REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

THE MEDIUM-TERM REVENUE STRATEGY

(An Approach for Enhancing Domestic Revenue)

FY 2024/25 - 2026/27

September 2023

Foreword

The Medium-Term Revenue Strategy (MTRS) provides a framework for tax reforms aimed at boosting domestic revenues which has been declining over time. A review of the tax policy landscape is critical to improve efficiency in revenue administration and identify loopholes for tax evasion and enhancing taxpayer compliance. Further, the Strategy will facilitate mobilization of additional resources necessary for the implementation of the Government Development Agenda, the Bottom-up Economic Transformation Agenda, which is geared towards economic turn-around and inclusive growth.

The Strategy covers the period financial Year 2024/25 to FY 2026/27 and is aligned to the Fourth Medium-Term Plan (2023-2027) of the Kenya Vision 2030 and the National Tax Policy. .

In spite of the past efforts to enhance revenue, Kenya's revenue yield is still below the desired East African Community target of 25 percent of GDP. This Strategy outlines reforms of the tax system aimed at reversing the trajectory of the tax-to-GDP ratio and achieving the ratio of 25 percent by 2030. The reforms that will be implemented during the Strategy period aims at promoting investment across various sectors by removing market distortions.

We also acknowledge that, to achieve the desired revenue growth that will reduce the fiscal deficit over the medium term to the EAC regional target of 3 percent of the GDP, there is need for a coherent reforms across all the tax heads to foster greater and equitable revenue mobilization.

This Strategy targets to raise the ratio of the ordinary revenue to GDP collection by an additional 5 percent gradually through the strategy period. This will be achieved through: putting in place tax policies and administrative measures that support economic growth; improving efficiency in tax administration; expanding the tax base; and promoting equity and fairness in the tax regime.

Effective implementation of this Strategy requires the support of all stakeholders in the public and private sector, as well as non-state actors. I therefore call upon all the stakeholders to support this reform strategy which will lead to a better Kenya for all of us.

PROF. NJUGUNA NDUNG'U, CBS
CABINET SECRETARY

Preface

This Strategy will mobilize funds to finance Government programs for the remaining period of the vision 2030. The Government will develop the Second Medium-Term Revenue Strategy to cover the reaming period building on the success of the this Strategy

This is the first Medium-Term Revenue Strategy (Strategy) covering the period FY 2024/25 to FY 2026/27. The Strategy provides a framework for undertaking tax reforms to enhance revenue collection over the medium term and improve the fiscal space as the Government focuses on the Bottom-Up Economic Transformation Agenda.

In compliance with the Constitution, the Strategy has been developed through a participatory process with the aim of balancing the need for revenue to finance socio-economic development while supporting businesses and individuals to thrive during these challenging times. The Strategy has been prepared in an uncertain global economic context as the protracted effects of the COVID-19 pandemic and the Russia-Ukraine conflict continue to strain economies globally. These shocks have negative impacts to our macroeconomic environment thus creating a dilemma for tax policy between raising revenues to meet development objectives and avoiding tax increases on adversely affected households and businesses.

The preparation of the Strategy is a collaborative effort of various Government agencies led by the National Treasury and Kenya Revenue Authority (KRA). We also acknowledge and are grateful to International Monetary Fund for support, particularly in building capacity and providing technical assistance to the team that developed the Strategy. We equally thank all stakeholders for the useful inputs that enriched the Strategy. As we embark on the implementation of the Strategy, we commit to sustain collaboration with all stakeholders which is key to success and realization of the objectives of the strategy.

DR. CHRIS KIPTOO, CBS

PRINCIPAL SECRETARY/THE NATIONAL TREASURY

Executive Summary

This Medium-Term Revenue Strategy (Strategy), covers the period FY 2024/25 to FY 2026/27, aims at raising sufficient resources for the implementation of the Government's priority programmes under the Bottom-Up Economic Transformation Agenda. It provides a comprehensive approach of undertaking effective tax system reforms to boost tax revenues and improving the tax system over the medium term.

The Strategy is developed against a backdrop of historical decline in ordinary revenue collection as share of GDP from 18.1 percent of GDP in the FY 2013/14 to 14.1 percent of GDP in the FY 2022/23. This has mainly been attributed to various challenges among them; adverse effects of COVID-19, increase in tax expenditure, low tax compliance as well as growth of the informal and digital sectors which are hard to tax. Furthermore, the country is operating under tight fiscal space occasioned by emerging expenditure pressures arising from drought related expenditures and external shocks.

In this regard, this Strategy provides tax policy and administrative reforms to be implemented gradually within the period FY 2024/25 to FY 2026/27. The reforms are aimed at: increasing revenue collection by an additional five percent of GDP; increasing tax compliance rate by twenty percent; aligning the tax policy objectives with other government objectives such as ease of doing business and trade policies; and enhancing collaboration between Government and stakeholders in domestic revenue mobilization.

The strategies for boosting revenue collection focus on all the tax heads, income tax, VAT, excise duty and customs duty. The Strategy also outlines administrative measures aimed at improving the tax system. The strategic interventions for each of the tax heads are:

Income Tax

a) Corporate Income Tax

i) Reduce the corporate rate of income tax from the current 30 percent to 25 percent;

ii) Review residential rental income tax so as to ensure fairness and equity;

iii) Re-introduce minimum tax; and

iv) Review and rationalize exemptions on entities to expand tax base.

b) Personal Income Tax

i) Review the personal income tax band structure to improve progressivity; ii) Review taxation of pension;

iii) Review and rationalize exemptions on individuals income to expand tax base; and

iv) Review tax reliefs.

Value Added Tax

i) Review the VAT threshold to enhance efficiency;

ii) Review and rationalize the exempt/zero rated supplies and align with international best practice;

iii) Review of the VAT rate;

iv) Introduce VAT on education and insurance services; and

v) Removal of the threshold for applying VAT input tax apportionment formula.

Excise Duty

i) Review of excise duty on petroleum products;

ii) Introduce excise duty on coal;

iii) Harmonize taxation of

iv) Review taxation of other tobacco products;

v) Review excise tax regime for non-alcoholic beverages to base taxation on sugar content; and

vi) Review excise tax regime for alcoholic beverages to base taxation on alcoholic content.

Customs Duty

Taking cognizance that the EAC Common External Tariff (EAC CET) that provides common duty rates across the region. Kenya will request other East African Community (EAC) Partner States to review the structure of the EAC CET with a view of having a common duty rate for all imported goods and duty free on primary raw materials/inputs.

Other Tax Measures

i) Review excise duty on betting and gaming;

ii) Introduce a surcharge tax;

iii) Introduce carbon tax and

iv) Introduce motor vehicle circulation tax.

Administrative measures

i) Tax administration system integration with of Government systems and the systems of third-party data producers;

ii) Reform and modernization of the tax systems;

iii) Compliance improvement;

iv) Improved efficiency in the management of tax refunds;

v) Building an effective staffing at the Kenya Revenue Authority; and

vi) Improving taxpayer audits.

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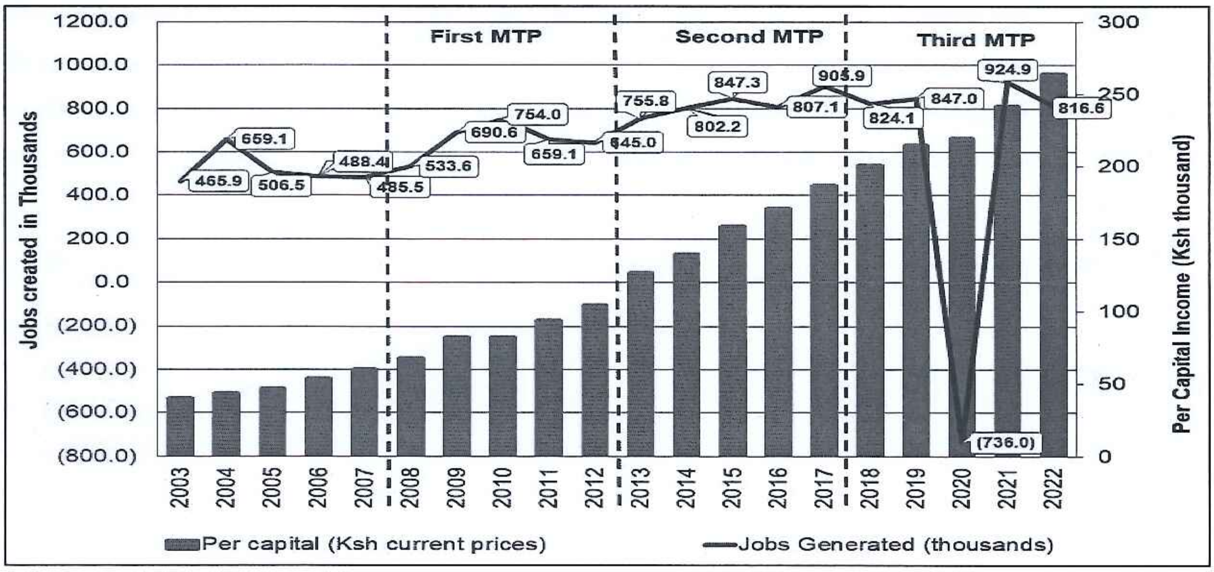
1 INTRODUCTION

1.1 Economic Context

1. Kenya's economy continues on a strong and resilient trajectory due to its diversified nature despite the recent domestic and external shocks. The implementation of socio-economic policies and structural reforms saw Kenya graduate from a low-income economy to a lower middle-income economy in 2014 with an estimated per capita income of Ksh. 264,077 (equivalent to USD 2,240) in 2022. This is a significant growth of 107.8 percent from the level of Ksh. 127,065 (equivalent to USD 1,475) in 2013 (Chart 1). The Government's vision is to achieve the upper middle-income economy status by 2030 with a minimum per capita income of at least Ksh. 453,150 (equivalent to USD 4,046).
2. The size of the economy has grown by a remarkable 152.8 percent from Ksh. 5.3 trillion in 2013 to Ksh. 13.4 trillion in 2022 and cumulatively generated approximately 6.8 million new jobs in both formal and informal sectors over the same period (Chart 1). This economic performance has been realized through the implementation of various programs and projects under the Kenya's development agenda which is anchored on the Kenya Vision 2030 alongside other development frameworks such as the Sustainable Development Goals (SDGs).

