory?

Response from Panel

Bank records are important because they link a person's lifestyle to the taxes paid. Originally the PIN was meant to track everything one does. Access to bank records will also enhance the transparency of individuals' earnings and incomes to the tax body, which will go a long way in expanding the tax base.

It is important to focus on big data analytics to aid decision-making. Data mining can be used to categorise taxpayers into compliant and non-compliant and allow the Authority focus its attention on the latter.

KRA is making strides towards big data analytics and believes that smart audits are the way to go because they are very specific in nature and are issue based.

The KRA system currently has managed to populate the most needed information, which was previously, a major problem.

Questions from Open Plenary

Question: Is the regular Income Tax regime still applicable to residential rental income?

Question: What is KRA doing in relation to collection of taxes from proceeds of corruption?

Question: Is it possible to include tax education in Kenya at all levels and not only in tertiary institutions?

Response from the Panel

The law provides for the use of the old tax regime in rental income. Tax avoidance can be penalised if it is proven that the whole process of transaction was mainly aimed at avoiding tax. Tax planning is catered for in the law and one can practice it but the business reason should drive the issue and not unclear circumstances.

Cyber-crime is a present reality and KRA must enhance its capacity to deal with this threat. It was pointed out that there are ongoing discussions with KICD to integrate tax education in the current education curriculum. It was noted that there are those who engage in abusive tax planning by shifting profits to avoid paying taxes. Parliament is resolved on addressing transfer pricing and it is formulating legislation towards this end.

KRA is playing a crucial role in the multi-agency task force formed to work on corruption proceeds. Tax is factual and therefore will be levied irrespective of the source of funds, which includes proceeds from corruption.

Additional questions from the open plenary

1. To what extent can KRA help influence getting more people into the tax net?
2. What is the relationship between KRA and MSEA?
3. Can there be a small tax on SME's on based on ability to pay depending on their operations?

Response from the Panel

It was pointed out that enhancing the taxpayer base is critical for KRA while on its part, the government needs to control its expenditure. Tax must be collected to grow the economy by enhancing the compliance rate to 70 per cent thereby balancing the budget. To improve the tax base, it is important to improve the taxpaying environment. KRA is already working with financial tracking sector to control financial flows.

CHAPTER 10

10.1 Tax Culture

1. Winning Taxpayers' Support: Changing Taxpayers' Perception
2. Making Tax Look Cool

Moderator: Patrick Ngumi, Chief Executive Officer, ICPAK

The panelists in this session included:

- Mr. Samuel Makome, Chief Operations Officer, KCB Bank Group
- CPA Steve Okello, Partner, Price Waterhouse Coopers
- Ms. Mary M'Mukinda, Partner, Local Resources & Associates Kenya and Former Director, Kenya Revenue Authority

The moderator began by introducing the panelists before posing to them specific questions on tax culture

Moderator's Question: What steps are needed to bridge the gap between taxpayers and the tax Authority?

Response from the Panel

It was noted that taxes levied on taxpayers should be well stated and explained to citizens in order to foster compliance. There is a need to build a basic understanding of tax and reasons for taxation because payment of tax is eased where there is adequate information on the processes of taxation and how taxes assist in the growth of the economy and overall development. The success of tax administration will depend on, among other factors, the extent to which KRA is viewed as an agent of every Kenyan and not just the government.

There is need for a change of mindset so that people appreciate the importance of the tax authority. Incorporating technology will also enhance taxpayer awareness since technology is easily and more readily accessible to many taxpayers and potential taxpayers. Some of the platforms that should be utilised to build awareness include the electronic media and M-platform.

Moderator's Question: What can we learn from the experience of Kenya Commercial Bank on the use of technology and digital platforms?

Response from the Panel

The use and uptake of technology by KCB has helped hasten processes, which would have otherwise taken much longer to undertake and execute.

Through the digital platform, KCB has managed to disburse loans on mobile amounting to about 12 billion in the last few years.

The mobile platform in use by KCB is linked to the Credit Reference Bureau (CRB) which means that there is flow of information concerning any applicant. The bank can, therefore, verify whether a loan applicant is credit worthy or not.

It was explained that the use of technology could be more attractive to the youth compared to visiting KRA offices and this will create a culture of tax compliance amongst the youth.

A key aspect of technology will be through the use of the digital footprint and biometrics, which increase security and access to vital information.

Moderator's Question: What other measure should be used to enhance access to information for taxpayers? What measures should KRA take to enhance tax collection?

