POLICY BRIEF OCTOBER, 2020

ADOPTING KENYAN TAX ADMINISTRATION TO COVID-19 CRISIS

KENYA REVENUE AUTHORITY

Introduction

The world is at the centre of the novel Corona virus which emerged in February 2020 and disrupted every sector of economies and continues to date. The global pandemic has adversely affected business throughout the world and Kenya is no exception. Some countries are in the second wave of the COvid19 pandemic while others are yet to flatten the curve from the first wave and the impact of the pandemic has largely been felt by Kenya's low-income earners and those in informal settlements with closure of businesses and job losses. The public health infrastructure has been overstretched with growing number of infections.

The government responses to the complex pandemic e.g. social distancing, curfew, cessation of movements in the initial days of the pandemic, and ban on public gathering has saved lives but also pushed economy to the edge with businesses closed, workers laid off, and consumption of goods and services decline with decreased purchasing affecting the economy big time. This means a huge slump in tax revenue. Kenya's economy is largely supported by the informal sector (KNBS,2020) (that has been greatly hit by the consequences of the pandemic response.

Kenya has experienced decline in revenue attributed to scaling down of business and business shutdown since the first COVID case was reported in the country in March. This has also seen majority of workforce work from home and transact business through digital platform.

These shocks and disruptions are likely to be felt both in the short and medium term. To cushion Kenyans from these impacts, the government of Kenya has established the National Coordination Committee on the Response to the Corona Virus Pandemic (NCCRCP) to assess the impact of the virus and come up with various feasible recommendations for the economy.

This brief therefore highlights the various measures the government and tax authority has undertaken to execute respond to the crisis and execute its role in the economy amid global crisis.

Socio-economic impacts

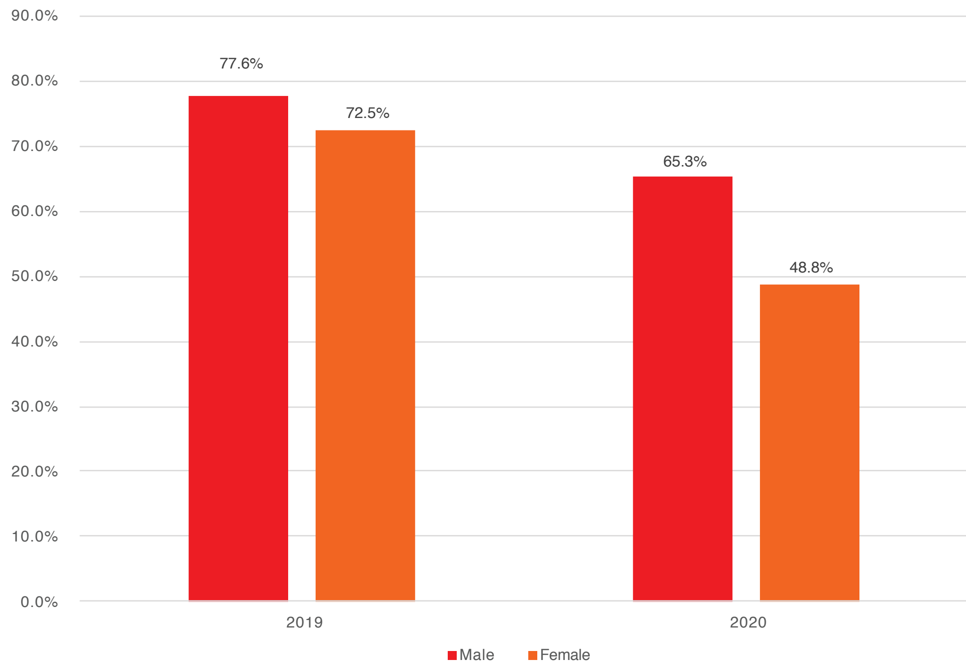
According to the statistic from Kenya National Bureau of Statistics (KNBS), the economic consequences of the pandemic are will have a far greater impact on the long-term health, wellbeing and poverty levels of the population as a whole than the predicted fatalities caused directly by the disease. Sectors that have faced worst turbulence as result of the virus include the labour force, housing, transport, health, trade and tourism. The supply and demand for goods and services in these sectors have plummeted.

