






2018/19
**ANNUAL REVENUE
PERFORMANCE REPORT**



Table of Contents

1.	SUMMARY OF REVENUE PERFORMANCE.	6	
2.	SITUATIONAL ANALYSIS	10	
2.1	GLOBAL DEVELOPMENTS	10	
2.2	POLICY DEVELOPMENTS	10	
2.3	OPERATING ECONOMIC ENVIRONMENT	10	
3.	REVENUE PERFORMANCE	12	
3.1	ACTUAL REVENUE PERFORMANCE AGAINST ESTIMATES	12	
3.2	REVENUE PERFORMANCE BY DEPARTMENTS	13	
3.3	TAX TO GDP RATIO	16	
3.4	IMPROVING BUSINESS CLIMATE	17	
4.	DELIVERY AGAINST STRATEGIC OBJECTIVES	19	
4.1	CUSTOMS COMPLIANCE	19	
A)	REVENUE PERFORMANCE	19	
B)	ENFORCEMENT MEASURES	19	
C)	EXEMPTIONS AND REMISSIONS	22	
4.2	DOMESTIC TAX COMPLIANCE	23	
4.3	TACKLING TAX CRIMES: DETECT, DETER, DISRUPT	28	
4.4	TAX DISPUTES RESOLUTION	29	
5.	IMPLEMENTATION OF KRA'S REFORM AGENDA	30	

List of Tables

Table 1: Table: 2018/19 Revenue Targets and Actual Collection	12
Table 2: Revenue Performance for FY 2018/19 (Kshs Million)	13
Table 3: Revenue Performance by Broad Economic Category for FY 2018/19 (Kshs Million)	14
Table 4: Trend of Exchequer Revenue by key tax-head over 2012/13-2018/19	15
Table 5: Kenya Rank in the Ease of Doing Business, Paying Taxes and Trading Across Borders	16
Table 6: Doing Business Ranking: Paying Taxes	17

List of Figures

Figure 1: Trend of Revenue Contribution	16
Figure 2: Trend of Tax to GDP Ratio	16
Figure 3: Trend of Overall Tax to GDP Ratio	18

EXECUTIVE SUMMARY

“

For the first time in KRA history, **Domestic Taxes collection exceeded Kshs. 1 trillion**, while **Customs revenue exceeded Kshs. 500 billion**.

”



Githii Mburu

Commissioner General

1. Overall Performance

Revenue collection in FY 2018/19 (July 2018- June 2019) reached a new record with **Kshs. 1.580 Trillion** collected, compared to **Kshs. 1.435 Trillion** collected in FY 2017/18.

Revenue grew by **11.3%** compared to the previous year's **5.1%** growth. Revenue collected has more than doubled over the last seven years from Kshs. 0.707 Trillion in FY 2011/12.

The exchequer revenue grew by 11.5% with a collection of Kshs **1.477 Trillion** against **Kshs 1.340 Trillion** collected in FY 2017/18.

In addition, KRA collected other duties including Agency Fee amounting to **Kshs 103 Billion**. This is revenue collected on behalf of other government agencies mainly at the ports of entry. They include Railway Development Levy, Traffic Fees, Land Rent and Cash in Transit amongst other levies.

The FY 2018/19 performance compares well with the prevailing economic indicators including GDP growth of 6.1%, and average inflation rate of 5.2%.

The economic environment had a positive impact of **Kshs. 13.866 Billion** on this year's revenue. Inflation rate was at **7.20%** and the dollar exchange rate was at **Ksh. 101.16**.

For the first time in KRA history, **Domestic Taxes** collection exceeded Kshs. 1 trillion, while **Customs revenue** exceeded **Kshs. 500 billion**.

2. Customs and Domestic Taxes Performance

Revenue collection by departments (Domestic Taxes and Customs and Border Control) experienced growths of **11.0%** and **11.8%** respectively.

Growth in Domestic Taxes Department exceeded the 3-year (2015/16 to 2017/18) trend of 10.9% while Customs and Border Control growth also exceeded the 3-year (2015/16 to 2017/18) trend growth of 9.5%.

The good performance in Domestic Taxes Department is largely attributed to Rental Income Tax, which grew by **41.7%** and Domestic VAT with a growth of **12.3%**. This is attributed to Tax base expansion initiatives that are part of the recently launched KRA 7th Corporate Plan.

Customs revenue was positively impacted by a 16.3% growth in oil revenue and 12.3% growth on import duty.

3. Performance of Key Tax Heads

- **Oil Revenues:** grew by 16.3% mainly driven by **Kshs. 17,220 million** additional revenues as a result of Tax policy (8% VAT on petroleum taxes).
- **Non-Oil Revenues:** grew by **11.6%** with a positive influence of **Kshs 38,217 million** during the financial year.
- **Corporation Tax:** grew by a minimal **5.5%** in FY 2018/19.

Corporation tax was severely undermined by growth in investment deductions by **284%** compared to 2017/18.

However, the tax head witnessed a turn-around in the 4th quarter, growing at **12.0%** compared to an average **1.8%** over the 1st three quarters. This was principally due to the turn-around in the banks performance with overall growth of **29.3%** in the 4th quarter compared to a decline of **7.9%** in the 1st three quarters.

- **PAYE:** grew by **7.9%** as a result of subdued growth in the private sector employment. Employees Registered for PAYE grew by **4.5 %** in FY 2018/19. PAYE growth was driven by the public sector, which registered a cumulative growth of **8.9%** driven by upscaling of salaries in the education sector. Tax policy, driven by the impact of the widening of tax bands, reduced the revenue base by **Kshs 6,125 million** cumulatively.
- **Domestic VAT:** grew by **12.3%** driven by **9.8%** growth in Value Added Tax turnover, which was mirrored in nominal GDP growth of **10.4%**. The domestic VAT growth was also explained by growth in withholding VAT and in particular growth in public sector withholding which grew by **12.1%**.
- **Domestic Excise:** the tax head, which grew by **12.3%**, is a volume driven tax and dependent on volume growth in cigarettes and beer. Cigarette output grew by **4.9%** over FY 2018/19. With respect to beer, non-'keg' beer (where the bulk of taxes are) volumes declined as 'keg' beer volumes (which benefits from remissions) grew substantially. Thus the growth was primarily explained by slow volume growth in cigarettes and composition in beer deliveries.
- **Policy Aspects:** tax policies raised **Kshs 48,215 million** compared to a forecast of **Kshs 62,881 million**. Thus, revenue shortfalls from tax policy accounted for **Kshs 14,666 million** or **23%** of the overall revenue shortfall. Non-compliance with Withholding Tax on winning betting provisions is the principle cause of this shortfall.

4. Revenue Enhancement Initiatives

KRA is executing strategic initiatives as guided by its 7th Corporate Plan theme, “**Revenue Mobilization through Transformation, Data-driven Decision-making and Tax Base Expansion**”. KRA’s goal in revenue mobilization is to raise the Revenue/GDP ratio from 18.3 per cent as recorded within the 2017/18 financial year to 19.2 per cent by the 2020/21 financial year.

To effectively deliver on its mandate, KRA is implementing revenue enhancement initiatives including:

- **Data driven compliance:** The implementation of the iTax domestic taxes system has facilitated the detection of non-compliance through data matching and 3rd party data utilization. The intervention exploits compliance on detected malpractices. Of particular importance is the focus on IFMIS/iTax integration to ensure all suppliers to national and county government are compliant.
- **Resolution of tax disputes:** Considerable tax revenues are tied up in the dispute resolution (courts, Tax Appeals Tribunal (TAT), and the Tax Dispute Resolution (TDR). This approach focuses on unlocking these revenues through focused administrative interventions.
- **Enhanced scanning to detect concealment:** KRA currently scans containers focusing on those profiled as high risk. This initiative aims to raise the scanning coverage to 70%. The intervention is built around the operationalization of nine additional scanners at the points of entry. KRA already



With enhanced operational efficiency as embedded in the ongoing KRA transformation, we are optimistic that the landscape of revenue mobilisation and collection in this country will be completely changed.



has a centralized control centre and establishment a fully functional scanner unit to monitor scanning operations from a remote control.