Chart 1: Per Capita Income (Ksh. thousands) and Jobs Generated (in Thousands)



Source: Kenya National Bureau of Statistics

3. Kenya's Vision 2030 was launched in 2008 as a long-term development blueprint covering the period 2008 to 2030. It is aimed at making Kenya an industrialized, middle-income country providing high quality of life to all its citizens by the year 2030. The Vision is anchored on three key pillars: economic; social; and political. The economic pillar aims to achieve an average Gross Domestic Product (GDP) growth rate of 10 percent per annum over the vision horizon. The social pillar seeks to build a just and cohesive society with social equity in a clean and secure environment. The political pillar aims to realize a democratic political system founded on issue-based politics that respects the rule of law and protects the rights and freedoms of every individual.
4. The Vision 2030 is implemented through a series of five-year Medium-Term Plans (MTPs). Great progress has been achieved through the implementation of programs and projects under the first three MTPs covering the periods 2008 – 2012, 2013 – 2017, and 2018 - 2022. Despite this, real GDP growth has averaged 4.5 percent between the period 2008 to 2022, which is below the target of 10 percent per annum by 2012 under Vision 2030. The targeted growth rate is essential in generating sufficient resources for the full realization of the development targets contained in the MTPs. Additionally, the achievement of the country's development aspirations requires a significant increase in spending which needs to be supported by the corresponding sustained increase in tax revenues. However, Kenya has witnessed a decline in revenue as a share of GDP since FY 2013/14. In an effort to boost revenue collection to fund Government development Agenda reverse the declining revenue this Medium-Term Revenue Strategies (MTRS) covering the periods FY 2024/25 to FY 2026/27. After successful implementation of the First MTRs the government will develop second MTRS for the renaming period of Vision 2030.
5. This Strategy covers the period FY 2024/25 to FY 2026/27 and is aligned to the Fourth MTP (2023-2027) that prioritizes implementation of the Government's Bottom-up Economic Transformation Agenda. The agenda is geared towards economic turnaround and inclusive growth by, among others, increasing investments in at least five sectors envisaged to have the largest impact and

linkages to the economy as well as on household welfare. These include Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; Digital Superhighway and Creative Industry. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings. The Strategy's focus in boosting revenue will therefore be instrumental in providing funds to realize the Government's Bottom-up Economic Transformation Agenda.

6. The Strategy is prepared against a backdrop of continued global uncertainties. This reflects high but easing inflationary pressures due to relatively higher oil prices, weak global growth outlook, and heightened geo-political tensions particularly the conflict in Ukraine. Additionally, there are potential concerns about financial sector stability in the advanced economies and increased food insecurities due to climate related shocks. In this regard, global growth rate is projected to decline from 3.5 percent in 2022 to 3.0 percent in 2023 and 2024.

7. The Kenyan economic growth slowed down to 4.8 percent in 2022 from a growth of 7.6 percent in 2021. This is due to the impact of climate change on agricultural productivity which affected growth in agro-based manufacturing as well as wholesale and retail trade. Additionally, the depreciation of the Kenyan shilling impacted negatively on business activities due to high import prices. Growth is expected to rebound to 5.5 percent in 2023 supported by broad based private sector growth, resilient services sector and the rebound in agricultural sector. The growth outlook will be reinforced by the implementation of interventions under BETA and the pursuit of a growth friendly fiscal consolidation plan that fosters debt sustainability.

1.1.1 Government Revenue Performance

8. Government revenues are the principal source of resources for financing the budget. In Kenya, revenues are categorized into ordinary revenue and ministerial Appropriation in Aid (A-i-A). Ordinary revenue is composed of all taxes and non-tax revenues that are collected into the consolidated fund (Exchequer). Tax revenues include: Personal income Taxes, Corporate income taxes, Value Added Taxes, Excise Duty, Import Duty, Stamp Duty and Capital Gain Taxes. Non-Tax revenues includes: Immigration Revenues, Mining Royalties, Fines and Forfeitures, Traffic Revenue, Land Revenue and

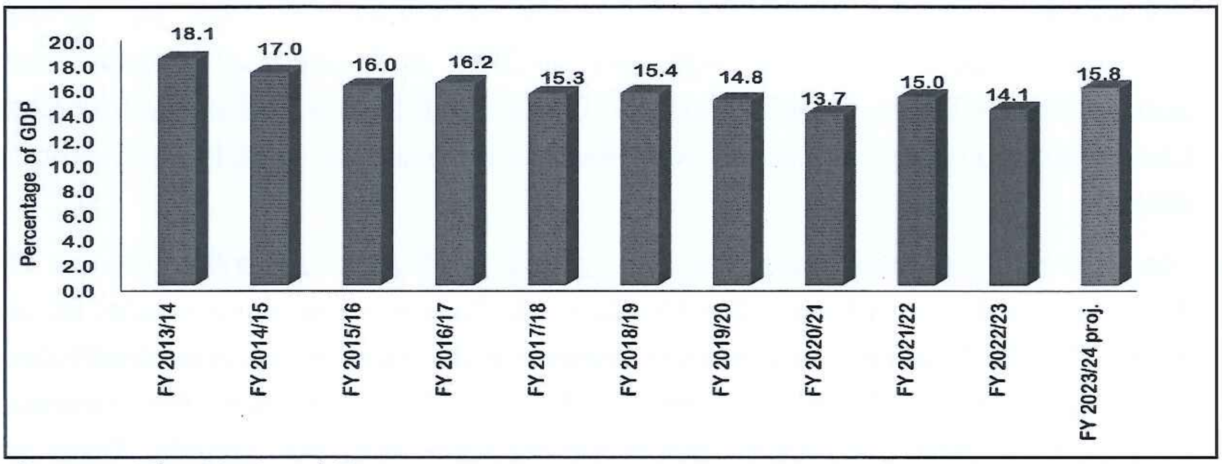
Investment Income. Ministerial A-i-A are revenues collected by various Ministries Departments and Agencies (MDAs) and used at source after appropriation. These include: Railway Development Levy, Road Maintenance Levy, Petroleum Development Levy, Housing Levy and University Fees among others.

9. Kenya's total revenue collection has tripled from Ksh. 0.8 trillion in the FY 2013/14 to Ksh. 2.4 trillion in the FY 2022/23. Ordinary revenue accounts for an average of 89.5 percent of the total revenue with taxes on income constituting the largest share of 46.1 percent in FY 2022/23. However, this revenue collection has been consistently below the Medium-Term Plan targets. Taxes on income constitutes the largest share of revenues tax revenue.

10. Kenya has witnessed a declining trend in ordinary revenue collection as a share of GDP since FY 2013/14. The ordinary revenues declined from 18.1 percent of GDP in the FY 2013/14 to 15.4 percent of GDP in the FY 2018/19. This is attributed to various challenges including; growth of the hard to tax sectors such as the informal sector; and the digital economy that adopts virtual business models. In addition, there has been a proliferation of tax expenditure over the years.

11. The emergence and the spread of COVID-19 pandemic worsened the revenue performance for the FY 2019/20 and FY 2020/21. Ordinary revenue as a percentage of GDP declined from 15.4 percent in FY 2018/19 to 14.8 percent in FY 2019/20 and 13.7 percent in FY 2020/21 (Chart 2). Ordinary revenue collection improved to 15.0 percent of GDP in the FY 2021/22 as economic activities picked up following the easing of the COVID-19 restrictions measures. However, ordinary revenue collection for the FY 2022/23 declined to 14.1 percent of GDP due to the negative impact of the Russia-Ukraine conflict and the resultant geo-politics that led to global economic slowdown and supply chain disruptions. The ordinary revenue collection is projected to improve to 15.8 percent of GDP in FY 2023/24 reflecting Government efforts in revenue mobilization.

