Kenya Revenue Authority

Policy Brief

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The Addis Ababa Tax Initiatives & Domestic Revenue Mobilization in Kenya

International Relations & Diplomacy

Introduction

Five years ago, representatives from over 170 governments held the third International Conference on Financing for Development in Addis Ababa, Ethiopia to discuss social and economic priorities and financing policies around it. The conference attended by Heads of state and Government, Heads of multi-lateral bodies, influential business leaders from around the world adopted seven-point agenda in driving development financing in what is known as Addis Ababa Action Agenda (AAAA). The seven agenda are: Domestic public resources, Domestic and international private business and finance, International development cooperation, International trade as an engine for development, Debt and debt sustainability, Addressing systemic issues and Science, technology, innovation, and capacity building

Arising from the AAAA on Domestic Public Resources and through support of Governments of Germany, United Kingdom (UK), United States of America and the Netherlands, a framework was developed aiming to enhance Domestic Revenue Mobilisation (DRM) also referred to as 'The Addis Tax Initiative' (ATI). The ATI focuses on strengthening partnership between countries through reliance on domestic revenue to achieve the Sustainable Development Goals (SDGs) by 2030. The role of domestic revenue in progress of a country cannot be gainsaid. Revenue is essentialfor a governments provision of essential goods and services to its citizenry. With right policies and financing that guarantees employment, stimulate industries and trade, a government is certain of reliable domestic revenue as envisaged by the ATI.

The ATI has therefore provided a collaborative platform for countries to push fiscal policies and tax reforms so as to enhance fairness, transparency, efficiency, and effectiveness of DRM efforts. The ATI members firmed their commitment where Participating providers of international support were to collectively double their technical cooperation in the area of domestic revenue mobilisation and taxation by 2020; Partner countries restated their commitment to step up domestic resource mobilisation as a key means of implementation for attaining the SDGs and inclusive development; and All ATI members restated their commitment to ensure Policy Coherence for Development. The countries have also been monitoring the progress of the initiatives against the commitment over time and securing efforts on the same. This brief provides perspective on the ATI and presents Kenya's policy and governance reforms in enhancing DRM and the AAAA

ATI Declaration 2025

With the lapse of the first phase of the ATI in 2020, partners meeting in November, 2020 reviewed the progress of the initiatives and pronounced four new commitment running to 2025. These commitments are:

1. ATI partner countries commit to enhance DRM on the basis of equitable tax policies as well as efficient, effective and transparent revenue administrations. ATI development partners commit to support such reforms.
2. ATI development partners collectively commit to maintain or surpass the 2020 global target level (USD 441.1million) of DRM cooperation for country-owned tax reforms.
3. ATI members commit to apply coherent and coordinated policies that foster DRM and combat tax-related illicit financial flows (IFFs)
4. ATI members commit to enhance space and capacity for accountability stakeholders in partner countries to engage in tax and revenue matters.

The 2025 commitment was informed by challenges the economies around the world are facing; amid the Global Covid 19 pandemic, in mobilizing revenue to finance public expenditure. The global health crisis has pushed economies to the brinks. Jobs have been lost, businesses shut, and revenue collections plummeted pushing people into poverty hence creating stark inequalities in the society. These declaration is cognisant of the reliance on domestic revenue in achieving sustainable growth for economies and fund most important sectors such as Universal Health and access to education in order to meet the goals of SDGs 2030. Kenya has undertaken critical tax reforms over the years to support revenue mobilization both at policy and administrative levels in its commitment to the ATI agenda.