- **Roll Out of the ICMS:** The ICMS project has been fully implemented and KRA is at the roll out stage. Full roll out will facilitate more efficiency. The roll out is expected to raise productivity.
- **Implementation of Regional Electronic Cargo Tracking System to tackle transit diversion:** Kenya has implemented the RECTS along with other regional partners. The intervention is focused on expanding RECTS to cover all transit cargo under customs control, commissioning smart gates at various exit points, and boosting capacity of rapid response unit.
- **Tax base expansion:** This intervention focuses on enforcing compliance among targeted informal sector players and registered professionals through reliance on third party data.

KRA has launched key initiatives to improve customer service delivery including establishment of Tax Service Offices (TSO). Last year, eleven (11) TSOs were launched making a total of 43 Tax Service Offices countrywide. This enabled KRA resolve 3,120,139 taxpayer's enquiries.

KRA has also refocused customer interactions through redesigning of service delivery approach and building taxpayer trust. This enabled KRA to recruit an extra 1.11 million taxpayers. As a result, more than 3.8 million taxpayers filed their returns in Financial Year 2018/2019.

To improve human capital, KRA employed 131 and trained 733 staff on Tax and Customs.

Through the corporate stakeholder engagement framework, KRA held 85 stakeholder interactions. The engagement process took a sector-based approach, with several engagements held with players in the Manufacturing, Trade and Investment, ICT, Transportation, Logistics and Shipping, Wholesale and Retail, Energy and Petroleum, Betting, Lotteries and Gaming, and Insurance and Financial Services among others. During the engagements, 82 issues were raised out of which 64 were resolved.

KRA has been working on consolidation of Tax Dispute Resolution (TDR). This was finally achieved last year with the establishment of a dedicated TDR programme. The programme will enhance efficiency, professionalism and provide a holistic view of tax disputes. KRA has so far recovered **Kshs 8,102 million** from the concluded **237** TDR cases.

On prosecution, KRA recovered **Kshs12,656 million** from **210** tax evasion cases won while **222** suspects were persecuted at the law courts leading to recovery of taxes amounting to **Kshs12,960 million**.

Last year, KRA participated in strategic operations as part of the multi-agency team against illicit trade and contrabands. Through the initiative, interceptions were made including those of high-end motor vehicles imported from the United Kingdom (UK). Approximately a total revenue of **Kshs 9, 000 million** was recovered from the operations.

KRA has also prioritised partnerships nationally, regionally and globally as a key player in the fight against tax crimes. Last year, KRA partnered with Organisation for Economic Co-operation and Development, US Treasury, Australia Taxation Office, Sweden Tax Agency, Inland Revenue Authority of Singapore, Kenya Private Sector Association among other institutions.

KRA also participated in several Corporate Social Responsibility (CSR) activities. KRA renovated pediatric wards at Kisumu Level 5 hospital, Mwingi Level 5 hospital, Naivasha Level 5 hospital and Laikipia Level 5 hospital. The Authority also constructed a hospital wing (with three room) at Bokole level 2 hospital in Mombasa.

In support of the fight against cancer, KRA participated at the Faraja white water rafting annual fundraising event at Tana River, Sagana, Muranga. KRA also mobilised staff to plant trees as part of the government initiative to increase the forest cover by 10% in 2022. The staff planted more than 9,000 trees.

5. Conclusion

On behalf of the KRA Board of Directors and Staff, appreciate all Kenyans, for the goodwill to demonstrate patriotism by being tax compliant. We remain committed to making taxpaying experience better through provision of a courteous and professional service.

KRA will continue to invest in modern technology to enhance efficiency in tax mobilisation.

With enhanced operational efficiency as embedded in the ongoing KRA transformation, we are optimistic that the landscape of revenue mobilisation and collection in this country will be completely changed.

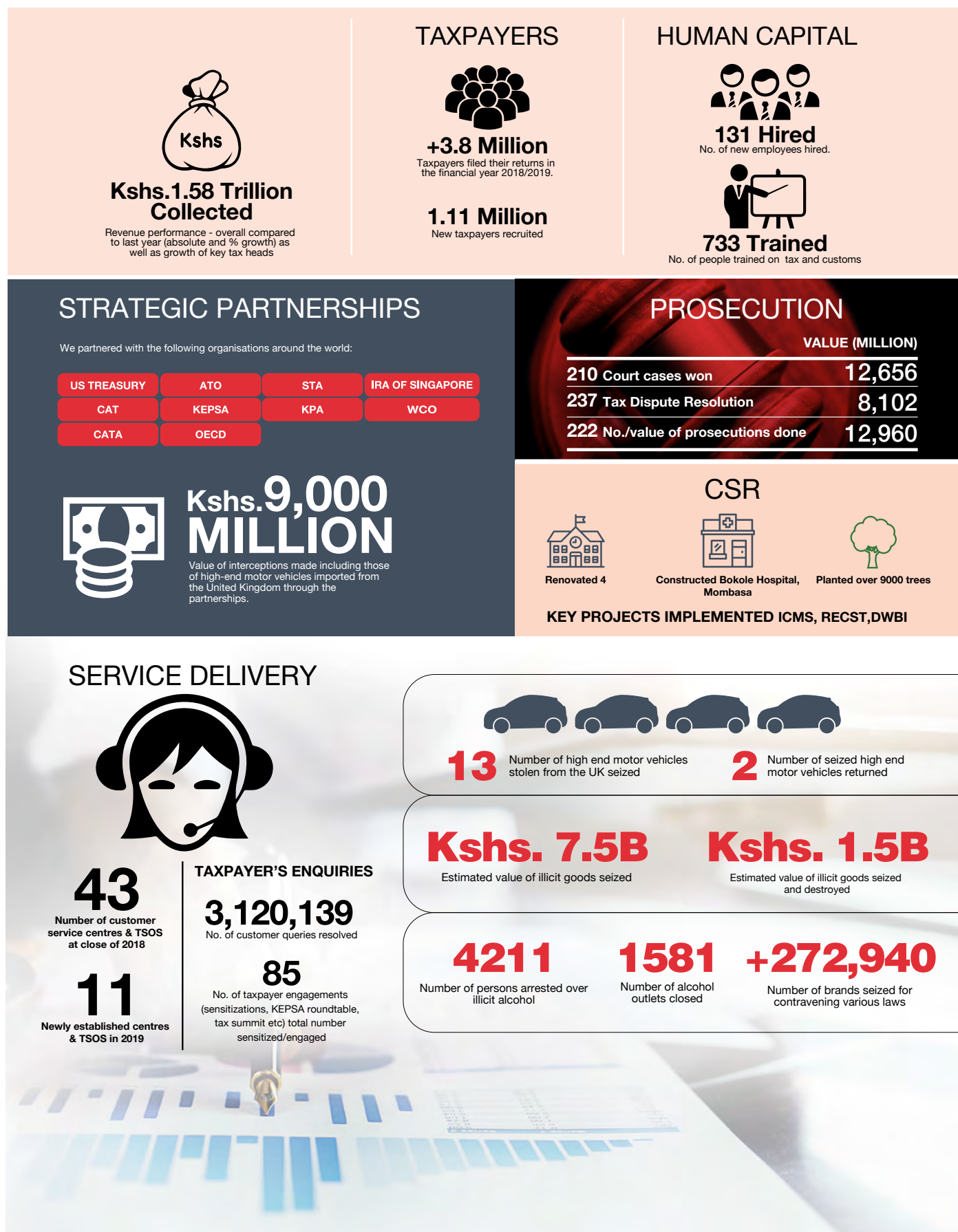


Githii Mburu

COMMISSIONER GENERAL

1. SUMMARY OF REVENUE PERFORMANCE

b. Full year revenue report



Operating Economic Environment

Gross Domestic Product

GDP

GDP growth at 5.97% for the year compared to forecast of 6.1%

Exchange Rates against the US Dollar FY 2018/19



Kshs 101.16/US\$ in July 2018 - June 2019

IMPACT ON

Kshs (2,402) million

SUMMARY

The Kenyan shilling was stronger than forecast averaging **Kshs 101.16/US\$** in July 2018 - June 2019 compared to a forecast of **Kshs 103.6/US\$**

Inflation



What about it?