Chart 2: Ordinary Revenue as a Percentage of GDP

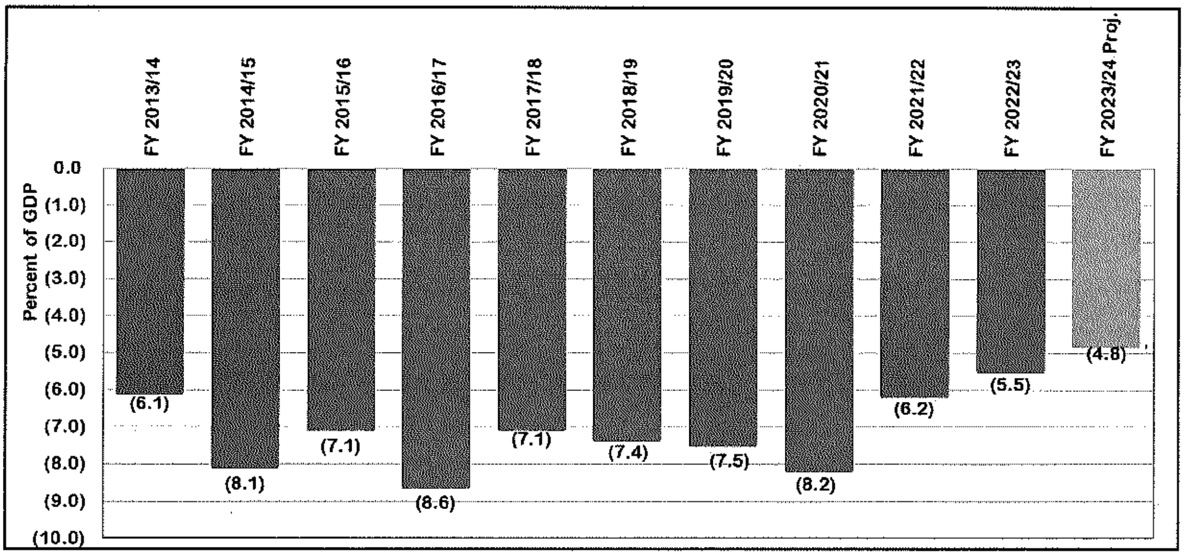


Source: The National Treasury

1.2 Fiscal Deficit

12. The declining trends in revenue as a share of GDP coupled with rising budget expenditure pressures has seen the fiscal deficit increase from 6.1 percent of GDP in FY 2013/14 to 7.5 percent of GDP in FY 2019/20 (Chart 3). The fiscal deficit widened to 8.2 percent of GDP in FY 2020/21 mainly due to increased spending pressures for containing the spread of COVID-19 pandemic and the implementation of containment measures. The fiscal deficit improved to 6.2 percent of GDP in FY 2021/22 and further to 5.5 percent of GDP in FY 2022/23 due to the Government's fiscal consolidation effort. The fiscal deficit is projected to decrease further to 4.8 percent of GDP in FY 2023/24.

Chart 3: Trends of the Fiscal Deficit



Source: The National Treasury

13. The country has been borrowing locally and internationally to bridge the resource gap resulting to accumulation of debt which has increased from 48.5 percent of GDP in FY 2013/14 to 70.6 percent of GDP in FY 2022/23. Kenya's public debt is at sustainable levels as a medium performer in terms of debt carrying capacity, but remains at high risk of debt distress in event of global shocks. To reduce the risk of debt distress vulnerabilities and ensure the implementation of the development agenda, domestic revenue mobilization is critical.

1.3 Tax Gap

14. In 2022, the International Monetary Fund (IMF) estimated Kenya's potential of tax revenue to GDP to be 25.0 percent which is consistent with the EAC region's macro-economic convergence benchmark for achievement of the EAC Monetary Union. In FY 2022/23, the Kenya's tax gap was estimated at 11.5 percent of GDP.

15. Gaspar et al, 2016[1], estimated that 12.75 percent tax to GDP is the minimum ratio required for a government to perform essential functions while 17 percent tax to GDP is the minimum ratio required to achieve the Sustainable Development Goals. From these figures, it is clear that Kenya requires to put in

[1] Political Institutions, State Building, and Tax Capacity: Crossing the Tipping Point by Vitor Gaspar, Laura Jaramillo, and Philippe Wingender

place measures to increase tax to GDP ratio to enable effective provision of public goods and services to citizens as well achieve the Vision 2030 aspirations and SDGs.

16. In this regard, the Government has implemented several measures in the recent past to raise additional revenue to close this gap. These measures were both in tax administration and tax policy. The tax policy measures include: tax base expansion, modernization of tax legislations, consolidation of tax procedures in one tax legislation and establishment of Tax Appeals Tribunal to expedite tax disputes resolution. In tax administration, the measures include: intensifying debt collection, increased use of data to enhance compliance, scaling up intelligence gathering on tax evasion, enhanced electronic monitoring of transit cargo and use of scanning technology to enforce compliance.

17. Despite the past reform efforts, Kenya's revenue yield is still below the desired East African Community target of 25 percent of GDP. To achieve the ratio of 25.0 percent by 2030, a holistic reform of the tax system, coordinated across the government agencies, is therefore needed to reverse the trajectory of the tax to GDP ratio. Isolated tax reforms on one tax head cannot achieve the desired level of revenue growth, and reduce the fiscal deficit over the medium term to the EAC regional target of 3 percent of the GDP. Therefore, this Strategy has outlined comprehensive and coordinated reforms across all tax heads for greater and equitable revenue mobilization.

1.4 Rationale for the Strategy

18. Effective implementation of the Government's development agenda requires adequate and predictable funding. Therefore, this Strategy provide a comprehensive approach to reform the tax system in order to:

    a) accord the Government greater clarity of the expected revenues over the medium term;

    b) create certainty on the tax policy and administration to taxpayers;

    c) prioritize areas for tax reforms and administration;

    d) support taxation of evolving business models; and

    e) build commitment and trust among all stakeholders.

19. Over twenty-five countries are currently, formulating, and implementing MTRS since 2016. In the EAC region, Uganda and Rwanda are implementing their first MTRS to geared towards boosting tax revenues and improving efficiency of tax systems and tax administration.

20. In Kenya, raising enough resources is critical for the implementation of the Government development Agenda as espoused in the Fourth MTP. As such, the Government will scale up revenue collection to Ksh. 3.0 trillion (18.4 percent of GDP) in the FY 2023/24 and Ksh. 4.0 trillion (18.8 percent of GDP) over the medium term. To achieve this, the Government will undertake a combination of tax policy and administration reform measures consistent with the National Tax Policy. The interventions in this Strategy are also aligned to the Fourth Medium Term Plan of the Vision 2030.

21. The MTRS is aligned to the National Tax Policy developed in 2023. The Policy outlines guidelines to enhance efficiency of the tax system, provide consistency and entrench predictability in tax legislations and management of tax expenditure. Both documents complement each other in supporting the Government's aspirations for improved and sustainable economic growth for improved welfare of all Kenyans.

2 APPROACH TO THE MEDIUM-TERM REVENUE STRATEGY

2.1 Overview

22. The Strategy seeks to realise effective reforms for improving the tax system over the medium term through a country-led and whole-of-government approach to mobilize additional revenues. It is a four-year road map that enables stakeholders to have foresight of the planned tax measures towards raising of domestic revenues.

23. The Strategy treats the policy, administrative and legal components of the tax system in a holistic and interactive way to ensure coordination within the system. This approach is critical in building an adaptive tax system that responds to changing economic situations, evolving business models and eliminates tax evasion. The approach creates a tax environment that has clear policies and administrative practices.

24. The Government will develop two MTRSs to cover the remaining period of the Vision 2030 with the overall target of raising tax revenue as a share of GDP by an additional 11.5 percent. This is the first Strategy and will cover the FY 2023/24 - 2026/27, while the second MTRS will cover the FY 2027-28 to FY 2029-30.

2.2 Objectives

25. The overall objective of this Strategy is to provide a comprehensive framework for guiding reforms to the tax system and mobilize additional revenues over the medium term.

26. The specific objectives are to:

    a) raise tax revenue to GDP ratio from 13.5 percent in FY 2022/23 to 20 percent by end of the FY 2026/27;

    b) increase tax compliance rate from 70 percent in FY 2022/23 to 90 percent by FY 2026/27;

    c) promote investment through removing market distortions through rationalization tax expenditures and review of tax rate; and

d) align tax policy r with government priorities

2.3 Scope

27. The Strategy aims to balance the need for revenue to finance socio-economic development while supporting businesses and individuals to thrive and surmount economic challenges. The Strategy covers all tax heads and tax administrations aspect. Special focus is on improving efficiency in tax administration challenges. by closing tax evasion loopholes and facilitating taxpayers to meet their tax obligations.

28. This Strategy covers a three- year period beginning in the FY 2024/25 to 2026/27.

3 POLICY MEASURES

3.1 Overview

29. This Strategy is anchored on two strategic thrusts, namely; policy and administrative. The policy interventions will focus on measures to be implemented under income tax, VAT, excise duty, miscellaneous fees and levies, customs duty and non tax sources of revenue. The rest of Chapter 3 outlines the policy measures under the various tax heads. The administrative measures are covered in Chapter 4.

3.2 Tax Policies

3.2.1 Income Tax

30. The policy measures under the Income Tax Act have been categorized into Personal Income Tax (PIT) and Corporate Income Tax (CIT).

3.2.1.1 Corporate Income Tax

31. According to a CIT gap study by KRA in 2022, the gap between the CIT collected and the potential is high and on a rising trend from 25.5 percent in 2018, to 26.7 percent in 2019 and 32.2 percent in 2020. This gap is attributed to low compliance and tax expenditures among other factors. To narrow the gap, the Government will undertake the following policy measures:

a) Review of Corporate Tax Rate

32. A comparative analysis shows that the Kenyan CIT rate of 30 percent is higher than the world average of 23 percent and the African average of 29 percent. Studies have shown that high rates of corporate income tax discourage foreign direct investments and encourage investors to lobby for lower rates or tax exemptions. Further, high rates contribute to increased tax planning and reduced compliance by taxpayers, which in the case of Kenya, has led to a decline in income tax as a share of GDP. To address the issue, the Government will reduce the corporate rate of tax from the current 30 percent to 25 percent over the Strategy period.

b) Non-resident Withholding Rate

33. To bring equity and fairness in the taxation of income, the withholding rate of tax applicable to income earned by non-residents will be reviewed to align with the corporate tax rate. This will ensure that non-residents who are taxed on gross earnings are not unfairly taxed in comparison to residents who are taxed on a net basis.

c) Multiple Corporate Rates

34. Taxation of companies in Kenya is currently characterized by multiple tax rates: standard and preferential rates. The income of resident and non-resident companies is subject to the standard corporate tax rate of 30 percent. The preferential rates apply to specific sectors to promote investments. However, these preferential rates have contributed to the erosion of the tax base and encouraged business persons to lobby the Government to grant similar incentives to other sectors. To address the situation, the Government will gradually phase out the preferential corporate tax rates while focusing on other investment promotion measures over the strategy period.

d) Repatriated Profits

35. Non-resident companies that operate in Kenya through branches or any form of permanent establishment do not necessarily distribute dividends. However, the profit of such nexus is often credited to head office account; the head office uses such credit to distribute dividends at head office levels, thus escaping taxation of such dividends in Kenya. To create fairness and equity with resident companies that are subject to taxation on dividends distributed, the Government will continue with taxation on repatriated profits at a rate equal to the rate of tax on dividend paid to non-resident. This will ensure a level playing field between resident and non-resident companies.

e) Rental Income

36. Residential rental income within a threshold Ksh. 288,000 to 15 million is currently taxed under a simplified tax regime at a rate of 7.5 percent of the gross with an option of payment at the corporate rate. The simplification was introduced to enhance compliance though it has increased the number of taxpayers, it has not achieved the envisaged compliance with an estimated gap of Ksh. 27 billion in the year 2022. To address compliance challenges in rental income taxation, the Government will enhance registration of property agents, mapping of properties and leveraging on technology.