Response from the Plenary

Tax payer education is of the essence to facilitate the flow of information concerning KRA. It was proposed that a course on tax education be developed and introduced at university level to inculcate a culture of paying taxes. Stakeholders such as county governments can also relay information on tax payment in their jurisdiction to bring more people on board. Payment of tax should be a moral imperative and should be viewed as something good and respectable.

There is need to innovate and focus not just simply on tax collection but also on tailoring tax collection to meet the specific needs of Kenyans. This will be easily embraced, understood and adopted by the public. Liaising with the counties will enable KRA ease the process of collecting taxes.

It was pointed out that there is limited awareness at the lower level on tax collection yet this is where tax compliance is low and significant tax revenue goes uncollected. This means that KRA should balance its emphasis both at the top and the lower levels. KRA must develop a more integrated way of communicating to citizens on tax collection.

Response from the Open Plenary

There should be a course on civic education, which should be rolled out in schools incorporating tax education.

It was further proposed that every adult with a national identification card should be taxed a given amount even if such an amount is a nominal one.

The legislature should enact laws on issues of tax that are simple and easily understood on issues of tax.

Payment of taxes by the Kenyans in the diaspora should be considered and emphasised as one way of growing tax revenue.

To incentivize tax payment, KRA should extend tax credit and offset it against other taxes that taxpayers are liable to.

The following specific questions were raised from the open plenary:

Question: Is there a possibility of KRA facilitating the payment of tax on a daily basis?

Question: There are about 30 types of taxes in Kenya, what can be done to rationalise these taxes?

Response from the Panel

The panel recommended that KRA should consider the use of simple methods of communication such as by engaging the community instead of utilizing complex expensive means of reaching out to taxpayers. There should be point people at the village level to propel the KRA agenda.

It is necessary to invest in the use of simple methods of engaging with the community at village level and there is benefit in emphasising on public participation especially with women groups.

To deter non-compliance, it was suggested that a list of shame should be posted online.

The panel also made the following observations:

-
- The Authority should invest in the use of ‘cool’ young people because they can communicate more easily on tax processes
 - Churches should pay taxes since they are making much and remitting nothing to the tax kitty
 - Tax incentives should be well targeted and SME’s should have special tax incentives in relation to their sector
 - The Authority should invest in friendly approaches in dealing with taxpayers for instance, sending out birthday wishes which can have a positive impact on taxpayers
 - Making tax payment ‘cool’ can be realised through making tax payment simple.
 - There should be a system of reward and punishment with rewards being directed not only to big tax payers but also smaller entities

Conclusion

Rules should be put in place to punish the non-compliant such as barring non-taxpayers from running for public office. Tax payment should be the responsibility of everyone and measures should be taken against those who are non-compliant.

CHAPTER 11

11.1: Tax Base Enhancement

Panelists:

1. Mr. Ronald Karauri, Chief Executive Officer, Sports Pesa
2. Mr. Patrick Mwangi, Chief Executive Officer, Medium & Small Enterprises Authority
3. Mr. Charles Wanguhu, Coordinator, Kenya Civil Society Platform on Oil and Gas

Moderator: Dr Collins Odote, Senior Lecturer, University of Nairobi

This plenary focused on the following 3 areas namely:

1. Netting the Informal Sector; Ever Elusive SMEs
2. Booming Gambling, Gaming and Lottery in Kenya
3. Harnessing Taxation Opportunities in Extractives and Hydrocarbons Industry

The moderator opened the panel discussion by directing specific questions on the subject matter to specific panelists. The questions and responses are summarised below:

On key issues that need be addressed in the informal sector, the moderator posed the following questions to Mr. Patrick Mwangi:

Question: Should SMEs be made more formal? How do we ensure the informal sector pays more in terms of taxes?

Response by Mr. Mwangi

The panelist began by providing a background on MSEs. The Micro Enterprises Act 2013 created an Authority called the Micro and Small Enterprises Authority (MSEA) and also created a MSE fund which is yet to be rollout.

The Act also established the office of a registrar of SMEs. It was stated that the rollout of the MSE Fund will facilitate the formalisation of SMEs.

Partnership between the MSE sector and KRA can be one way of increasing the tax revenue base in terms of increasing tax collection from Medium and Small Enterprises.