In 2018/19:
Headline inflation was 5.2%
Underlying inflation of taxable goods was 7.2%

VERSUS

VERSUS

REVENUE



Impact

Forecast of 5.0%

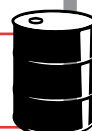
Trade and Imports Value



DRY IMPORTS
4.9% Decline



WET IMPORTS
9.9 % Growth



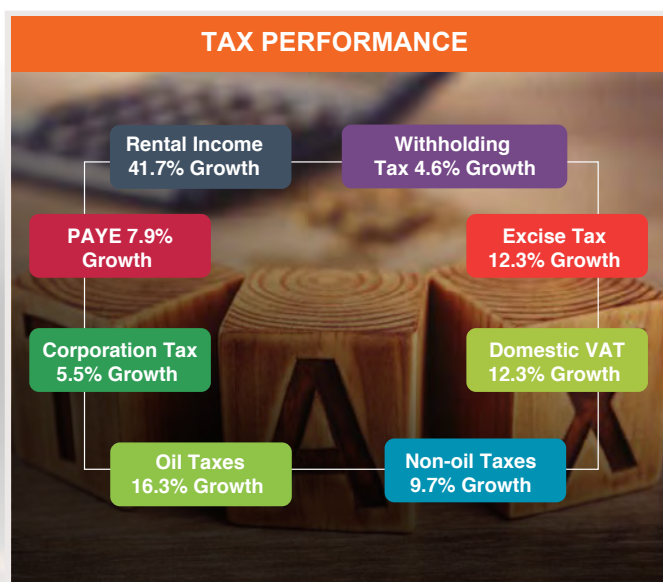
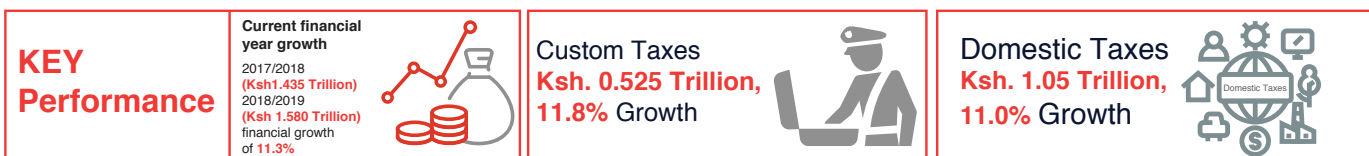
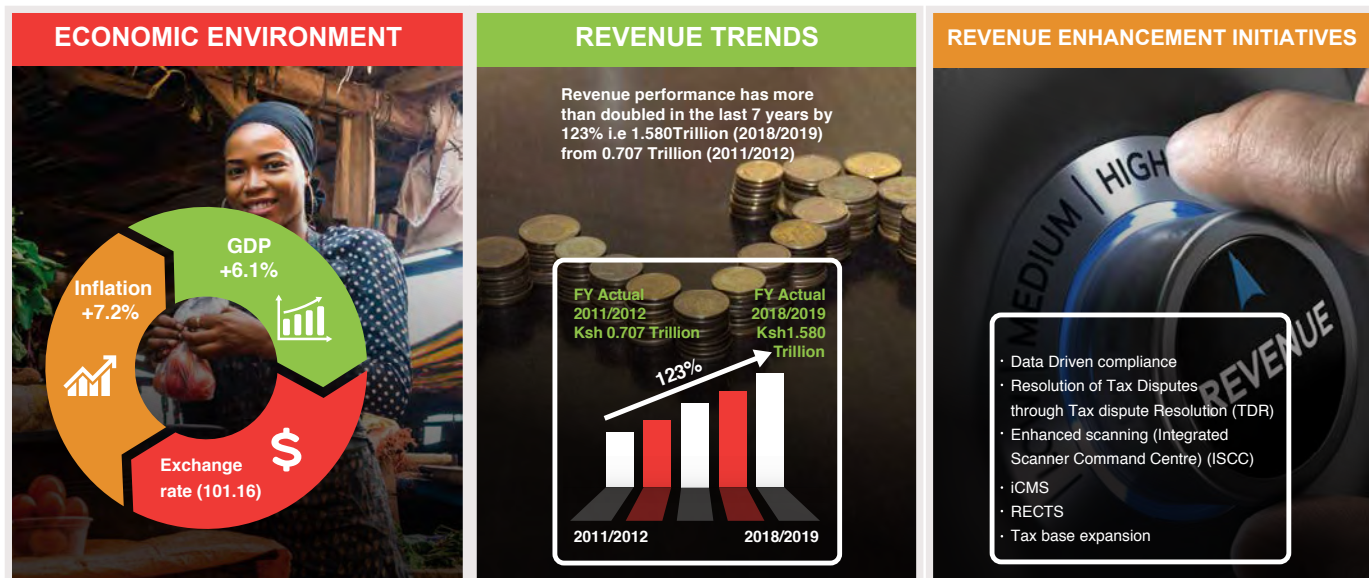
'Dry' import values declined by 4.9% cumulatively.



Oil volumes declined by 0.1% cumulatively. Excisable components (Petrol and diesel) witnessed growths of 2.8% and 8.3% cumulatively.

The difference we made in 2018

a. Full year revenue performance



2. SITUATIONAL ANALYSIS

2.1 Global Developments

In 2018, growth in the global economy softened to 3.6% from 3.8% recorded in 2017.

This was attributed to:

- i The escalation of trade tensions between the United States and China,
- i Macroeconomic stress in Argentina and Turkey,
- i Disruptions to the auto sector in Germany,
- i Tighter credit policies in China, and
- i Financial tightening alongside the normalisation of monetary policy in the larger advanced economies.

Key highlights include:

- i The world annual average inflation increased from 3.2% in 2017 to 3.6% in 2018. It was projected to remain stable at 3.6% in 2019.
- i Growth in the East African Community region improved from 5.3% in 2017 to 5.9% in 2018 driven by a stable macroeconomic environment, improvement in the agricultural sector due to

favourable weather conditions, continued infrastructure investment and strong private consumption.

- i Growth in world trade volume declined from 5.4% in 2017 to 3.8% in 2018. It was projected to grow at a further reduced rate of 3.4% in 2019. This manifested in the Kenyan economy in the form of decline in import volume from 109.9 in 2017 to 100.6 in 2018. Slower growth in imports was due to lower food and SGR-related equipment imports and the decline in international oil prices. Export volumes registered a slight growth from 109.2 in 2017 to 110.9 in 2018, supported by tourism receipts, higher tea and horticultural exports.
- i Global energy prices declined by 17% over the period October 2018 to April 2019. Oil prices dropped from a four-year peak of US\$ 81 per barrel in October 2018 to US\$ 61 in February 2019. This was attributed to the temporary waiver of US sanctions on Iranian oil exports and a record high crude oil production in the US.

Exchange Rates against US Dollar

Currency	2017	2018	2019
Units			
Kshs	103.412	101.299	101.015
Euro	1.130	1.182	1.130
Yen	112.112	110.400	110.038
Rand	13.327	13.221	14.195
% Change			
Kshs	1.883%	-2.044%	-0.280%
Euro	2.058%	4.562%	-4.380%
Yen	3.146%	-1.528%	-0.327%
Rand	-9.354%	-0.794%	7.366%

The South African Rand, Yen and Euro registered higher volatility against the dollar than the Kenya shilling. This was partly due to the reversal of appreciation of the US dollar following the US monetary policy tightening.

The Kenya Shilling strengthened against the dollar by 2.0% in 2018 and was projected to strengthen further by 0.3% in 2019. The implication is that the appreciation in 2018 negatively affected revenue on imports.

* Currency Exchange rates for 2019 uses data fr

The deceleration in the growth of the global economy and trade volumes, and volatility in exchange rates in combination with local factors impacted negatively on the Kenyan economy leading to:

- Decline in import growth thereby impacting negatively on customs revenues
- Slower growth in exports with residual impact on expenditures of export dependent companies and individuals.