37. In this regard, and to ensure fairness and equity, the Government will review taxation of residential rental income and implement either or both of the following options:

    i) Tax the residential rental income at the corporate rate and allow for expenses; or

    ii) Retain the simplified tax regime but progressively increase the rate and allow deduction of at least 40 percent of the revenue as expenses.

f) Corporate Income Tax Exemption

38. The corporate tax regime is characterized by a narrow base on account of a plethora of "profit-based" tax incentives provided to encourage investment. These incentives undermine efficiency, equity, simplicity and productivity of the income tax system. More importantly, these incentives do not necessarily encourage investments. The Government will review the exemption regime during the Strategy period to a more efficient and pro-investment "cost-based" incentives. The review will take into consideration the need for stability to allow the affected beneficiaries to adjust. Exemptions that are granted on a reciprocal basis and as per international conventions to which Kenya is a party will be taken into account.

g) Minimum Tax

39. The Government recognizes the need for an entity to pay a minimum tax to facilitate the Government to achieve its objectives. This is due to the fact that some entities prepare their accounts to depict perpetual loss position thus evading taxation. To ensure fairness in taxation of income, the government will redesign the minimum tax taking into account the issues raised by the Court on the previous minimum tax.

3.2.1.2 Personal Income Tax

a) Tax Bands

40. The Income Tax Act provides five tax bands on personal income. These are Ksh. 0 to Ksh. 288,000 per year at the rate of 10 percent, the next Ksh. 100,000 per year, at the rate of 25 percent, the next Ksh. 5,612,000per year, at the rate of 30 percent, the next Ksh. 3,600,000 per year, at the rate of 32.5 percent and above Ksh. 9,600,000 per year, at the rate of 35 percent. The

structure is not progressive since tax bands are not wide enough to cushion low-income earners. Further, the structure increases opportunities for tax avoidance and evasion. The Government will review the structure to improve its progressivity and harmonize the personal income tax top rate with the corporate income tax rate during the Strategy period.

41. The current tax structure for pension is exempt-exempt-tax, implying that contributions are exempt, investment incomes are exempt while withdrawals are subjected to a graduated tax structure different from that of PIT. This structure is discriminatory since pension withdrawals after attaining the age of sixty-five years are exempt while those below the age of sixty-five years are taxable. The age differentials also encourage tax planning where withdrawals are done after attaining the age of sixty-five years. During the Strategy period, pension tax structure will be reviewed from exempt-exempt-tax to exempt-exempt-exempt to make withdrawals exempt irrespective of the taxpayer's age. However, exempt contributions to the pension scheme shall be restricted to a threshold to cushion tax planning.

b) Tax Exemptions

42. There are several incomes earned by individuals that are exempt from tax. These exemptions erode the tax base. During the Strategy period the Government will review and rationalize the exemptions on personal income. The review will take into consideration exemptions that are granted on reciprocal basis and in accordance with international conventions which Kenya is a party.

c) Tax Reliefs

43. Tax reliefs such as personal relief, insurance relief, relief related to persons with disability (PWD) and mortgage relief are given to taxpayers to encourage savings, buying insurance policies, home ownership and reduce tax burden, among other reasons. Though the tax incentives provide governments with a policy tool to influence taxpayers' behaviour, they come at a cost in terms of foregone tax revenue. In addition, tax incentives increase the complexity of the tax system and reduces its effectiveness as an instrument to promote equity. Studies have shown that incentives may not necessary be effective in influencing the taxpayer's behaviour.

44. During the Strategy period, the Government will review the tax reliefs with a view to eliminate the reliefs that are counterproductive. The current reliefs

include: personal, insurance, medical and housing. However, with the removal of personal relief, the low-income tax earners will be cushioned in line with the adjusted tax bands by creating a zero-rate tax band.

3.2.2 Value Added Tax

45. The Value Added Tax (VAT) revenue has been performing below its potential with a gap of 39.8 percent in FY 2021/22. This is mainly attributed to both policy and compliance gaps in the VAT system. To reduce these gaps, the Government will implement the following measures:

a) Review of the VAT Threshold

46. VAT is a consumption tax collected through registered agents. To increase VAT collection, there is need for additional collecting agents. For a person to be registered for VAT, there is a set turnover threshold that has to be met. However, having the threshold too low increases the cost of administration. The Government needs to balance between the cost of collection and revenue optimization. The last adjustment of the VAT registration threshold was done in 2007 when it was increased from Ksh. 3 million to the current Ksh. 5 million. The VAT threshold has significantly been eroded over time due to inflation hence the need for review. During the Strategy period, the Government will review upward the registration threshold for VAT.

47. Considering that the costs of complying are disproportionately higher on small businesses compared to larger businesses, reviewing upward the VAT threshold will enhance efficiency in the VAT system and relieve small taxpayers from the burden of complying with VAT. However, voluntary registration for smaller traders will continue to be allowed.

b) Review of VAT Exemption and Zero Rating

48. The VAT revenue as a percentage of GDP declined from 4.6 percent in FY 2013/14 to 3.8 percent in FY 2022/2023. This is largely attributed to tax exemption and zero rating of some goods that do not conform to the international best practices. In this respect, the First Schedule and the Second Schedule to the VAT Act will be reviewed to rationalise the exempt and zero-rated supplies and align the VAT system to the destination principle as well as other international best practices. The review shall limit zero rating to exports and remove all VAT exemptions except for unprocessed goods. However, the

Government will develop an appropriate strategy to address the tax burden on essential goods and services. The review will also take into consideration exemptions and zero rating that are granted on a reciprocal basis and as per international conventions to which Kenya is a party.

c) VAT Preferential rates

49. Preferential rates contribute to the dismal performance of VAT and create discrimination against other taxable supplies leading to market distortions. In addition, differentiated rates create a justification for taxpayers to lobby the Government to extend preferential rates to other goods and services. To address these issues, the Government will adopt a standard rate for all taxable supplies during the Strategy period.

d) Review of the VAT rate

50. Currently, VAT rate in Kenya is among the lowest within the EAC members States. The EAC Common Market Protocol foresees harmonisation of taxes before EAC Monetary Union. However, studies have shown that low VAT rates accompanied with rationalized exemptions promote compliance and improve revenues collections. In this respect, the Government will review the VAT rates as well VAT exemptions and zero rating.

e) Expansion of the Tax Base

i. Introduce VAT on Education Services

51. Education services in Kenya are exempt from VAT to make education accessible to all learners. However, the benefit of the exemption is not uniform across all learners due differences in fees charged and services provided. Some schools provide some services that are not directly related to education. The exemption from VAT on education that include all services provided by schools create unfairness as some services like swimming when offered out of school are vatable. To remove this discrimination, there is need to impose VAT on the additional benefits. In this respect, the Government will explore the introduction

of VAT on services provided by schools but are not directly related to education. Appropriate threshold of the services will also be explored.

ii. VAT on Insurance Services

52. Currently, all insurance services are exempt from VAT. Taxation of insurance services at the general rate will expand the tax bases and hence raise VAT revenue as a percentage of GDP. Therefore, the Government will introduce VAT on insurance services.

iii. VAT Input Tax Apportionment Formula

53. The VAT Act provides for apportionment of input tax deductible where a taxpayer supplies both taxable and exempt supplies. The formula enables the taxpayer to determine the amount of deductible input tax. Currently, where the taxable supplies are more than 90 percent of the total supplies, all the input tax is deductible. The provision for a threshold has been subject to abuse leading to loss of revenue. During the strategy period, the Government will remove the threshold for applying the formula for apportionment.

iv. Withholding VAT

54. Withholding VAT is an advance payment of VAT on taxable supplies. It is an important tool for managing low compliance sectors of the economy which make supplies to registered withholding agents. The benefits of withholding VAT from taxable supplies outweigh the perceived negative effects by taxpayers. In this respect withholding VAT will be retained over the Strategy period.

3.2.3 Excise Duty

55. Excise duty is a tax imposed by the Government on certain products with negative externalities to discourage their consumption. In addition, excise duty is also charged on other goods and services to generate revenue. To fully address the negative externalities of certain excisable products and services, the Government will implement the following measures during the strategy period:

a) Excise Duty on Petroleum Products

56. Excise duty on petroleum products will be reviewed to address the negative externalities on the environment associated with petroleum products. The

review will also take into consideration the ongoing harmonization of excise duty structure within the EAC region.

b) Excise Duty on Coal

57. Emissions from usage of coal contribute to negative externality associated with local air pollution and global warming. The Government will therefore introduce excise duty on coal.

c) Excise Duty on Alcohol Products

58. Currently, taxation of alcoholic products is based on various criteria including, consumer behaviour, the value of the product, the volume of consumption and alcohol content. In order to streamline the taxation of alcoholic products, over the strategy period, the Government will review the basis of taxation to the alcohol content of the product taking into consideration the harmonization within EAC region.

