Taxing for a MORE Equal KENYA

Sustainable Financing for Social Protection

21 March 2018

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Inequality in Kenya

- **The 2014 New World Wealth Report found that in 2013 less than 0.1% of the population (8,300 people) owned more wealth than the bottom 99.9% of the population (more than 44 million people). This is indicative of wealth and income distribution within the country.**

- **In 2014, 40% of Kenyans approximately 19 million were categorized as poor in the Multidimensional Poverty Index, and 13% – approximately 6 million people – were categorized as 'destitute'**

- **Research by Oxfam in 2014 found that if inequality remained at the same level for the following five years in Kenya, 2.9 million more people could be living in extreme poverty than if they reduced their Gini coefficient by just five percentage points.**

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Fiscal Policy can tackle Inequality

For fiscal policy to be truly effective in reducing inequality, it needs to do two things:

a) Ensure progressive taxation redistributes at the point of collection and
b) Again when it is spent on inequality-reducing public services

However, as per Oxfam's Report on Commitment to Reducing Inequality Index (CRI), Kenya is ranked 94th out of 152 countries in the world.

Kenya scores lowest in the East Africa region for its public spending, for example, spending less than 6% of the budget on health. It also scores the lowest in the East Africa region for progressive taxation

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Prioritisation of spending in Social Protection, health and education by Kenya compared to other EAC countries

Table 1: The position of East African countries in the Commitment to Reducing Inequality Index

Country	Spending on Health, Education and Social Protection rank	Progressive structure and incidence of tax rank	Labour market policies to address inequality rank	CRI rank
Tanzania	118	24	92	78
Burundi	73	76	116	88
Rwanda	123	81	73	93
Kenya	131	88	53	94
Uganda	127	68	94	117

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TAXING FOR A MORE EQUAL KENYA

https://kenya.oxfam.org/policy_paper/taxing-more-equal-kenya

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Fiscal Policy in Kenya- Findings

- **Kenya relies on tax revenue as main revenue source- 91.5% (does not include aid and grant). Kenya's low share of non tax revenue is welcome**

If Kenya had increased tax-to-GDP ratio by 3 percentage points in 2014 it could have raised enough additional funds to ensure quality healthcare for all Kenyans

- **Tax reforms trends- shifting from progressive direct taxation to regressive indirect taxation**

- **Contribution of Wealth taxation to Kenya's total tax revenue is negligible – severely restricting tax system's revenue base.** Capital gains tax only 5% applied solely to the transfer of immoveable property (land, buildings) and unquoted shares. No inheritance tax or net wealth tax.

- **Personal income tax (PIT) system- the poor are paying less PIT now than 30 years ago.** However, reductions in the number of tax bands and tax rates for higher earners has led to a concomitant reduction in PIT for the rich.

The effective PIT rate of Kenyans who earn KShs7m reduced by over 50% from 63.2% to 28.8% between 1988 and 2017.

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Fiscal Policy in Kenya- Findings

- **VAT system**- exempting basic commodities from VAT has reduced the regressivity of the tax as the whole, which is welcome. However, exempting non-food items from VAT has benefited the rich more than the poor

- **Value of women's unpaid care work remains unrecognized in the tax system**

- **Statutory corporate income tax (**CIT) rate is relatively high, but the effective tax rate of companies is often lower, and Kenya must resist any temptation to lower CIT rates.

  World Bank survey revealing that 93% of investors in East Africa would have invested even if tax incentives had not been on offer.

  Economic Secretary Geoffrey Mwau that Kenya is losing $1.1bn every year to all tax incentives and exemptions – nearly twice its health budget in 2015/16

- **Corporate tax dodging** is undermining Kenya's tax base

  According to the Global Financial Integrity, Kenya lost as much as $435m annually between 2002 and 2011 to trade mis-invoicing. Despite strong efforts to tackle transfer pricing abuse, the problem remains.

  Nairobi International Financial Centre (NIFC), described by civil society as Africa's newest tax haven. It runs the risk of encouraging more illicit financial flows out of Kenya, depriving the country of vital revenues to invest in reducing inequality and poverty.

What Can Be Done – 5 Point Action Plan

- ***Reform Personal Taxation System*** - Rich should pay more – higher tax bracket for those earning high incomes (High Income earners spend 600 times more than the lowest earners exacerbated by rural and urban distinction.)

- ***End Harmful Tax Competition*** - Refrain from cutting corporate income tax (incentives) – focus on the opportunity cost

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Table 3: Tax Incentives per Country in the EAC as a percentage of the Total Budget for FY2016/2017 and its contribution to the Total Tax Revenue

Country	Estimated Tax Incentives Offered (annually)	Total Budget Fy2016/2017[16]	Total Tax Revenue Fy2016/2017 (Projected)	Tax Incentive as a % of Total Budget	% Total Tax revenue to Total Budget FY 2016/2017	Increase in Tax Revenue as a % of Total Budget
Kenya	Kshs 100 Billion	Ksh 2.26 trillion	Ksh 1.50 trillion	4.42%	66.25%	70.7%
Rwanda	Rwf 123 Billion	Rwf 1.95 trillion	Rwf 1.07 trillion	6.31%	54.97%	61.2%
Tanzania	Tzs 1.3 Trillion	Tzs 29.53 trillion	Tzs 15.11 trillion	4.40%	51.16%	55.6%
Uganda	Ugx 850 Billion	Ugx 26.3 trillion	Ugs 13.0 trillion	3.23%	49.43%	52.6%

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Table 4: Tax Incentives if Invested in Sectors that enhance ESC Rights

Country / Sector	Kenya Budgetary Allocation & % Total Budget	Rwanda Budgetary Allocation & % Total Budget	Tanzania Budgetary Allocation & % Total Budget	Uganda Budgetary Allocation & % Total Budget
Education	14%	11%	16%	9.3%
Health	2%	9%	6.7%	6.9%
Social Security	1.5% Social Protection)	4% (Social Protection)		0.7% (Social Development)
Water	4% (Environment Protection, Water & Natural Resources)	1% (Water Supply)	3.4%	2.6% (Water and Environment)
Tax Incentive as a % of Total Budget	4.42% (If Invested in each sector)	6.31% (If Invested in each sector)	4.40% (If Invested in each sector)	3.23% (If Invested in each sector)
Education	18.42% (increased allocation)	17.31% (increased allocation)	20.4% (Increased allocation)	12.53% (increased allocation)
Health	6.42% (tripled the spending on health)	15.31(increased allocation)	11.1% (Increased allocation)	10.13% (increased allocation)
Social Security	5.92% (quadrupled the allocation)	10.31% (doubled allocation)		3.93% (quintupled allocation)
Water	8.42 (doubled allocation)	7.31% (septupled allocation)	7.8% (doubled allocation)	5.83% (doubled allocation)

Continued

- ***Invest in Providing Good Quality Free Public Services*** - Move toward tax-based health financing

- ***Put Gender at the Heart of Policy Making*** - Implement economic policies and legislation to close economic inequality gap

- ***Strengthen the Social Contract between citizens and government*** - Citizen participation decision making and holding duty bearers to account

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Inequality and Social Protection

Ushuru Na Huduma

https://youtu.be/gz7MjRLHWDQ

Azulu Fight Inequality Campaigners

https://www.youtube.com/watch?v=_H0oE3RsfXQ

My Dream School: Taxes for Essential Services

https://youtu.be/yW0qIr_A0-Q

Even It Up

https://youtu.be/7ZD1C_9lavw

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Thank You