2.2 Policy Developments

SITUATIONAL ANALYSIS

Tax Policy Developments

Finance Act 2018 and the Tax Law Amendment 2018

implemented a raft of tax policy measures, most of which were implemented in 2018/19 with an estimated total impact of Kshs 62,881 million. Due to delay in the implementation of these tax

policy measures, the impact of these tax policies will overflow to the first three months of 2019/20. The only exceptions are tax policies on import duty. Key among the changes that were implemented in 2018/19 are:

- Adjustment of excise duty rates for:

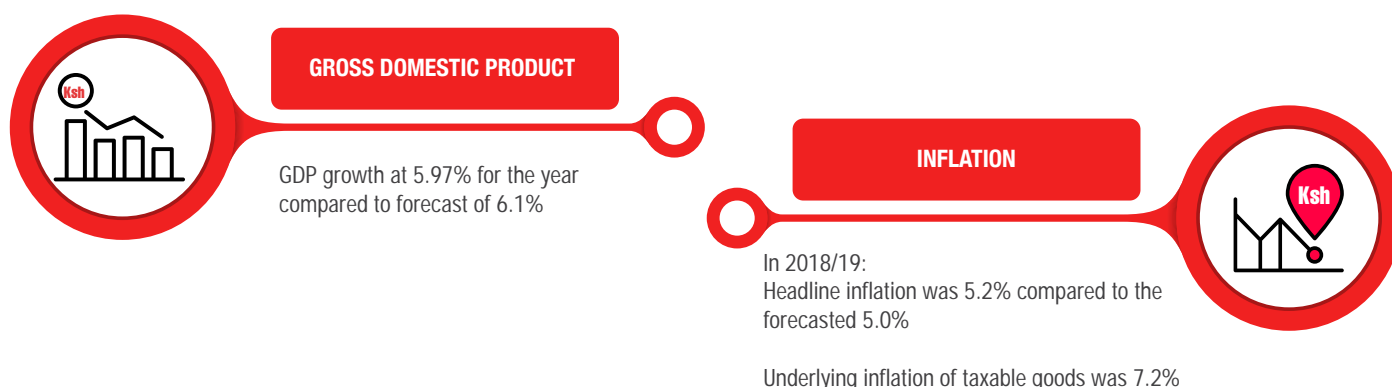
- Introduction of excise duty on sugar confectionaries,

- internet data and fixed line telephone services,
 - excise on telephone services from 10% to 15%,
 - excise on money transfer services by banks from 10% to 20%
 - excise duty on money transfer through mobile money from 10% to 12%
- **VAT adjustment:** introduction of VAT on oil at 8%, zero-rating of supply of maize (corn) flour, cassava flour, wheat or meslin flour,

and inclusion of excise duty in the base for calculation of VAT for mobile cellular services,

- **Betting tax:** reduction of betting, gaming and lotteries tax from 35% to 15% and introduction of withholding tax on gross winnings at 20%,
- **Introduction of anti-adulteration levy** on illuminating Kerosene at Kshs 18 per litre

2.3 Operating Economic Environment



Exchange Rates against the US Dollar FY 2018/19

Kshs 101.16/US\$
in July 2018 - June 2019

Impact on revenue

Kshs (2,402) million

The Kenyan shilling was stronger than forecast averaging Kshs 101.16/US\$ in July 2018 - June 2019 compared to a forecast of Kshs 103.6/US\$

Trade and Imports Value

DRY IMPORTS

4.9%
Decline

WET IMPORTS

9.9%
Growth

Oil volumes declined by **0.1%** cumulatively.

Excisable components (Petrol and diesel) witnessed growths of **2.8%** and **8.3%** cumulatively.

3. REVENUE PERFORMANCE

3.1 Actual Revenue Performance against Estimates

The Kenya Revenue Authority collected Kshs. 1,580 billion consisting of Kshs. 1,477 billion of Exchequer revenue and Kshs. 103 billion of 'Agency' revenues. Exchequer revenue grew by 11.5% compared to FY 2017/18.

The FY 2018/19 performance compares well with the prevailing economic indicators including GDP growth of 6.1%, and average inflation rate of 5.2%. This performance is shown in Table 1 below:

(Values in Kshs million)

Tax Head	Printed Estimates	Budget Review and Outlook Paper (BROP) 2018	Budget Policy Statement (BPS) 2019	Revised Estimates	Actual 2018/19	Actual 2017/18	Growth
Exchequer	1,726,988	1,641,552	1,623,693	1,553,462	1,476,972	1,324,280	11.5%
o/w Import Duty	119,352	135,518	120,589	108,504	105,209	93,713	12.3%
o/w Excise Duty	218,960	230,301	210,091	198,362	195,731	168,063	16.5%
o/w VAT Import	206,899	183,060	192,966	184,374	179,178	151,677	18.1%
o/w VAT Domestic	257,316	243,062	242,919	241,124	230,348	205,099	12.3%
o/w PAYE	448,040	410,758	413,257	403,816	392,693	364,104	7.9%
o/w Other Income Taxes	388,935	358,691	363,707	338,886	296,042	278,277	6.4%
o/w Other Exchequer	87,486	80,162	80,162	78,396	77,772	63,346	22.8%
Agency	92,901	92,901	92,901	89,739	103,090	95,090	8.4%
Grand Total	1,819,889	1,734,453	1,716,594	1,643,201	1,580,062	1,419,371	11.3%

Table 1: Table: 2018/19 Revenue Targets and Actual Collection

The table also shows the variance in revenue estimates over the year:

- The original (printed estimates) target had Exchequer revenues of **Kshs. 1,727 billion**,
- This target was varied downwards in the Budget Review and Outlook Paper (BROP) by **Kshs 85 billion** to reach **Kshs. 1,641 billion**, informed by a lower final performance in 2017/18 than was forecast in the 2018 Revised Estimates,
- The Budget Policy Statement (BPS) revised the estimates downwards

by a further **Kshs 18 billion** to reach **Kshs. 1,623 billion**, informed by a decline in import growth which led to a downward revision in the targets for import duty and excise duty,

- Finally the Revised Estimates, tabled with the 2019/20 Estimates revised the estimated revenue further downwards by **Kshs. 70 billion** to reach **Kshs. 1,553 billion**.
- Over the 2018/19 FY therefore, the target was revised downwards by a cumulative total of **Kshs. 174 billion**.



The Kenya Revenue Authority collected Kshs. 1,580 billion consisting of Kshs. 1,477 billion of Exchequer revenue and Kshs. 103 billion of 'Agency' revenues. Exchequer revenue grew by 11.5% compared to FY 2017/18.