59. Further, the Government will increase excise duty on spirits and other higher alcohol content products to discourage their consumption, as they pose higher health risks. This will be informed by quantitative analysis to determine the optimal tax rate that will be applicable to each alcoholic product.

d) Excise Duty on Cigarettes and other Tobacco Products

60. The taxation of tobacco products is currently categorised into; filtered cigarettes, non-filtered cigarettes and other tobacco products. The Government will harmonize excise duty rates across filtered cigarettes, non-filtered cigarettes and other tobacco products taking into account international best practices and to promote fairness. Given the negative health externalities of these products, the rates will be based on the extent of the externalities as well as recommendations of the ongoing EAC partner states study.

e) Excise Duty on non-alcoholic beverages

61. In order to discourage consumption of sugar-based non alcoholic beverages and prevent obesity and diet related non communicable diseases, the Government will review tax regime for sugar sweetened non-alcoholic beverages to base taxation on sugar content.

3.2.4 Customs

62. Currently, the rates of import duty applicable to the EAC region are 0 percent, 10 percent, 25 percent and 35 percent. These multiple rates provide differential protection to industries, especially in the manufacturing sector thereby, providing higher incentives for downstream industries relative to upstream industries. Multiple rates also create classification disputes resulting in delays in cargo clearance. To address these challenges, Kenya will request for duty free for all primary raw materials/inputs and capital goods and one common duty rate in the range of 15 to 20 percent for all other imported goods for consideration by the EAC Council .

3.3 Other Tax Measures

a) Carbon Tax and Green Fiscal Incentives

63. During the Strategy period, the Government will explore the possibility of introducing a carbon tax based on the carbon content of fossil fuels. The Government will review the tax incentives that promote use of green energy.

64. Motor vehicle emissions contribute to air pollution which also has significant health effects. The following will be evaluated within the scope of carbon tax:

    i. Gradual increase of excise taxes on vehicles that use fossil fuels to address environmental damage and negative health effects. The increase to will be phased over the Strategy on imported vehicles.

    ii. evaluation of introducing excise on other equipment that uses fossil fuel tractors, such, tractors forklifts, excavators and earthmovers, etc.

    iii. Review the current taxes on electric vehicles that are environmentally friendly and support the transition to a green economy

b) Betting and Gaming Taxes

65. Betting and gaming activities have negative social impacts to the society particularly among the youth thus the need to discourage participation in the activities through imposition of excise duty. Taxation of this sector is characterized by low compliance. To increase compliance in the remittance of

excise tax on betting services and withholding tax on gaming, it is crucial to have a real time transmission of revenue and data required for enforcement of compliance. Therefore, the Government will explore integrate with telecommunication companies which enable betting and gaming to facilitate real time transmission of data to Kenya Revenue Authority

66. Further, the Government will review the Excise duty on betting and gaming to fully address the negative externalities.

c) Surtax

67. The implementation of the proposed reforms may result in revenue shortfall to the exchequer in the short term as the economy responds to the new measures. As a temporary measure, the Government may introduce a surcharge tax (tax on tax) to address any shortfall that may arise from the implementation of the reforms.

d) Motor Vehicle Circulation Tax

68. The Government will assess the viability of introducing Motor Vehicle Circulation Tax in the medium term as a form of a wealth tax. The tax will be paid annually by motor vehicle owners at the point of acquiring an insurance cover. There will be a minimum tax amount payable by all motor vehicle owners in addition to a graduated amount based on the engine capacity of the vehicle.

e) Tax Expenditure Governance Framework

69. A review carried out by the World Bank in 2015 on the tax incentives concluded that many had not delivered the expected impact such as lower prices for consumers or increased supply of specific products. Moreover, increase in tax incentives makes tax system less efficient and difficult to administer, further augmenting the challenges encountered in revenue collection

70. The Government will develop a Tax Expenditure Governance Framework to guide introduction of tax expenditure and control the revenue leakages and improve transparency. This framework will include monitoring the effectiveness of tax expenditure, promote transparency in the governance of tax expenditure and set clear guidelines on the assessment and approval processes..

3.4 Hard to Tax Sectors

71. The hard to tax sectors are characterized by informality, limited record keeping, lack of visibility of transactions by taxpayers in these sectors and inadequate regulation. Further, most players in these sectors believe that they are not obligated to pay taxes on self-generated incomes leading to high levels of non-compliance. In Kenya, major sectors under this category include the informal sector, agriculture sector and the digital sector.

72. Due to the changing business dynamics in the Kenyan economy, the hard-to-tax sectors continue to grow. To ensure that taxpayers in these sectors pay their fair share of taxes, the Government will seek to address the above challenges and progressively bring them into the tax net.

3.4.1 Informal Sector

73. As a subset of hard to tax sector, the greatest challenge in taxation of the informal sector is lack of visibility of tax payers' transactions by the Revenue Administration.

74. For effective revenue collection, the Revenue Authority requires information on economic activities of taxpayers. However, there has been a challenge with information sharing on players in this sector due to the existing laws on data protection.

75. To address these challenges, the Government will:

    i) Explore the use of information technology and sharing of data with County Governments, other private third-party data sources and MDAs in order to bring the taxpayers in this sector into the tax net.

    ii) Develop a simplified regime to facilitate compliance by the sector players, including exploring the possibility of taxing the players through their cooperative societies/associations.

    iii) Use of Customs data to trace micro and small enterprises (MSEs) who deal in imported merchandise through breaking bulk of consolidated consignments. This data can be used to ensure that all taxpayers in the supply chain meet all their tax obligations.

iv) Introduction of sector/location based presumptive tax which will take into consideration the unique nature of businesses in the sector/location to bring equity and fairness.

v) Leverage on technology such as use of mobile applications or USSD codes to simplify tax payment and filing of returns.

vi) Amend the Data Protection Act to exempt Kenya Revenue Authority from the provisions of the Act for ease of information access.

vii) Introduce a creditable withholding tax on all imports at a minimal rate of the imports value. This will be treated as an advance tax by importers and is meant to enhance their visibility and boost revenue collection. This measure will also help discourage tax evasion and filling of nil returns by taxpayers with taxable income.

3.4.2 Digital Sector

76. Digital sector refers to those parts of an economy whose value creation and profit creation are based on the application of digital information and communication technologies. The transactions in this sector are not easily identifiable and the mobile and intangible nature of the goods and services pose a challenge in taxation.

77. To effectively tax this sector, the Government will:

i) enhance the use of third-party information from banks and telcos to identify transactions in the digital sector;

ii) intensify taxpayer education to ensure that taxpayers understand their tax obligations and the importance of paying taxes;

iii) review the digital service tax by making it applicable to both residents and non-residents to enhance taxation of the digital economy and improve compliance among resident digital players; and

iv) put in place measures to bring to the tax net digital content creators and digital assets.

3.4.3 Agriculture Sector

78. The Kenyan economy remains highly dependent on the agriculture sector, contributing an average of 21.2 percent of the GDP in 2022 and has the highest employment multiplier in the economy. Despite this, the sector contribution to tax revenue is less than 3 percent indicating that the sector is undertaxed.

79. The agriculture sector has unique challenges, including being weather dependent, perishability of the produce, the subsistence nature of the sector and inadequate tax literacy which makes the taxation of this sector difficult. In addition, the sector is highly informal, cash based and characterized by the notion that the incomes generated from the sector are meagre and should not be taxed.

80. To address these challenges, the Government will:

    i) introduce a final withholding agricultural produce tax at a rate not more than 5 percent of the value of the produce delivered to the cooperatives or other organized groups; and

    ii) intensify taxpayer education to ensure that taxpayers understand their role in nation building and the need to pay taxes.

3.5 Levies and Non-Tax Revenue

81. Non-tax revenue consists of Government revenue receivable from all other sources excluding taxes. These include investment income, traffic revenue, land revenue, fines and forfeitures, interest, social contributions and administrative fees charged on Government services. Non-tax revenue contributes on average 0.7 percent of GDP, with investment income contributing the highest by an average of 0.5 percent of GDP followed by administrative fees with 0.16 percent of GDP. In the last six years, the non-tax revenue as a share of GDP has broadly remained constant indicating the need to boost these revenues.

82. Some of the factors affecting the performance of non-tax revenue include: a lack of coherent policy, long period between reviews of fees/levies and semi-automated collection system.

To boost revenue collection, the Government will explore the possibility of introducing an Environmental Levy on imported raw materials by manufacturers to help address waste management from from factories.

3.5.1 Fees

83. Fees imposed on services provided by Government entities are either submitted to the Exchequer or retained to meet operational costs. For the retained fees, there are transparency and accountability concerns regarding whether they are used for planned and authorised purposes. Although imposition of fees is prescribed in various legislation, there is no standardized criteria for imposition and review of these fees. During the Strategy period, the Government will develop guidelines on the imposition and management of fees to ensure standardization.

3.5.2 Levies

84. In addition to taxes, the Government imposes levies including; Railway Development Levy, Export Levy, Petroleum Development Levy, Road Maintenance Levy, Housing Levy, Export and Investment Promotion Levy and Anti-adulteration Levy among others. Some of the levies are charged to discourage certain behaviour while others are earmarked to finance specific development initiatives. These levies affect other tax revenues, particularly income tax since they are deductible. In addition, there are multiple exemptions provided which have distortionary effect.

85. The Government will review and rationalize the imposition and management of levies to limit their adverse impact on other tax collections. The Government will also review the exemptions provided to some entities with a view to minimizing those exemptions.