As espoused in one of the commitmentsts, fighting Illicit Financial Flows (IFFs) is important for tax base expansion expected to play a critical role in funding Kenya's development agenda. This happens when funds are illegally earned, transferred and utilized across the borders. In Kenya, tax evasion through IFF occur mainly through mis-invoicing, transfer pricing, trade in contraband goods, corruption and trafficking of persons and drugs among others. Local firms and multinationals also engage in fraudulent schemes to avoid tax payments. It is estimated that Kenya's tax loss from trade mis-invoicing by multinational corporations and other parties could be as high as 8.3 per cent of government revenue according to Statistics from KRA. This clearly hampers economic growth and results in huge loss in tax revenue. The Authority intends to execute three strategies to deal with trade mis-invoicing as one of the major IFF. The first is through legislative and regulatory measures that posit substantial disincentives for importers and exporters. Second one is detecting mis-invoicing as transactions are occurring and taking corrective steps in real time and recovering lost revenues after mis-invoicing is found through subsequent audits and reviews. Kenya has also shown commitment to tackle illicit financial flows (IFFs) through the recent signing of the Yaoundé Declaration. The declaration is the African continent call for curbing of illicit flows within its boundaries. Additionally, it calls for fight against tax evasion to enhance domestic resource mobilization.

Kenya continues to greatly benefit from its international relations with development partners. In the past financial year, KRA has benefited from financial, in-kind, and capacity building support from partners such as the International Monetary Fund and USAID (through the US Treasury Office of Technical Assistance). For example, International Monetary Fund (IMF) has been supporting 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. Further, The United States Agency for International Development has been working with the Revenue Administration in Strengthening Overall Debt Recovery Processes and Procedures. This has led to increased revenue generation as well as Monitoring & evaluation support for special tax administration projects (e.g. iTax project). These efforts and others reaffirms Kenya's renewed commitment to the ATI and DRM in Africa.

Kenya's Domestic Revenue Mobilisation 2015 - 2020

Since signing up to the ATI, Kenya has undertaken different revenue enhancement initiatives through a transformation agenda that was both people and technology centred. This has been credited with leap forward in revenue growth. The revenue collection has grown from Kshs 1,136,833 million in 2015/16 to Kshs 1,509,571 million as at the end of FY 2019/20; an estimated 32.8 % growth over the five-year period.