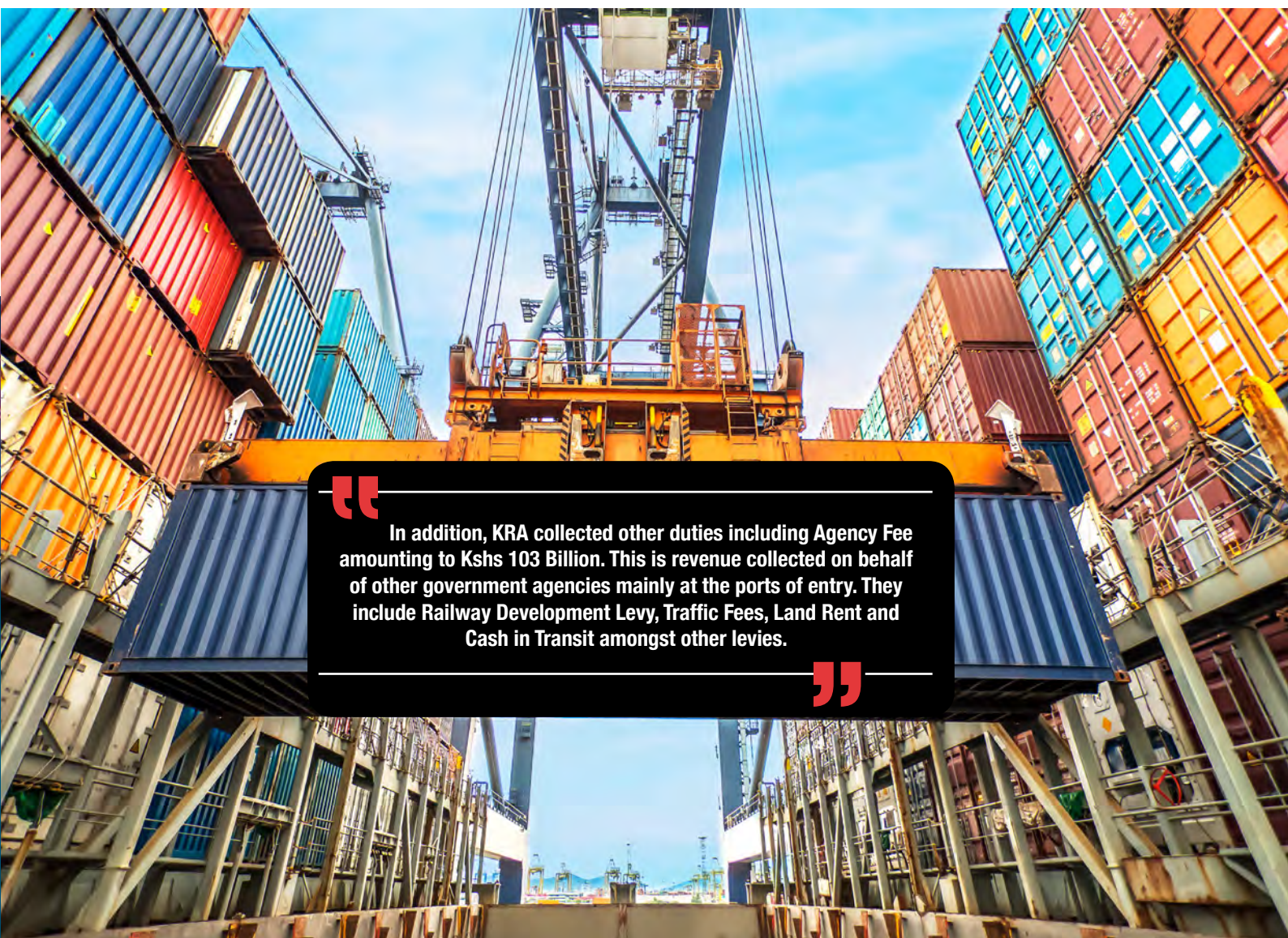
3.2 Revenue Performance by Department

The exchequer revenue grew by **11.5%** with a collection of **Kshs 1, 477 Trillion** against **Kshs 1,340 Trillion** collected in FY 2017/18. In addition, KRA collected other duties including Agency Fee amounting to **Kshs 103 Billion**. This is revenue collected on behalf of other government agencies

mainly at the ports of entry. They include Railway Development Levy, Traffic Fees, Land Rent and Cash in Transit amongst other levies. The FY 2018/19 performance compares well with the prevailing economic indicators including GDP growth of **6.1%**, and average inflation rate of **5.2%**.

Department	Actual 2018/19	Revised Target	Variance	Perf. (%)	Actual 2017/18	Growth (%)
Customs and Border Control	525,337	522,781	2,556	100.5%	470,068	11.8%
o/w Exchequer	423,227	433,848	(10,621)	97.6%	375,888	12.6%
o/w Agency	102,110	88,933	13,177	114.8%	94,180	8.4%
Domestic Taxes	1,050,423	1,116,415	(65,992)	94.1%	945,937	11.0%
o/w Exchequer	1,049,911	1,115,926	(66,014)	94.1%	945,431	11.1%
o/w Agency	511	490	22	104.5%	506	1.2%
Transport Revenue	4,302	4,005	297	107.4%	3,366	27.8%
o/w Exchequer	3,834	3,688	145	103.9%	2,961	29.5%
o/w Agency	468	317	152	147.9%	405	15.7%
Total	1,580,062	1,643,201	(63,139)	96.2%	1,419,371	11.3%
o/w Exchequer	1,476,972	1,553,462	(76,490)	95.1%	1,324,280	11.5%
o/w Agency	103,090	89,739	13,351	114.9%	95,090	8.4%

Table 2: Revenue Performance for FY 2018/19 (Kshs Million)



In addition, KRA collected other duties including Agency Fee amounting to Kshs 103 Billion. This is revenue collected on behalf of other government agencies mainly at the ports of entry. They include Railway Development Levy, Traffic Fees, Land Rent and Cash in Transit amongst other levies.

For the first time in KRA history, Domestic Taxes collection exceeded **Kshs. 1 trillion**, while Customs revenue exceeded **Kshs. 500 billion**. Growth in Domestic Taxes Department exceeded the 3-year (2015/16 to 2017/18) trend of 10.9% while Customs and Border Control growth also exceeded the 3-year (2015/16 to 2017/18) trend growth of 9.5%. The good performance in

Domestic Taxes Department is largely attributed to Rental Income Tax, which grew by 41.7% and Domestic VAT with a growth of 12.3%. This is attributed to Tax base expansion initiatives that are part of the recently launched KRA 7th Corporate Plan. Customs revenue was positively impacted by a 16.3% growth in oil revenue and 12.3% growth on import duty.

Department	Actual 2018/19	Treasury Target	Variance	Perf. Rate	% of Total revenue	Actual 2017/18	Growth over 2017/18
Petroleum Taxes	170,925	149,705	21,220	114.2%	10.8%	146,947	16.3%
o/w VAT-Oil	7,189	17,613	(10,425)	40.8%	0.5%	7,643	-5.9%
o/w Excise-Oil	63,834	61,809	2,025	103.3%	4.0%	61,216	4.3%
o/w RMLF	78,160	65,284	12,876	119.7%	4.9%	73,668	6.1%
Trade Taxes	334,620	353,459	(18,838)	94.7%	21.2%	306,245	9.3%
o/w Railway Levy	21,303	24,719	(3,416)	86.2%	1.3%	20,780	2.5%
o/w VAT Import - Ordinary	157,496	166,760	(9,264)	94.4%	10.0%	144,035	9.3%
o/w Import Duty - Ordinary	103,511	106,660	(3,149)	97.0%	6.6%	92,076	12.4%
o/w IDF	26,782	26,509	273	101.0%	1.7%	26,189	2.3%
Sub Total International Trade Taxes	505,546	503,164	2,382	100.5%	32.0%	453,192	11.6%
Indirect Domestic	348,159	360,099	(11,940)	96.7%	22.0%	299,705	16.2%
o/w VAT - Domestic	230,348	241,124	(10,776)	95.5%	14.6%	205,099	12.3%
o/w Excise Duty - Domestic	59,509	64,003	(4,494)	93.0%	3.8%	53,011	12.3%
Direct Domestic	700,580	751,898	(51,318)	93.2%	44.3%	641,498	9.2%
o/w PAYE	392,693	403,816	(11,123)	97.2%	24.9%	364,104	7.9%
o/w Corporation	168,783	197,317	(28,534)	85.5%	10.7%	160,059	5.5%
o/w With holding	105,256	112,859	(7,603)	93.3%	6.7%	100,623	4.6%
Fees & Licences	25,777	28,040	(2,263)	91.9%	1.6%	24,975	3.2%
Total	1,580,062	1,643,201	(63,139)	96.2%	100.0%	1,419,371	11.3%

Table 3: Revenue Performance by Broad Economic Category for FY 2018/19 (Kshs Million)



For the first time in KRA history, Domestic Taxes collection exceeded Kshs. 1 trillion, while Customs revenue exceeded Kshs. 500 billion.



All the major tax heads (PAYE, VAT, Excise duty, Other Income tax and Import duty) recorded revenue growths in 2018/19. All these tax heads performed below target explained by (see Table 2 and Table 3):

- i PAYE which accounts for 26.6% of total exchequer revenue grew by 7.9% in 2018/19 driven by the public sector, which registered a cumulative growth of 8.9% as a result of upscaling of salaries in the education sector. However, this growth was lower compared to previous three years (2015/16-2017/18) due to subdued growth of 1.1% in the private sector employment and the adverse impact of tax policy measures.
- ii VAT accounts for 25.6% of total exchequer collections in 2018/19 registered a growth of 14.8%, with the domestic component growing by 12.3% while the import component grew by 18.1%. The former was boosted by a 9.8% growth in VATable turnover, while the latter improved due to gains from tax policy measures.
- iii Excise duty registered a growth of 16.5% in 2018/19, with both domestic excise and import excise components growing by 12.3% and 5.9%

respectively. The domestic excise performance is explained by growth in production of major excisable products: 4.9% growth in Tobacco production; 26.7% growth in keg deliveries; and improved growth of 15.6% in Spirits deliveries.