3.5.3 Dividends and Surplus Funds from State Enterprises

86. State Owned Enterprises (SOEs) are the largest source of non-tax revenue mainly from dividends and surplus funds from regulatory authorities. Over the years, the performance of some of SOEs has been below expectation, and others requiring bailout by the Government. This has had adverse effects on the fiscal space.

87. In this regard, the Government will:

i) improve the oversight of SOEs and review the dividend policy to streamline payment of dividends and unutilized balances to the Government;

ii) initiate legal reforms necessary to anchor the new ownership arrangements and other measures outlined in the SOE Blueprint; and

iii) develop Regulations to provide more effective financial oversight of Government investment in SOEs.

4 REVENUE ADMINISTRATION MEASURES

4.1 Overview

88. This section outlines revenue administration measures that will be implemented over the Strategy period to enhance revenue performance. These measures aim at strengthening collaborative approach to compliance risk management and improve tax and customs administration through simplification of tax regime and reduction in cost of compliance among others.

89. The strategy will also focus on enhancing voluntary compliance; efficient management of tax refunds; enhance tax administration capacity; strengthening of tax audits and improving non-tax revenue collection. In this regard, the Government will boost its revenue collection efforts through the following administrative measures:

4.2 Tax Administration Measures

90. The tax administration measures will focus on enhancing taxpayer compliance with well-resourced and monitored initiatives, bed rocked with full operationalization of the IT systems. Specific tax measures to be implemented include:

    a) Continuous modernization of KRA's business operations through implementation of various IT tax management systems and scaling up automation of tax administrative procedures. This will improve efficiency, transparency and customer service

    b) Full roll out of electronic Tax Invoice Management System (e-TIMS) to restrict income tax and input VAT deductions to compliant invoices and enable real time monitoring of transactions. This will prevent taxpayers from manipulating the information that is later uploaded into the system.

    c) Enhance rental Income Tax collection by; mapping rental properties, appointment of rental tax collection agents, Integration of iTax with National Lands Information Management System and use of a mobile App for payment of tax;

d) Review of administrative procedures for customs duties and other taxes on imported goods. This is intended to reduce revenue risk on imported goods arising from concealment of goods, mis-declaration, undervaluation, smuggling, diversion of transit goods and dumping of goods meant for export. The specific measures will include:

   i) Install additional scanners on exit points to ensure that the goods leave the country to address diversion of transit and export goods into the domestic market;

   ii) Increase synergy within the Customs Departments in the EAC region on utilisation of scanners to counter concealment and mis-declaration of imports, identify excisable goods and ensure accurate declarations;

   iii) Enhance capacity of transit monitoring through additional personnel, vehicles and tracking equipment to detect any malpractice by traders;

   iv) Enhance staff capacity in tariff and valuation to address the revenue risk resulting from under-valuation and mis-declaration;

   v) Enhance capacity on application of rules of origin to enable ascertainment of origin of goods and qualification to preferential treatments; and

   vi) Implement the 24hr operation through a whole-of-Government approach at cargo ports to decongest ports, facilitate trade, reduce cost of compliance and improve ease of doing business.

e) Enhance monitoring of excisable goods manufacturers to prevent under-declaration of excisable goods and tax evasion through:

   i) use of metering and monitoring tools;

   ii) close monitoring of payments to ensure correct taxes are declared and paid;

iii) Establishment of a Production Monitoring Command Centre to monitor production in real time; and

iv) Providing strict time lines for factories to meet requirements.

f) Combat counterfeit excisable products and stamps in the market through:

i) strengthening of the multi-Agency Team to investigate source of counterfeits and take necessary action;

ii) data and intelligence driven field operations to reduce counterfeiting;

iii) robust and effective market surveillance; and

iv) regular reviews and upgrades of the security features of stamps.

g) Integrate tax administration systems internally and with other Government systems. This will allow seamless exchange of information for a complete view of the taxpayers' economic transactions through big data analytics to drive compliance. Specifically, Government will integrate the following:

i) All the systems within the tax administration;

ii) Tax administration systems with the Integrated Population Registration System (IPRS);

iii) Tax administration system with all betting and gaming systems to facilitate real time remittance of betting and gaming taxes; and

iv) Integration of KRA tax system with third party data producers such as Telcos and banks

h) Improve tax debt management through the following:

i) encourage taxpayers to use alternative dispute resolution mechanism to resolve disputes to avoid lengthy litigation process;

ii) enhance capacity in data cleaning to improve data accuracy; and

iii) implement a complete view of taxpayer debt status from Customs and Domestic taxes.

i) Establish a special tax court with relevant tax law expertise to improve the turnaround time of tax litigation;

j) Establish clear framework on exchange of information (EOI) with other tax jurisdictions for both Domestic Taxes and Customs to ensure flow of information e.g. valuation of high risk imports from China and Transfer pricing risks paused by Multinationals.

4.3 Compliance Improvement

91. Various studies conducted by KRA, World Bank and IMF have pointed to compliance gap as one of the key factors contributing to declining trends of tax revenue in Kenya. In this regard, measures to boost compliance will focus on compliance risk management, supporting voluntary compliance and improved taxpayer services. Specific measures will include:

a) Adoption of a strategic and collaborative approach to Compliance Risk Management (CRM) by:

i) enhancing the capacity of the CRM to promote compliance improvement planning in line with international best practices;

ii) strengthening the CRM Committee to oversee all aspects of CRM by promoting collaboration across departments. The Committee will continue to be chaired by a Commissioner, with senior representation from all operational and support departments; and

iii) using environmental scanning and research studies to support top-down identification and prioritization of strategic risks.

b) Supporting voluntary compliance by:

i) intensifying taxpayer education about the links between taxes and services provided by Government;

ii) improving staff integrity; and

iii) enforcing sanctions to deal with tax malpractices.

c) Supporting voluntary compliance through improved taxpayer services by:

i) sending periodic electronic reminders for returns and payments to the taxpayers;

ii) developing, strengthening and disseminating tax information to the public through workshops, news, radio, television, websites, posters, brochures as well as introducing taxation in the school curriculum in order to promote a positive tax culture;

iii) ensuring timely response to taxpayer complaints in compliance with the Taxpayer Charter; and

iv) enhancing cooperation with private sector stakeholders; such as accountants, auditors, legal experts, associations and tax agents, in order to promote compliance and to understand taxpayers' needs;

membership and renewal mebership to professional bodies to be upon of the applicant producing a valid Tax Compliance Certificate a Tax Compliance Certificate will be a requirement for renewal of membership.

4.4 Tax Refunds

92. Delayed payment of tax refund affects the cash flow of taxpayers, adversely impacts on voluntary compliance and creating the perceptions of unfairness of the revenue administration. This also affects business operation and has negative effect on the tax payable on income. However, over time it has been established that some requests for refund get rejected because taxpayers lodge claims which are not permissible. This may be attributed to challenges in interpretation of the law or outright fraud. Further, where refunds are genuine, there have been cases of delays in payment of the refunds due to insufficient allocation of funds. To improve efficiency in the management of tax refunds the Government will:

a) review regularly the allocation for refunds;

b) ensure prompt payment or offsetting of validated refunds;

c) enhance the capacity of processing refunds; and

d) review the framework for processing refund in consultation with stakeholders.

4.5 Staffing of Tax Administration

93. Revenue collection requires adequate and well-trained staff. Currently, KRA does not have adequate staff in strategic areas of revenue collection. Further there is an increase in staff turnover. To enhance staffing the following measures will be implemented:

a) comprehensive skills gap analysis will be undertaken to inform targeted employment to fill the identified gaps;

b) training of revenue administrators on specific skills will be undertaken in collaboration with technical assistance providers; and

c) Develop intervention/ measures to facilitate staff retention.

4.6 Taxpayers Audit

94. Taxpayer's audit helps KRA to know whether taxpayers comply with tax laws and also acts as a deterrent for evasion and avoidance of taxes. In this respect, the following measures will be implemented:

a) Strengthening taxpayers audit function through training the staff, recruitment of additional staff and leveraging on technology to respond to evolving business models.

b) Prioritization of intelligence-based audits particularly on high-risk entities to positively influence taxpayer compliance behaviour;

c) Progressively increase the number of audits significantly across all tax heads and all taxpayer segments; and

d) Establish a designated post audit technical committee that monitors tax audit quality, adherence to documented audit procedures and ensures that findings are acted upon.

4.7 Non-Tax Revenues

95. To enhance the non-tax revenue collection, administration, accountability and reporting, the Government will:

i) strengthen the framework for reporting and monitoring of non-tax revenue collection, by among others enforcing the use of Integrated Financial Management Information System (IFMIS) in capturing and reporting revenue to improve transparency and accountability;

ii) adopt a collaborative approach in collection of non-tax revenue and leverage the use of ICT; and

iii) review the fees charged for government services every five years to ensure that amount paid takes into consideration inflation and is commensurate to services received.

5 IMPLEMENTATION, GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

5.1 Overview

96. Effective monitoring, evaluation and reporting of the implementation status of this Strategy will require participation of different stakeholders. The roles and responsibilities of the key actors are outlined below.

5.1.1 The National Treasury

97. The National Treasury will:

i) coordinate all the key players involved in the implementation of the Strategy and take lead in the review of various tax laws to facilitate implementation;

ii) work with the State Law Office to ensure the requisite changes to tax laws are drafted into Bills;

iii) take lead in sensitization of stakeholders on the Strategy;

iv) Develop a monitoring tool and lead the Steering Committee to oversee implementation of the MTRS;

v) Coordinate monitoring, evaluation, reporting and review of the Strategy; and

vi) Publicize half-year report on capital projects implemented through Government revenue.