Furthermore, the restriction of movement in and out the country has dwindled the revenues from the tourism and aviation sectors, while delays at borders due to testing of truck drivers have resulted in losses of profits to business owners. KNBS asserts that in May 2020, labour participation rate in the country had fallen significantly as a result of the pandemic. Data from World Bank shows that in 2019 Kenya had a labour-force participation rate of 75%. This stands at 56.8% in May 2020. This is attributed to loss of employment in both formal and informal sectors as a result of limited supply and demand of goods and services.

The government has created a Covid-19 emergency fund to support people living in poverty and the vulnerable in Kenya against the impacts of the virus. The funds will be supported by proceeds from corruption assets seized by the government over time. In its annual budget package, the government has allocated KES5 billion (US$47 million) to county governments to assist in the fight against Covid-19. Public servants and state officers also took voluntary pay cuts to commensurate government support towards the fight of the virus

The Government set aside 0.4% of the Gross Domestic Product (GDP) or 400 Million USD for health services interventions, cash transfers to low income earners, social protection funds, and funds meant for food relief. This was meant to maintain cash flow for businesses during the pandemic.

In the FY2020/21 budget an additional Ksh566,000 USD (0.5% of GDP) economic stimulus package was announced by the Government. This will go towards youth employment schemes across the country, provision of credit guarantees and increased cash transfer funds. All these geared towards ensuring flow of cash in the market and sustaining livelihood in homes.



State of labour force in Kenya in 2019 and 2020 Source: KNBS

Even in such situation, Kenya Revenue Authority (KRA) is required to mobilize revenue from business and labour force to finance national development. KRA has supported various measures instituted by Government in this crisis to support socio-economic recovery. These measure include fiscal, tax and monetary ones.

Kenya's Tax Reforms

KRA has and continues to greatly benefit from its international relations with development partners. In the past financial year, KRA has greatly benefited from both financial, in-kind, and capacity support from partners such as the International Monetary Fund (IMF) and United States Agency for International Development (USAID) (through the US Treasury Office of Technical Assistance). The assistance is in line with the 7th corporate plan for the Organization.

These partnership has furthered tax reforms in KRA and has greatly supported the revenue mobilisation agenda in this crisis. For example, IMF has worked with KRA on Revenue Administration Reforms with short and long term interventions to increase revenue and Strengthening Risk Management & Audit Case Selection to enable flag off non-compliance and define the treatment actions. The results of this partnership has returned positive and enormous results which include business rules for both Master & Transaction data cleaning has been developed and approved, Repository to host 3rd Party Data is in now in place – to enhance data integrity and consideration being made into separating audit and compliance to build credible risk-based audit programs across LTO & MTO to address non-compliance. In addition, USAID supported KRA in Strengthening Overall Debt Recovery Processes and Procedures leading to increased revenue generation and Monitoring & evaluation support for special tax administration projects (e.g. the iTax project). The result of this has seen KRA adopt a New Corporate Debt & Account Management Manual and setting up of best practice in Enterprise Project Management among others.

Kenya has attracted global admiration for automation of its revenue administration processes. This has augmented her resilience in this pandemic. The online system iTax platform has ensured that basic tax administration procedures proceed uninterrupted by the pandemic. Even in pandemic the system remains uninterrupted with Kenyans using for filing their tax returns and for other compliance measures. KRA maintained stable decision-making processes at the crisis stage, reviewing and interrogating revenue targets and expectations while not losing sight of critical tax administrations functions e.g. debt enforcement, audits, service delivery.