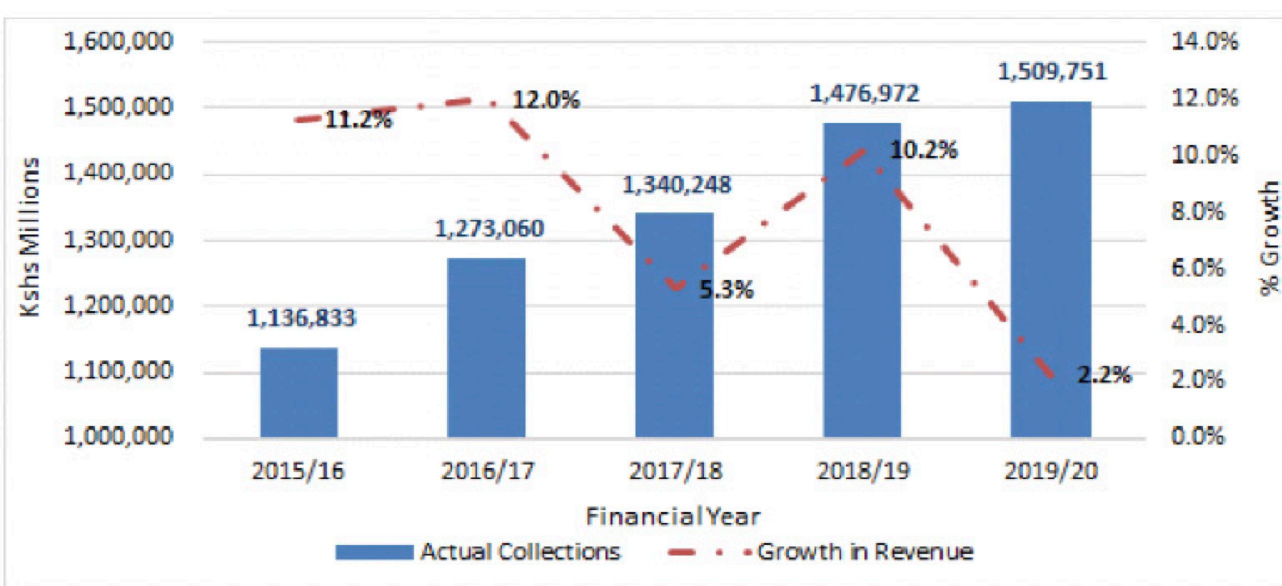

Figure 1; Revenue Collection from FY2014/15 to FY 2019/20

This growth has largely been enabled by investment in technology and data driven tax compliance. All informed by the belief to keep up with technological advancement and global business evolution. The Authority identifies risks and opportunities in the business environment and responds appropriately. One of the major advancement in this area is the **iTax**, a web based application that gives taxpayers the convenience of filing returns and making payments from the comfort of their offices or homes. It has enabled taxpayers register, file returns, make payments and enquire about their status in real time (24 hours) in addition to having been integrated with more than 30 banks to ensure wide coverage of taxpayers. The iTax also provides a huge source of data on its on that is mined from taxpayers' declarations and cross referenced to identify tax defaulters.

In Customs administration, Kenya Revenue Authority (KRA) set up the **Integrated Customs Management System (iCMS)** to enhance efficiency in cargo clearance system. The iCMS has streamlined customs processes and enhanced trade facilitation in the region through East Africa Community (EAC) single customs territory. This has registered tremendous success such as reduced error in tax computation, robust risk management modules on targeted consignments and the management module to manage penalties/fines for non-compliant. Further, KRA has put in place the **Cargo Scanner Management Solution** over this period. The scanner provides centralized cargo scanning for better control over cargo verification process linked to central command and control facility based in Nairobi thus integrating all cargo scanners. At the same time, KRA is leveraging on modern non-intrusive inspection technology of X-ray cargo scanning to ascertain taxes due as part of the wider Customs Reforms and Modernisation Program. The scanners are integrated to customs business system iCMS and the **Regional Electronic Cargo Tracking system (RECTs)** for risk profiling and targeting for destination verification. The other milestone in DRM initiative from technology perspective is the **Data Warehouse and Business Intelligence (DWBI),** an electronic platform that provides data analytics capability and facilitate evidence based compliance intervention. The platform uses business rule information to filter out risky tax payer in order to detect fraud, incorrect tax filling and payments, study inconsistencies and inform corrective action and monitoring trends and patterns matching in tax payment

Legislative and policy reforms

To support the DRM efforts articulated herein, various legislations have been amended in the recent past to remove redundancies in law and provide harmonized tax legislation implementation for greater efficiency. This is intended to provide clarity to taxpayers and simplifies the tax law which in turn enhances compliance. The Tax Procedures Act, 2015 has enabled consistency in application of tax laws to enhance tax compliance and harmonise the procedures and penalties applicable in various tax statutes. The enactment of Excise Act 2015 is yet again an important step in revenue mobilisation. These policies have had an important impact on revenue that include:

- Broader tax base
- Reduction of compliance costs and cost of collection
- Increased efficiency and effectiveness in revenue mobilisation
- Increased revenue for the government to finance development projects and deliver public services such as infrastructure projects, social protection fund for the elderly and provision of universal health care.

Conclusion

The KRA shifting from enforcement practices to trust and facilitation has enhanced tax compliance evident through the growth in revenue over the years. Continuous engagement of taxpayers and de-emphasizing traditional enforcement while embracing smart compliance approaches has led to informed taxpayers' who are enlightened about their rights and obligation. This has led to increased compliance levels in conformity with set international standards of taxation. never the less, the current global health crisis, domestic revenue has faced setbacks expected to continue for a period of time. Some of challenges in DRM include:

1. COVID-19 pandemic has led to a shrinking tax base and an increased gap between domestic revenues and financing needs. For this reason, enhancing domestic revenue as a reliable source of financing for Kenya is indispensable. At the same time, the shift in the tax base to online platforms calls for a change in strategy to net in the player in this platform.
2. A considerable portion of the economy that is hard to tax i.e. the informal sector, professionals and high net worth individuals.
3. Combating tax motivated illicit financial flows and tax avoidance.
4. Sub optimal compliance levels by tax payers.