5.1.2 The Kenya Revenue Authority

98. The Kenya Revenue Authority will:

i) administration of tax laws in line with the Strategy;

ii) enhance automation of tax administration processes to improve administration efficiency and compliance with the Strategy;

iii) conduct taxpayer education and awareness on tax changes emanating from the implementation of the Strategy;

iv) establish a robust system for prevention, detection, and deterrence of tax malpractices;

v) improve taxpayer service to reduce the cost of compliance and encourage voluntary compliance;

vi) ensure requisite staff capacity for effective tax administration; and

vii) work with other Government agencies and private sector to ensure integration of tax administration systems with their systems.

5.1.3 County Governments

99. Collaborate with KRA on collection of revenue by sharing data on licensed business for tax purposes.

5.1.4 Ministries, Departments and Agencies (MDAs)

100. The MDAs will:

i) collaborate with the National Treasury in providing information to the public on projects implemented through Government revenue;

ii) comply with the tax policies and laws proposed in the Strategy;

iii) collaborate with the National Treasury on review of tax laws;

iv) collaborate with KRA, to build capacity on collection of withholding tax payable by the Ministry;

v) work with KRA to ensure integration of tax administration systems with their systems.

5.1.5 Legislature

101. The legislature will enact tax laws and vetting of Regulations to support the implementation of the Strategy.

5.1.6 Judiciary

102. Judiciary will:

i) ensure resolution of tax disputes between KRA and taxpayers;

ii) establish special tax court to deal with tax matters; and

iii) facilitate out of court dispute resolutions.

5.1.7 State Law Office

103. The State Law Office will:

i) provide legislative drafting services during the amendment of various tax laws;

ii) provide legal opinion on provisions of various tax laws and court rulings; and

iii) provide legal clearance on various MOUs and Agreements relating to tax matters.

5.1.8 Professional Bodies

104. Professional Bodies will:

i) provide tax advice to taxpayers to facilitate compliance with tax laws;

ii) sensitize their members and clients on the Strategy and legislative changes;

iii) provide inputs in the review of Strategy; and

iv) educate their members on importance of paying taxes.

5.1.9 Media

105. The media will facilitate tax education and awareness.

5.1.10 Non-State Actors

Non-State Actors will:

i) Promote tax education and awareness; and

ii) Provide inputs on the review of Strategy.

5.1.11 Private Sector

106. Private Sectors will:

i) promote taxpayer education;

ii) provide inputs on the review of Strategy; and

iii) work with KRA to ensure integration of tax administration systems with their systems.

5.1.12 Taxpayers

107. Taxpayers will:

i) provide inputs in the review of tax strategy and its implementation; and

ii) comply with tax laws and pay due taxes.

5.1.13 Development Partners

108. Development partners will:

i) provide technical advice and assistance in the review and implementation of the Strategy.

ii) provide financial assistance in the implementation of the Strategy.

5.2 Monitoring and Evaluation

5.2.1 Monitoring and Evaluation Structure

109. The implementation of this Strategy will require monitoring and evaluation which will be spearheaded by a Steering Committee. The Committee will be headed by the Director General, Budget, Fiscal and Economic Affairs Directorate at the National Treasury.

110. The members of the Committee will be drawn from KRA and the National Treasury and include:

i) Director General Public Investment and Portfolio Management, National Treasury

ii) Director Macro and Fiscal Affairs, National Treasury

iii) Commissioner Domestic Taxes of KRA

iv) Commissioner of Customs and Border control, KRA

v) Commissioner Strategy Innovation and Risk Management, KRA

111. The Steering Committee will be in charge of giving strategic direction in the implementation and review of the Strategy. The Committee will be supported by a Technical Committee comprising of technical officials from the National Treasury and the KRA.

5.2.2 Reporting

112. The Technical Committee will prepare half year reports on the implementation of the Strategy and submit to the Steering Committee for consideration.

113. The Technical Committee will also prepare mid-term review after 18 months from the implementation date of the Strategy. The mid-term review will be conducted to analyse the Strategy implementation progress, challenges encountered and corrective action required.

5.3 Implementation

114. Implementation of the Strategy will be done in accordance with the implementation matrix in the Annex to this Strategy. The Matrix will track the activities on the timeframe, responsibilities, and costing.

Annex

IMPLEMENTATION MATRIX

Thematic Area		Policy/administrative measures/Area	Responsible Institutions	Time Frame		
				2024/25	2025/26	2026/27
Income Tax	Corporate income tax					
		Review of Corporate Tax Rate	National Treasury Kenya Revenue Authority State Law Office National Assembly	Reduce the corporate rate of tax from the current 30 percent to 25 percent		
		Review of the Non-resident Withholding Rate		Alignment of nonresident withholding tax rate with corporate tax rate	Alignment of nonresident withholding tax rate with corporate tax rate	Alignment of nonresident withholding tax rate with corporate tax rate
		Multiple Corporate Rates		Phase out preferential corporate tax rate	Phase out preferential corporate tax rate	Phase out preferential corporate tax rate

Thematic Area		Policy/administrative measures/Area	Responsible Institutions	Time Frame		
				2024/25	2025/26	2026/27
		Review of the residential rental income		Review of the residential rental income	Review of the residential rental income	Review of the residential rental income
		Corporate Income Tax Exemption		Review and rationalize income tax exemptions.	Review and rationalize income tax exemptions.	Review and rationalize income tax exemptions.
		Minimum Tax		Redesign the minimum tax		
	Personal Income Tax	Tax Bands		Review Personal Income Tax (PIT) band structure for progressivity		
				Review pension tax structure.		
		Tax Exemptions		Review and rationalize PIT exemptions.	Review and rationalize PIT exemptions.	Review and rationalize PIT exemptions.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	**2025/26**	**2026/27**
	Tax reliefs		Review personal, insurance, medical and housing reliefs.		
Value Added Tax	Review the VAT registration threshold	National Treasury Kenya Revenue Authority	Review turnover threshold of VAT.		
	VAT Exemption and Zero Rating	National Treasury Kenya Revenue Authority State Law Office National Assembly	Limiting zero rating to exports	Limiting zero rating to exports	Limiting zero rating to exports
			Removal of all VAT exemptions except for unprocessed goods	Removal of all VAT exemptions except for unprocessed goods	Removal of all VAT exemptions except for unprocessed goods
	VAT rate		Review the VAT rate		
	Expansion of VAT		Introduction of	Introduction of	Introduction of

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	**2025/26**	**2026/27**
	tax base		VAT on education services	VAT on education services	VAT on education services
			Introduce VAT on insurance services		
			Removal of the threshold for application of VAT input tax apportionment formula.		
Excise Duty	Excise Duty on petroleum products	National Treasury	Review of excise duty on petroleum products	Review of excise duty on petroleum products	Review of excise duty on petroleum products
	Excise duty on coal	Kenya Revenue Authority	Introduction of excise duty on coal.		
	Review of excise duty on alcoholic products	State Law Office	Review of tax structure of alcohol		

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
			beverages		
	Review of taxation of tobacco products	National Assembly	Review of taxation tobacco products	Review of taxation tobacco products	Review of taxation tobacco products
	Harmonization of tax structure of cigarettes		Harmonize excise duty on cigarettes		
Customs duty	Review of Customs duty rates	National Treasury Kenya Revenue Authority	Make proposal to the EAC for CET to have two rate – inputs/raw materials at 0% and the other goods to be at between 15% or 20 %	Make proposal to the EAC for CET to have two rate – inputs/raw materials at 0% and the other goods to be at between 15% or 20 %	Make proposal to the EAC for CET to have two rate – inputs/raw materials at 0% and the other goods to be at between 15% or 20 %
Other taxes	Carbon tax	National Treasury Kenya Revenue Authority	Introducing carbon tax	Introducing carbon tax	Introducing carbon tax

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
	Excise Duty on betting and gaming	National Treasury Kenya Revenue Authority State Law Office National Assembly	Review excise duty on betting and gaming.	Review excise duty on betting and gaming.	Review excise duty on betting and gaming.
	Surtax		Introduction of a surtax	Introduction of a surtax	Introduction of a surtax
	Motor vehicle circulation tax.		Introduction of motor vehicle circulation tax	Introduction of motor vehicle circulation tax	Introduction of motor vehicle circulation tax
Hard to tax	Informal sector	National Treasury Kenya Revenue Authority		Introduction of motor vehicle circulation tax	
		Kenya Revenue Authority		Use of Customs data to trace micro and small	

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
				enterprises	
		National Treasury Kenya Revenue Authority			Introduction of sector /location based presumptive tax
		Kenya Revenue Authority		Use of mobile Applications or USSD codes to simplify tax payment and filing of returns.	
		National Treasury Kenya Revenue Authority State Law Office	Amendment of the Data Protection Act to exempt revenue administration from the provision of the Act.		