Other critical development is Data Warehouse which supports the iTax data and quality information for enforcing tax compliance. Due to this there remains minimal disruption in so far as facilitating tax compliance is concerned.

KRA put in place dedicated COVID-19 crisis communication strategies - both internal strategies to support staff and the effective operation of administration functions, and external strategies to provide timely information and support to taxpayers. This was also accompanied by aggressive education and campaigns on the pandemic to keep stakeholders, particularly staff informed of critical issues around the pandemic.

Customer support has additionally been enhanced through the Call Centre's Chat platform. Customers are also encouraged to self-support through KRA's IVR feature. The Contact Centre non-voice teams (e.g. Email, chat, social media) are now enabled to work from home (offsite). The staff are still able to provide support to customers beyond the current hours of operation.

Tax and fiscal measures in place

At the beginning of the crisis, the president announced a fiscal stimulus package for Kenyans, particularly those living below the poverty line. Among this included 100% waiver on income taxes to individuals who receive less than KES24,000 (US$225) per month. Government reviewed the ***VAT and Income Tax*** regimes, which saw the introduction of Income Tax relief for persons earning an income below an equivalent of $225 per month. Other taxes reviewed include the reduction of Pay-As You Earn (PAYE) from 30% to 25%, reduction of Corporation Income Tax rate from 30% to 25% and reduction of Turnover Tax rate on small businesses from 3% to 1%.

The reduced tax bands give the citizens more purchasing power and increase production rate to meet market demands hence keep more businesses afloat. The review of Corporation Tax rate also enables companies to save administration costs and minimize staff layoffs. On the other hand, reduction in VAT rate will translate to decrease in prices of basic commodities. This will increase consumption of fast moving consumer goods and protects business from closure.

Kenya Revenue Authority (KRA) further paid out $100 Million in VAT refunds to businesses. This follows a presidential directive that the government allocate a special fund to KRA in reimbursing VAT refunds. The refunds are expected to offer financial relief to businesses hit by the Covid-19 pandemic especially the horticulture, transport and hospitality sectors. This will also boost firms that are struggling with cash flows amid reduced demand for their products during the pandemic. The initiative will also improve liquidity in the economy and ensure businesses remain afloat by enhancing their cash flows and increasing production.

The Central Bank of Kenya (CBK) also announced some monetary measures in response to COVID-19 pandemic. These included flexibility of bank loans classification and provisioning of loans that were performing on 2nd March 2020, but were later restructured due to the pandemic. This encouraged banks to extend flexibility to borrowers', where loan terms were based on pandemic-related circumstances. It also encouraged the waiving or reduction of charges on mobile money transaction and suspended the listing of negative credit information for six months, to borrowers whose loans became non-performing after 1st April 2020. The Bank also reduced its lending rates from 8.25% to 7.25% and cash reserve ratio by 1% from 5.25%. his is to boost the liquidity of the banks and allow more Kenyan to access credits.

Conclusion

The revenue collection at KRA has gone down as many businesses took a beating and labour force declined. The revenue went down by 30% as at May 2020 with revenue growth declining by average of 10% at the same time. Despite this, KRA is expected to play its cardinal role of mobilising revenue to support government response to the pandemic. This will help government play its role in providing the citizenry with the most important social services like access to health, social protection, housing and sanitation and hygiene.

KRA also continues with raising awareness of the taxpayers with regards their obligation and services offered to the public through webinars and online contents on social media and other platforms. Other information is targeted communication campaigns on taxpayers' safety, tax obligations, modes of facilitation e.g. online access to tax services, taxpayer communication with KRA, business hours etc. The KRA website provides an interactive avenue for taxpayer engagement for various services. The website also provides information on presidential directives on fiscal and tax measures in response to the pandemic.

With majority of Kenyans living below the poverty line and with these segment of population being most affected, KRA will continue to play an important role in post covid economic recovery and to ensure businesses gets back on its feet. This will require a balancing act with its revenue mobilisation mandate while building trust with the taxpayers.

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