- iv Import duty registered a growth of 12.3% in 2018/19. The growth was driven by a 2.6 percentage point drop in the share of import values within the 0% duty band from 51.67% in 2017/18 to 49.03% in 2018/19.
- v Other income tax which accounts for 18.2% of total collections in 2018/19 registered a revenue growth of 5.5%, with corporation tax and Withholding tax growing by 5.6% and 4.6% respectively. Corporation tax performance was mainly attributable to growth of 13.1% in remittances from the Large Private firms especially the tier I banks with a growth of 74.9%. Withholding tax performance was majorly attributable to growths in remittances from the Dividends, Contractual and Management fees.

Year	Pay As You Earn (PAYE)	Other Income Tax	VAT	Excise Duty	Import Duty	Other	Total Exchequer Revenue	GDP*
	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million
2012/13	211,061	182,981	183,219	88,030	57,897	36,323	759,511	4,536,001
2013/14	252,974	200,710	233,558	104,698	66,596	60,446	918,982	5,079,670
2014/15	277,068	229,066	264,872	114,952	73,733	62,283	1,021,974	5,849,132
2015/16	312,032	248,988	290,843	142,591	80,966	61,412	1,136,833	6,734,060
2016/17	336,596	291,452	336,572	163,236	86,861	58,343	1,273,060	7,794,026
2017/18	364,104	278,277	356,777	168,062	93,713	79,314	1,340,248	8,468,218
2018/19	392,693	296,042	409,526	195,731	105,209	75,472	1,474,673	10,030,206

Percentage Contribution of total revenue

2012/13	27.8%	24.1%	24.1%	11.6%	7.6%	4.8%	100.0%	16.7%
2013/14	27.5%	21.8%	25.4%	11.4%	7.2%	6.6%	100.0%	18.1%
2014/15	27.1%	22.4%	25.9%	11.2%	7.2%	6.1%	100.0%	17.5%
2015/16	27.4%	21.9%	25.6%	12.5%	7.1%	5.4%	100.0%	16.9%
2016/17	26.4%	22.9%	26.4%	12.8%	6.8%	4.6%	100.0%	16.3%
2017/18	27.2%	20.8%	26.6%	12.5%	7.0%	5.9%	100.0%	15.8%
2018/19	26.6%	20.1%	27.8%	13.3%	7.1%	5.1%	100.0%	14.7%

* Other revenue includes: Import declaration fees, Railway development levy, Capital gains tax, stamp duty, Land rent, Transport revenue.

Source: ** Economic Survey 2019 GDP release by Kenya National Bureau of Statistics (KNBS).

Table 4: Trend of Exchequer Revenue by key tax-head over 2012/13-2018/19

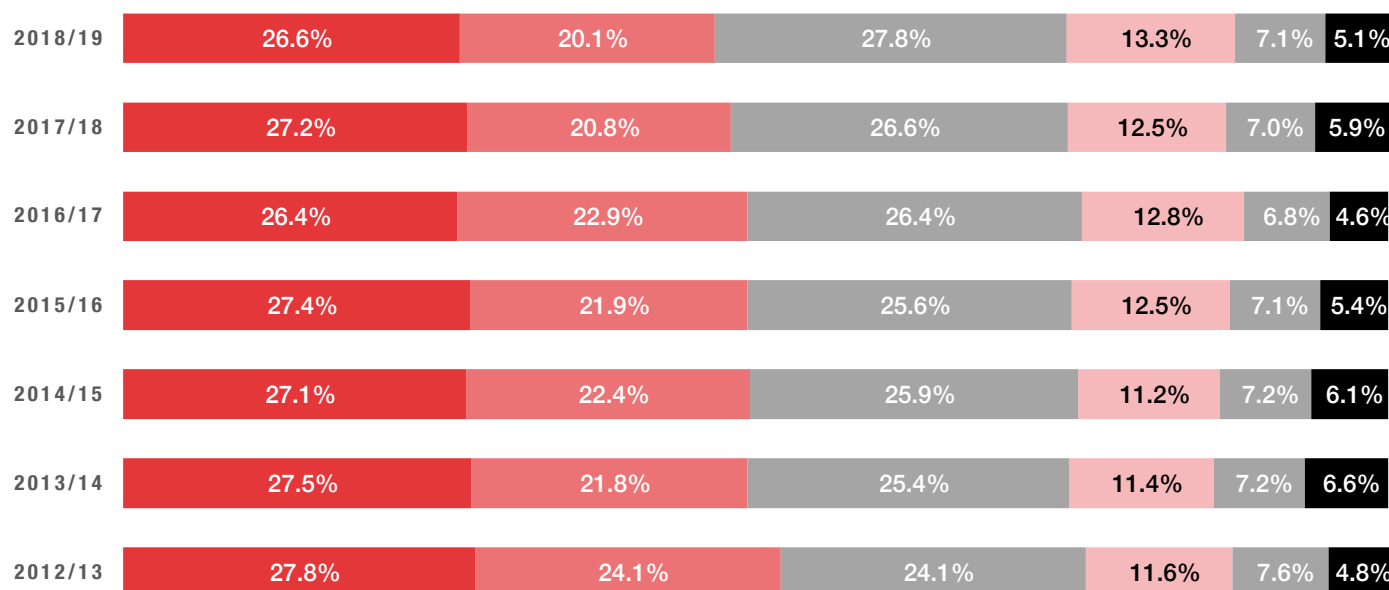
Other income taxes (dominated by corporation tax, and with holding tax) showed the sharpest decline from 24.1% of total taxes to 20.1% in 2018/19, mirroring declining performance in corporation tax which in turn is dominated by corporation tax from banks,

Value Added Tax (VAT) has shown a continuous upward trend from 24.1% in 2012/13 to 27.8% in 2018/19 driven initially (in 2013/14) by the enactment of the new VAT Act and subsequently by tax administration primarily the

automation process for domestic taxes,

Excise taxes have also shown an increase in importance, again benefitting from modernizing of the statute (the new Excise Act) as well as administrative systems to ensure compliance, especially the Excise Goods Management System (EGMS),

Other tax heads have been fairly stable remaining within a percentage point of their 2012/13 ratios.



	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
■ Pay As You Earn (PAYE)	27.8%	27.5%	27.1%	27.4%	26.4%	27.2%	26.6%
■ Other Income Tax	24.1%	21.8%	22.4%	21.9%	22.9%	20.8%	20.1%
■ VAT	24.1%	25.4%	25.9%	25.6%	26.4%	26.6%	27.8%
■ Excise Duty	11.6%	11.4%	11.2%	12.5%	12.8%	12.5%	13.3%
■ Import Duty	7.6%	7.2%	7.2%	7.1%	6.8%	7.0%	7.1%
■ Other	4.8%	6.6%	6.1%	5.4%	4.6%	5.9%	5.1%

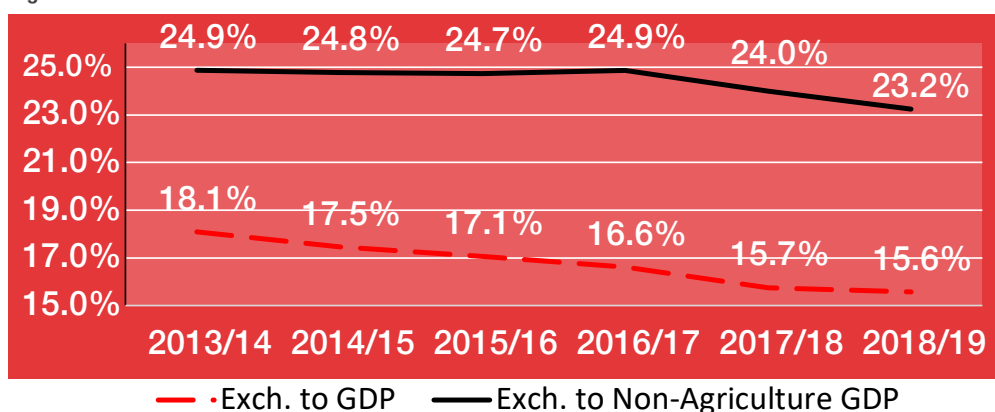
Figure 1: Trend of Revenue Contribution

3.3 Tax to GDP Ratio

Tax Revenue/GDP ratio peaked in 2013/14 at 19.0%, before declining to about 16.7% in FY 2018/19. The decline in revenue to GDP ratio is primarily attributable to:

- The shift in the structure of the economy that started in 2014/15, which favoured non-taxable components of GDP, thus leading to a shrinking taxbase. This accounts for 1.24 percentage point decline.
- Discretionary policy changes resulting in significant revenue loss.
- Sharp increase tax exemptions and remissions leading to erosion of the taxable base.
- Sharp drop in FY 2017/18 attributed to underperformance of corporation tax as a result of interest rate capping for banks

Figure 2: Trend of Tax to GDP Ratio



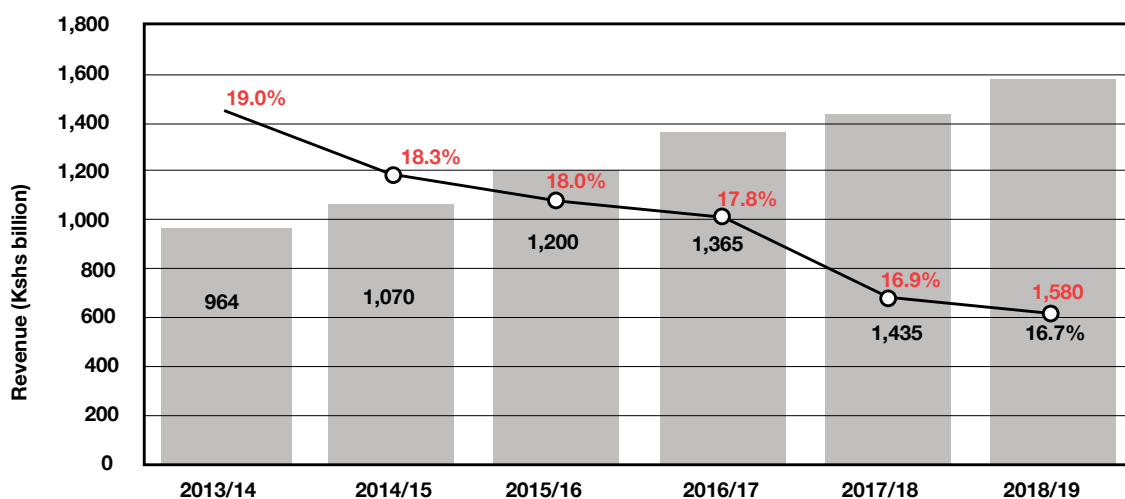


Figure 3: Trend of Overall Tax to GDP Ratio

3.4 Improving Business Climate

The table below shows Kenya's performance in the business climate as reported by the World Bank's Ease of Doing Business Report.

Table 5: Kenya Rank in the Ease of Doing Business, Paying Taxes and Trading Across Borders

Indicators	DB 2019	DB 2018	DB 2017	DB 2016	DB 2015	DB 2014
Ease of doing business	61	80	92	108	136	129
Paying taxes	91	92	125	101	102	166
Trading across borders	112	106	105	131	153	156

The country's business climate improved significantly over the period 2013 to 2018 with the ease of doing business rank rising 68 places from position 129 in 2013 to position 61 in 2018. This was a result of the reform measures implemented across all the ten indicators reported in the report. The paying taxes index improved from 166 in 2013 to 91 in 2018 as a result of automation that made it easier to file and pay taxes. Trading across borders improved from 156 in 2013 to 112 in 2018.

Table 6: Doing Business Ranking: Paying Taxes

Indicator	Kenya's State	
	2019	2018
Number of Payments (no)	25	26
Time spent on tax obligations (hours)	179.5	185.5
Time to comply with corporate income tax audit (hours)	20.5	20.5
Time to complete corporate tax audit (weeks)	13.1	13.1

“

The country's business climate improved significantly over the period 2013 to 2018 with the ease of doing business rank rising 68 places from position 129 in 2013 to position 61 in 2018. This was a result of the reform measures implemented across all the ten indicators reported in the report.

”

Table 7: Doing Business Ranking: Trading Across Borders

Indicator	Kenya's State	
	2019	2018
Time to export: Border compliance (hours)	16	21
Time to export: Documentary compliance (hours)	19	19
Cost to export: Border compliance (US \$)	143	592.1
Cost to export: Documentary compliance (US \$)	191	191
Time to import: Border compliance (hours)	180	180
Time to import: Documentary compliance (hours)	60	60
Cost to import: Border compliance (US \$)	833	833
Cost to import: Documentary compliance (US \$)	115	115

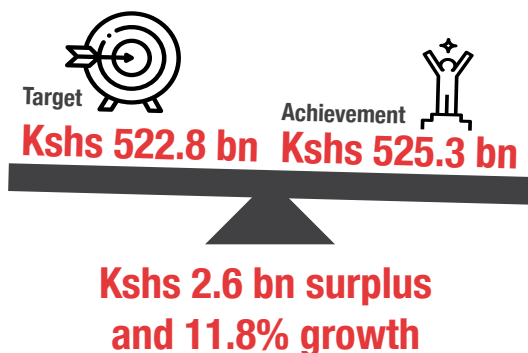


4. DELIVERY AGAINST STRATEGIC OBJECTIVES

4.1 Customs Compliance

a) Revenue Performance

Custom Total Revenue



Key Performance Indicators

	2018/19	2017/18
KPI		
Average daily revenue grew by 7.9%	Kshs 1,418 mn	Kshs 1,313 mn
Revenue/ Teu grew by 5.5%	Kshs 0.519 mn	Kshs 0.492 mn
Revenue/ Vehicle grew by 0.3%	Kshs 0.498 mn	Kshs 0.497 mn
Revenue/ CIF value for non-containerized cargo grew by 22.3%	Kshs 0.184 mn	Kshs 0.151 mn

Revenue Source in FYs 2018/19 and 2017/18

Enforcement Revenue grew 9.3%

Kshs 18.9 bn in 2018/19 (3.6% contribution to total revenue)

Kshs 17.3 bn in 2017/18 (3.7% contribution to total revenue)

Voluntary Revenue grew by 11.9%

Kshs 506.4 bn in 2018/19 (96.4% contribution to total revenue)

Kshs 452.8 bn in 2017/18 (96.3% contribution to total revenue)

Enforcement Measures

Post Clearance Audits 85 Audits Kshs 1.8 bn	Scanner 3.0% Containers with issues Kshs 2.2 bn
Document Processing Centre 8,484 detections Kshs 3.4 bn	Release points verifications 27,864 verifications Kshs 7.31 bn
National Targeting Centre 2,491 alerts Kshs 1.37 bn	RECTS 17,592 trucks under E-seal Kshs 1.84 bn BIF saved Kshs 0.67 bn Recoveries

Tax Type	Printed Estimate June 2018	Revised Estimate May 2019	Actual Result 2018/19	Increase/ Decrease on Printed Estimate	Increase/ Decrease on Revised Estimate	Actual Result 2017/18	Growth (2018/19 over 2017/18)
	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	%
Import Duty	119,352	108,504	105,209	(14,143)	(3,295)	93,713	12.3%
Import Duty - wet	2,028	1,844	1,698	(331)	(147)	1,638	3.7%
Import Duty - dry	117,324	106,660	103,511	(13,813)	(3,149)	92,076	12.4%
Import VAT	206,899	184,374	179,178	(27,721)	(5,196)	151,678	18.1%
Import VAT - wet	10,604	17,613	7,189	(3,415)	(10,425)	7,643	-5.9%
Import VAT - wet (at 8%)			14,494	14,494	14,494		
Import VAT - dry	196,295	166,760	157,495	(38,799)	(9,265)	144,035	9.3%
Excise Duty on imports	110,341	89,743	88,456	(21,885)	(1,287)	83,527	5.9%
Excise on Imports - wet	81,224	61,809	63,834	(17,390)	2,025	61,216	4.3%
Excise on Imports - dry	29,117	27,934	24,622	(4,495)	(3,312)	22,311	10.4%
Anti-adulteration Levy			2,299	2,299	2,299		
Import Declaration Fees	30,967	26,509	26,782	(4,185)	273	26,189	2.3%
Railway Development Levy	24,719	24,719	21,303	(3,416)	(3,416)	20,780	2.5%
Total Exchequer Revenue	492,277	433,848	423,227	(69,050)	(10,621)	375,888	12.6%
Agency Revenue*	92,095	88,933	102,110	10,015	13,177	94,180	8.4%
Road Maintenance Levy Fund	68,446	65,284	78,160	9,714	12,876	73,668	6.1%
Petroleum Development Fund	2,482	2,482	2,165	(317)	(317)	2,262	-4.3%
Petroleum Regulatory Levy	673	673	1,087	414	414	521	108.7%
Total C&BC Revenue	584,372	522,781	525,337	(59,035)	2,556	470,068	11.8%
o/w revenue from eweti imports	165,457	149,705	170,925	5,468	21,220	146,947	16.3%
o/w revenue from edryi imports	418,915	373,076	354,412	(64,503)	(18,664)	323,121	9.7%

* Agency Revenue includes: Airport Revenue; Aviation Revenue; Petroleum Development Fund; Road Maintenance Levy; KAA Concession Fees; Road Transit Toll Levy; Petroleum Regulatory Levy; Merchant Superintendent Shipping Levy; and Miscellaneous revenue.