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		National Assembly Office of the Data Commissioner			
		National Treasury Kenya Revenue Authority State Law Office National Assembly			Introduction of a creditable withholding tax on all imports at a rate of 1 percent of the imports value.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
	Digital sector	National Treasury Kenya Revenue Authority State Law Office National Assembly		Review the digital service tax to on board residents.	
	Agriculture Sector	National Treasury Kenya Revenue Authority State Law Office National			Introduction of a final withholding agricultural produce tax.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Assembly			
Levies and Non-Tax Revenue	Fees	National Treasury		Develop guidelines to standardize the imposition and management of fees.	
	Levies	National Treasury			Review and rationalize the imposition and management of levies.
		National Treasury	Review exemption regime.	Review exemption regime.	Review exemption regime.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Kenya Revenue Authority State Law Office National Assembly			
	Dividends and Surplus Funds from State Enterprises	National Treasury			Review the dividend policy
		National Treasury State Law Office National Assembly		Initiate legal reforms necessary to anchor the new ownership arrangements and other measures outlined in the SOE Blueprint	
		National		Develop	

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Treasury State Law Office National Assembly		Regulations on financial oversight of Government investment in SOEs.	
Tax Administration Measures	System Upgrades	Kenya Revenue Authority National Treasury	Continuous modernization of KRA's business operations through implementation of various IT tax management systems.	Continuous modernization of KRA's business operations through implementation of various IT tax management systems.	Continuous modernization of KRA's business operations through implementation of various IT tax management systems.
	Electronic Tax Invoice Management System (eTIMS)	Kenya Revenue Authority	Rolling out of electronic Tax Invoice Management System (eTIMS)	Rolling out of electronic Tax Invoice Management System (eTIMS)	
	Enhance rental	Kenya	Mapping of rental	Mapping of rental	Mapping of rental

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
	Income Tax collection.	Revenue Authority	properties.	properties.	properties.
		National Treasury	Appointment of rental tax collection agents,	Appointment of rental tax collection agents,	Appointment of rental tax collection agents,
		Kenya Revenue Authority MDAs		Integration of iTax with National Lands Information Management System	
		Kenya Revenue Authority	Use of a mobile App for payment of tax and leveraging on technology other technologies.	Use of a mobile App for payment of tax and leveraging on technology other technologies.	Use of a mobile App for payment of tax and leveraging on technology other technologies.
	Review of administrative procedures for customs duties	Kenya Revenue Authority National	Installation of additional scanners on exit points.	Installation of additional scanners on exit points.	Installation of additional scanners on exit points.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
	and other taxes on imported goods	Treasury			
		Kenya Revenue Authority National Treasury	Increase synergy within the Customs Departments in the EAC Region.	Increase synergy within the Customs Departments in the EAC Region.	Increase synergy within the Customs Departments in the EAC Region.
		Kenya Revenue Authority National Treasury	Enhance capacity of transit monitoring through additional personnel, vehicles and tracking equipment	Enhance capacity of transit monitoring through additional personnel, vehicles and tracking equipment	Enhance capacity of transit monitoring through additional personnel, vehicles and tracking equipment
		Kenya Revenue Authority	Enhance staff capacity in tariff and valuation.	Enhance staff capacity in tariff and valuation.	Enhance staff capacity in tariff and valuation.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		National Treasury			
		Kenya Revenue Authority	Enhance capacity on application of rules of origin.	Enhance capacity on application of rules of origin.	Enhance capacity on application of rules of origin.
		Kenya Revenue Authority	Implement the 24hr operation through a whole-of-Government approach at cargo ports	Implement the 24hr operation through a whole-of-Government approach at cargo ports	Implement the 24hr operation through a whole-of-Government approach at cargo ports
	Enhance monitoring of excisable goods manufacturers	Kenya Revenue Authority National Treasury	Use of metering and monitoring tools	Use of metering and monitoring tools	Use of metering and monitoring tools
		Kenya	Close monitoring	Close monitoring	Close monitoring of

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Revenue Authority	of payments	of payments	payments
		Kenya Revenue Authority National Treasury		Establishment of a Production Monitoring Command Centre	
		Kenya Revenue Authority	Providing strict time lines for factories to meet requirements.		
	Combat counterfeit excisable products and Stamps in the market	Kenya Revenue Authority MDAs		Strengthening of the multi-Agency Team to Investigate source of counterfeits and take necessary action	
		Kenya	Implement data	Implement data	

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	**2025/26**	**2026/27**
		Revenue Authority	and intelligence driven field operations.	and intelligence driven field operations.	
		Kenya Revenue Authority	Conduct market surveillance.	Conduct market surveillance.	Conduct market surveillance.
		Kenya Revenue Authority National Treasury	Regular reviews and upgrades of the security features of stamps.	Regular reviews and upgrades of the security features of stamps.	Regular reviews and upgrades of the security features of stamps.
	Systems integration	Kenya Revenue Authority	Integrate all the systems within the tax administration	Integrate all the systems within the tax administration	

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Kenya Revenue Authority MDAs		Integrate tax administration systems with the Integrated Population Registration System (IPRS);	
		Kenya Revenue Authority Private sector (betting and gaming firms)	Integrate tax administration system with all betting and gaming systems.	Integrate tax administration system with all betting and gaming systems.	
		Kenya Revenue Authority Private	Integrate KRA tax system with third party data producers such as Telcos and	Integrate KRA tax system with third party data producers such as Telcos and	Integrate KRA tax system with third party data producers such as Telcos and banks

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		sector (Telcos, banks e.t.c)	banks	banks	
		Kenya Revenue Authority	Enhance the use of third-party information from banks and telcos	Enhance the use of third-party information from banks and telcos	Enhance the use of third-party information from banks and telcos
	Improve tax debt management	Kenya Revenue Authority Judiciary			
		Kenya Revenue Authority National Treasury	Enhance capacity in data cleaning.	Enhance capacity in data cleaning.	Enhance capacity in data cleaning.
		Kenya Revenue			Implement a complete view of

Thematic Area	Policy/administrative measures/Areas	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Authority			taxpayer debt status.
	Expedite tax dispute resolution	Kenya Revenue Authority Judiciary National Treasury		Establish a special tax court	
Compliance Improvement	Adoption of a strategic and collaborative approach to Compliance Risk Management	Kenya Revenue Authority.	Enhance the capacity of the CRM	Enhance the capacity of the CRM	Enhance the capacity of the CRM
		Kenya Revenue Authority.	Strengthen the CRM Committee to oversee all aspects of CRM	Strengthen the CRM Committee to oversee all aspects of CRM	Strengthen the CRM Committee to oversee all aspects of CRM
		Kenya Revenue Authority.	Use environmental scanning and research studies	Use environmental scanning and research studies	Use environmental scanning and research studies to support top-down

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		National Treasury	to support top-down identification and prioritization of strategic risks	to support top-down identification and prioritization of strategic risks	identification and prioritization of strategic risks
	Supporting voluntary compliance	Kenya Revenue Authority	Intensify taxpayer education on tax obligations and the importance of paying taxes	Intensify taxpayer education on tax obligations and the importance of paying taxes	Intensify taxpayer education on tax obligations and the importance of paying taxes
		Kenya Revenue Authority	Improve staff integrity	Improve staff integrity	Improve staff integrity
		Kenya Revenue Authority	Enforce sanctions to deal with tax malpractices	Enforce sanctions to deal with tax malpractices	Enforce sanctions to deal with tax malpractices
		Kenya Revenue Authority	Send periodic electronic reminders to taxpayers.	Send periodic electronic reminders to taxpayers.	Send periodic electronic reminders to taxpayers.

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
		Kenya Revenue Authority	Develop, strengthen and disseminate tax information.	Develop, strengthen and disseminate tax information.	Develop, strengthen and disseminate tax information.
		Kenya Revenue Authority	Timely response to taxpayer complaints/queries.	Timely response to taxpayer complaints/queries.	Timely response to taxpayer complaints/queries.
		Kenya Revenue Authority	Enhance cooperation with private sector stakeholders	Enhance cooperation with private sector stakeholders	Enhance cooperation with private sector stakeholders
Tax Refunds	Review tax refunds process and enhance allocation	Kenya Revenue Authority National Treasury	Review the allocation for tax refunds	Review the allocation for tax refunds	Review the allocation for tax refunds
		Kenya Revenue Authority	Review in consultation with stakeholders a	Review in consultation with stakeholders a	Review in consultation with stakeholders a

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	**2025/26**	**2026/27**
		National Treasury	framework for VAT refund verification process	framework for VAT refund verification process	framework for VAT refund verification process
		Kenya Revenue Authority National Treasury	Timely payment or offset validated refunds.	Timely payment or offset validated refunds	Timely payment or offset validated refunds
		Kenya Revenue Authority	Enhance the capacity of processing refunds	Enhance the capacity of processing refunds	Enhance the capacity of processing refunds
Staffing of Tax Administration	Comprehensive skills gap analysis	Kenya Revenue Authority	Undertake comprehensive skills gap analysis in the KRA		
	Enhance capacity of revenue administrators	Kenya Revenue Authority	Train revenue administrators on specific skills		

Thematic Area	**Policy/administrative measures/Area**	**Responsible Institutions**	**Time Frame**		
			2024/25	**2025/26**	**2026/27**
	Staff retention	Kenya Revenue Authority	Implement measures to facilitate staff retention	Implement measures to facilitate staff retention	Implement measures to facilitate staff retention
Taxpayers Audit	Strengthen taxpayers audit function	Kenya Revenue Authority	Strengthening taxpayers audit function - Training on special skills - Recruitment of additional staff - Additional equipment	Strengthening taxpayers audit function - Training on special skills - Recruitment of additional staff - Additional equipment	Strengthening taxpayers audit function - Training on special skills - Recruitment of additional staff - Additional equipment
	Intelligence and risk-based audits	Kenya Revenue Authority	Conduct Intelligence-based audits particularly on high-risk entities	Conduct Intelligence-based audits particularly on high-risk entities	Conduct Intelligence-based audits particularly on high-risk entities
	Tax audits	Kenya	Progressively	Progressively	Progressively

Thematic Area	Policy/administrative measures/Area	Responsible Institutions	Time Frame		
			2024/25	2025/26	2026/27
	expansion	Revenue Authority	increase the number of audits	increase the number of audits	increase the number of audits
	Post audit technical committee	Kenya Revenue Authority	Establish a post audit technical committee		
Non-Tax Revenues	Review the framework for reporting non-tax revenue collection	National Treasury	Strengthen the framework for reporting and monitoring of non-tax revenue collection		
	Enhance collection of non-tax revenues	National Treasury	Adopt a collaborative approach in collection of non-tax revenue		
	Review of Government Services fees	Kenya Revenue Authority	Review the fees for government Services		