The moderator then focused on one of the sub-themes of the panel session namely, how to net the informal sector and specifically, SMEs, to facilitate increased remittance of tax

Response from the Panel

The panel pointed out that SMEs are now run through an association model which has significantly reduced informality. Hence, the need for strong partnership between KRA and the MSEA to capture more SMEs into the tax bracket and expand the tax base. There is still a lot of misunderstanding of small and medium enterprises many of which are remitting tax yet the pervasive view was that of SMEs are businesses that are tax evasive.

Tax evasion audits and the punishment that require firms to pay backdated penalties represent major fears and disincentive to formalisation and the transformation of medium enterprises. The fear of backdated penalties on outstanding tax has made small enterprises resist formalisation or transformation into medium enterprises. Stakeholder collaboration between KRA and these businesses is important to help address this.



Mr. Ronald Karauri, Chief Executive Officer, SportsPesa giving his remarks during the Tax Summit

Response from the Open Plenary

On the linkage between SMEs and county governments, it was emphasised that partnership between MSEA and county governments is important to help push some of their products into the market through the supply chain.

We should inculcate an entrepreneurship culture including entrepreneurial education as one way of facilitating the growth of SMEs. It was noted that SMEs are currently classified into four sectors namely Manufacturing, Services, Trade and Agri-business. Through more partnerships, the MSEA will be able to expand these categories.

To improve on the governance framework, the MSEA is working closely with the Uwezo and Women Funds with an aim of training the youth and women on entrepreneurial skills and hence curb the misappropriation of loans awarded to youth and women groups.

The moderator then focused the attention of the panel on the booming gambling, gaming and lottery phenomena in Kenya. The panel was invited to share their thoughts on the subject which are summarised below:

Response from the Panel

It was noted that while gambling, gaming and lottery are on the rise, the current Betting Act is outdated having come into force in 1968. There is need to reform it in order to regulate this particular sector. In terms of operational issues, taxes are levied from where a bet is collected and not where a bet is placed. This means that Kenya loses revenue in respect of bets placed with foreign betting firms. It was proposed to amend the law to facilitate taxation of bets placed with foreign betting firms and ensure that what is collected is invested locally.

The betting, gaming and lottery industry pays all the required taxes and operates on the mobile phone finance platform hence it is easy to audit and identify those who are not tax compliant. They are liable to pay 30 per cent corporate tax, 25 per cent to charitable organisations and 5 per cent in Turn-over Tax.

In addition, the companies in the sector are required to submit their returns to the Betting Control Board on a weekly basis, hence, most if not all are compliant.

Based on this clarity, the focus should be placed on the challenges that KRA may be facing in collecting taxes from the gambling companies.

It was emphasised that gambling should be done responsibly and should not be viewed as an alternative source of income (“side hustle”). Lotteries did not target those in the lower cadres of society and were meant for all and not only the less privileged. It is important to note that all persons have an equal chance of winning and there is no bias in determining winners amongst those who place bets. It was observed that KRA has limited capacity in auditing international companies, which may be avoiding or evading paying tax – this area needs to be addressed.

Response from the open plenary

The view was expressed that gambling is targeting the poor as opposed to the rich and is thus unfair to them. Gambling companies should work hard to eliminate the notion that gambling can become an alternative source of income. Further, the companies should support the promotion of responsible gaming taking into account that there have been cases of some gamblers committing suicide when they lose out.

The moderator then focused the panel discussion on the extractives industry and elicited the views of the panel on the subject as summarised below:

It is important to review the accounting rules relating to transfer pricing to ensure that the economy does not lose out on potential revenue. There should be an emphasis on strengthening audit and regulatory capacity to keep track of the transactions of companies and seal the gaps that companies are using to avoid their tax obligations.

There is also need to improve the ease of doing business in the industry as one way of attracting investment in extractives, which is capital intensive and often calls for foreign investment.

KRA should be actively involved in the development of local content legislation to seal gaps on transfer pricing and get involved in the negotiation of contracts pertaining to the extractives industry. Strong provisions on local content will support the development of local industry. It is equally important to enhance transparency and accountability as one way of supporting the development in the oil and gas sector.

The following is a summary of conclusions from this session:

- There is a need to enhance the audit capacity of KRA to trace international and foreign gaming companies and tax them accordingly

-
- KRA should continuously engage with stakeholders to identify tax loopholes and establish ways of sealing them
 - KRA should be engaged in the development of legislation on issues like local content regulations in order to reduce some of the challenges faced in respect of transfer pricing
 - KRA should be actively involved in the negotiations of contracts in the extractives sector to ensure that all the expected revenue in the sector is safeguarded
 - The Authority should use the established SMEs system and work together with MSEA to bring more SMEs into the tax net
 - KRA should seal any loopholes that firms in the betting, gaming and lottery industry might take advantage of to evade or avoid taxes. This can be achieved by KRA working closely with the Betting Control Board to identify companies that are non-compliant and take action accordingly
 - To address the risk of gambling being seen as an alternative source of income which may have an adverse socio-economic effect on the poor, firms in the industry should educate their clients and promote responsible gambling in the country



Participants following a session during the Tax Summit

CHAPTER 12

12.1 Wrap Up and Official Closing Ceremony

12.1.1 Remarks by Dr Mohamed Omar, Commissioner, Strategy, Innovation & Risk Management, Kenya Revenue Authority

Dr Omar began by thanking the various speakers and participants for their engagement throughout the 3 days of the 2nd Annual Tax Summit. He noted that the Summit had discussed and reflected on several pertinent issues and areas.

Among these is the need to simplify tax processes and procedures in order to enhance compliance. KRA has initiated several measures and initiatives in this regard and will continue to do so to better serve the needs of taxpayers.

Another important area of deliberation during the Summit was the integration of KRA systems and procedures with third party players geared towards enhancing revenue collection.

It was noted that through legislative amendments, KRA could access such data from various institutions.

Dr Omar reiterated that the Authority placed great emphasis and attached importance to technology and automation in its ongoing reforms. This will further improve interaction with KRA and hence, increase the number of those on the tax register. Broadening the tax base is an important step towards ensuring equitable sharing of the tax burden. He added that as KRA increases its focus on better serving its customers, it is essential to enhance predictability in decision-making such as through increased use of ICT, which reduces human interaction and also improves on the time taken to respond to issues raised by taxpayers.

Dr Omar noted the need for KRA to be more actively involved in the development of regulations and legislation in recognition of the fact that these have an impact on taxation. He reiterated that KRA was committed to working with different stakeholders to improve tax administration. For this reason, forging strategic partnerships such as with county governments was important. On the deliberations regarding transfer pricing and the challenges identified in terms of potential abuse to evade tax, Dr Omar noted that there is need to enhance KRA's capacity in addressing transfer pricing. Tax issues must be incorporated on issues of investment.

Dr Omar acknowledged that community engagement is essential to create awareness on issues such as transfer pricing and other areas that impact on tax administration. As a means of expanding the tax base, there is need for KRA to continuously focus on developing tax regimes that address the needs of specific sectors to promote their growth. It is equally important to enhance capacity on data analytics to support revenue administration. Building capacity will require investment on training and improving access to key documents. It is also important to consider how best the issue of rewards and penalties should be addressed as a means of influencing tax culture, which is critical in enhancing compliance and hence growing the revenue base.

A SUMMARY OF KEY RECOMMENDATIONS MADE AT THE 2nd ANNUAL TAX SUMMIT

On Ongoing Reforms on Tax Administration

Kenya Revenue Authority should continue undertaking ongoing reforms in tax administration, which include a shift to a service-oriented organisation and the move towards evidence-based tax administration, which recognises, among other values, the need for equity and fairness in the payment of taxes.

In adopting greater transparency and facilitation on tax administration, KRA must enhance its focus on facilitating Taxpayers and enhancing the use of technology among other interventions

- KRA should be flexible on timelines for filing returns and making payments and ease the payment of tax in similar ways as is the case with payment of utility bills
- KRA should adopt the agency model akin to that of equity bank to facilitate and ease tax payments from more pay points closer to the people
- Increasing transparency on tax policy and accountability in the use of tax revenue are essential to encourage compliance and voluntary remittance of tax
- KRA should enter strategic partnerships with County Governments, NGOs, private sector organisations among others to enhance ease of tax administration

On Tax Policy, Processes and Procedures

- Tax processes and procedures should be continuously simplified as a means of fostering compliance and reducing the cost of compliance for Taxpayers and the cost of administration borne by KRA. Simplification of tax procedures will encourage voluntary compliance which is much more efficient compared to carrying out and undertaking tax audits
- The Authority should make the payment of tax fun through initiatives like creating a VAT lottery using ETR receipts which will encourage customers to demand ETR receipts and in the process create greater awareness on the payment of tax
- The Personal Identification Number (PIN) should be promoted as the single identifier of persons
Dispute Resolution mechanisms through the Tax Appeals Tribunal should be expedited as one way of improving the business environment
- Tax policy environment should be predictable to support long term business investments
On creating awareness and sensitisation
- KRA should enhance tax education on the filing of returns online and other aspects on tax
- Tax education should be undertaken as a common course in universities as a step towards influencing tax culture amongst the youth in tertiary institutions
- Education curriculum should inculcate tax awareness starting at the basic education with an emphasis on creating awareness on tax through innovative teaching such as ascribing tax in teaching of the alphabet
Ethics should be an integral part of tax education to enhance compliance and ensure that people understand the reasons, need and importance of paying taxes.

On Uptake of Technological Innovations

- There is a need to widen the scope of utilisation of ICT which includes incorporation of mobile phone applications as a means of simplifying and easing the process of filing returns and payment of tax
- Leveraging on the use of technology will reduce the need for human interaction and undue discretion in the tax system which was important in enhancing fairness in view of the potential for abuse of discretion;
- The adoption of technology in tax administration should be enhanced as a step towards reducing human interaction and undue discretion in the tax system thus minimising the potential for corruption and entrenching transparency
- KRA should deploy the use the big data analytics to aid analysis, profiling and segmentation of Taxpayers to aid in distinguishing between compliant and non-compliant Taxpayers. Big data analytics will supplement and compliment i-Tax and help verify the accuracy of returns filed by Taxpayers
- KRA should explore connecting ETRs to KRA systems for real time communication and roll out a modern ETR system that can interact seamlessly with its system

On Improving Compliance

- KRA should continue facilitating, supporting and encouraging eligible Taxpayers who are currently not in the tax bracket to begin remitting tax through provision of information using i-Tax centers, leveraging on Huduma Centres and the use of electronic platforms
- The Authority should initiate research to establish the effectiveness of the strategies it has implemented to enhance voluntary tax payment and improve compliance

-
- Tax loopholes must be sealed through enhanced mobilisation of automated processes that reduce human interaction in addition to other initiatives such as naming and shaming the purveyors of corruption and tax evasion

On Expanding Tax Revenue Base:

- KRA should be the sole collector of revenue at both county and national government levels and hence leverage and maximise on the existing structures and platforms for tax collection.
- More items should be included in the VAT bracket such as online businesses and other emerging businesses including non-residents
- The focus should shift to broadening the tax base as opposed to deepening it
- The Authority should consider scrapping taxes whose cost of collection is more than 1 per cent and hence have an inefficient collection cost burden
- Presumptive taxes should be introduced and a clear criteria developed on how to apportion these taxes amongst businesses in order to bring more businesses operating in the informal sector into the tax net
- KRA should enhance public participation in the formulation of policies on Turnover Tax as a means of increasing the number of business enterprises filing returns

On Tax Incentives

- Tax incentives should be pegged to clear milestones and evaluated on the basis of specific and clear criteria to confirm whether intended objectives are being met. Clear and transparent guidelines must be developed on incentives to create certainty in investors and establish a clear framework and timeline as a means of encouraging private sector investment and buy-in

On Governance

- Corruption must be backnowledged as a significant challenge both in terms of delivery of services using moneys collected through taxation and also as a disincentive to those willing to comply. Fighting corruption requires the involvement of all and the fight cannot be won if the Authority's efforts are not complemented by that of others
- There was need to deliver value through proper use of tax revenues. Theft, waste and pilferage discouraged those willing to comply and pay taxes hence the need for accountability by government on the utilisation of tax
- KRA should collaborate with the National Treasury to strengthen its governance structures

On Improving Operational Efficiency

- KRA should increase the capacity of staff in KPC depots to improve the turnaround time of clearance of oil and gas products and facilitate the company to adopt a 24hr schedule
- KRA should decentralise the DPC to ensure that wet cargo is not held over long durations of time
- KRA should initiate a complete overhaul of culture (including a change in the attitude of staff) to enhance efficiency and better serve the needs of customers

On Facilitating MSEs

KRA should continue its ongoing efforts in the MSE strategy to address the concerns of SMEs such as the onerous burden of filing returns and enhancing compliance through considering propositions such as provision for presumptive tax based on defined criteria

- A flat daily rate should be introduced to enable SMEs pay tax on a presumptive basis.

Photo Gallery







summit.kra.go.ke



 @KRACare  Kenya Revenue Authority  Kenya Revenue Authority