KRA collected Kshs 525.3 billion in Customs revenue during the 2018/19 financial year, Kshs 2.6 billion above the Revised Estimate of Kshs 522.8 billion. eweti taxes accounted for the entire surplus in the C&BC revenue collected. 'Wet' taxes are revenues collected as a result of oil imported into Kenya with its major revenue streams (i.e., slightly over 90%) coming from: Excise duty charged on quantities of oil imported with different rates by product type; Road Maintenance Levy which has a fixed rate of Kshs 18/litre of petrol and diesel imported; and VAT charged at 8% for petroleum products (a policy measure implemented in 2018/19 FY).

Import VAT

Import VAT was at its best performance in 2013/14 (% of GDP at 2.46%) when the VAT Act 2013 came into force reducing the number of exempt items significantly. However, with the continued increase in exempt items over time, Import VAT as a percent of GDP reduced to 1.78% as at 2017/18.

Thereafter, Import VAT as a percent of GDP rose to 1.89% in 2018/19 due to gains from tax policy measures, i.e., imposition of VAT at 8% on petroleum products.

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kshs Million	%	%	%
2013/14	125,177	32.2%	13.6%	2.46%
2014/15	135,637	8.4%	13.3%	2.32%
2015/16	131,473	-3.1%	11.6%	1.97%
2016/17	143,491	9.1%	11.3%	1.87%
2017/18	151,678	5.7%	11.3%	1.78%
2018/19	179,178	18.1%	12.1%	1.89%

Import Duty

Import Duty grew by 12.3% in 2018/19 which was an improvement from an average growth of 8.3% recorded over the last 3-year period (2015/16 - 2017/18).

Performance was driven by increased import of goods within the duty rate category of >25%, i.e.: wheat and meslin; cane or beet sugar; worn clothing; milk and cream; products of iron; furniture; palm oil; etc.

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kshs Million	%	%	%
2013/14	66,596	15.0%	7.25%	1.31%
2014/15	73,733	10.7%	7.21%	1.26%
2015/16	80,966	9.8%	7.12%	1.21%
2016/17	86,861	7.3%	6.82%	1.13%
2017/18	93,713	7.9%	6.99%	1.10%
2018/19	105,209	12.3%	7.12%	1.11%

Excise Duty

Excise duty registered growth of 5.9% in 2018/19 driven by Excise on oil imports

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kshs Million	%	%	%
2013/14	51,568	18.7%	5.61%	1.02%
2014/15	57,862	12.2%	5.66%	0.99%
2015/16	69,708	20.5%	6.13%	1.05%
2016/17	79,198	13.6%	6.22%	1.03%
2017/18	83,527	5.5%	6.23%	0.98%
2018/19	88,456	5.9%	5.99%	0.93%

Import Declaration Fees

Import declaration Fees grew by 2.3% in 2018/19

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kshs Million	%	%	%
2013/14	26,627	9.7%	2.90%	0.52%
2014/15	27,119	1.8%	2.65%	0.46%
2015/16	25,851	-4.7%	2.27%	0.39%
2016/17	24,486	-5.3%	1.92%	0.32%
2017/18	26,189	7.0%	1.95%	0.31%
2018/19	26,782	2.3%	1.81%	0.28%

Railway Development Levy

Railway development levy registered a growth of 2.5% in 2018/19

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kshs Million	%	%	%
2013/14	19,721		2.15%	0.39%
2014/15	18,940	-4.0%	1.85%	0.32%
2015/16	17,273	-8.8%	1.52%	0.26%
2016/17	18,903	9.4%	1.48%	0.25%
2017/18	20,780	9.9%	1.55%	0.24%
2018/19	21,303	2.5%	1.44%	0.22%

Road Maintenance Levy Fund

Road Maintenance Levy Fund recorded a growth of 6.1%

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kshs Million	%	%	%
2013/14	28,163	12.6%	3.06%	0.55%
2014/15	30,890	9.7%	3.02%	0.53%
2015/16	45,407	47.0%	3.99%	0.68%
2016/17	69,557	53.2%	5.46%	0.91%
2017/18	73,668	5.9%	5.50%	0.87%
2018/19	78,160	6.1%	5.29%	0.82%

b) Enforcement Measures

Intervention	Measure	No of Interventions (No) Actual FY 2018/19	Revenue Raise (Kshs Mn) Actual FY 2018/19	Revenue Raise (Kshs Mn) Actual FY 2017/18
Post Clearance Audit (PCA)	Audits concluded	85	1,760	1,566
Valuation & Tariff	No. of files processed	3,892	1,671	1,517
Scanning	Containers scanned	339,359		
	Without Discrepancies	329,226		
	With Discrepancies	10,133	2,176	1,630
	No. of scanners installed	5		
Regional Electronic Cargo Tracking	No. of transit trucks under e-seal monitoring	17,592		
	BIF Saved	1,193	1,843	568
	Recoveries	1,427	67	65
Border Control & Enforcement	Patrols conducted, fines & Offences compounded	2,547	658	405
Overstayed stocks	No. processed	49	561	1,043
Documents Processing Center (DPC)	No of discrepancies detected	8,484	3,350	2,617
Release points	No of Verifications Done	27,864	7,308	7323
National Targeting Centre	No of alerts yielded	2,491	1,368	1,147
GRAND TOTAL		405,051	18,919	17,312

Enforcement work in C&BC generated Kshs 21,884 million in 2018/19 financial year. About (45.3%) of this revenue was realized from verifications undertaken at the various release points, 19.3% emanated from discrepancies detected and corrected at DPC and 12.5% of this revenue was realized from scanning interventions.

c) Exemptions and Remissions

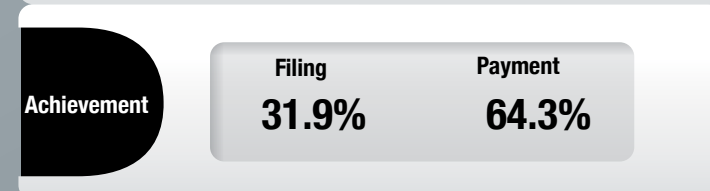
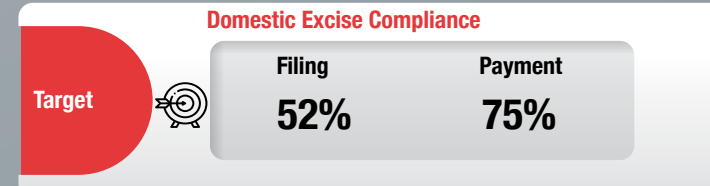
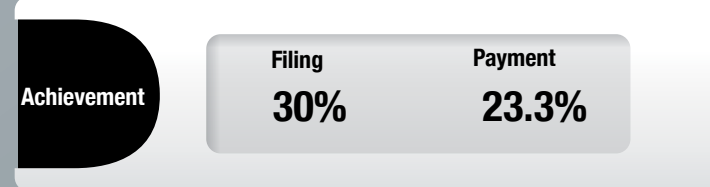
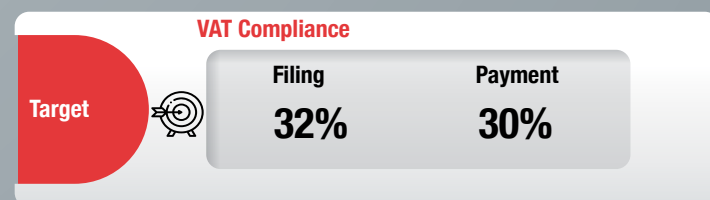
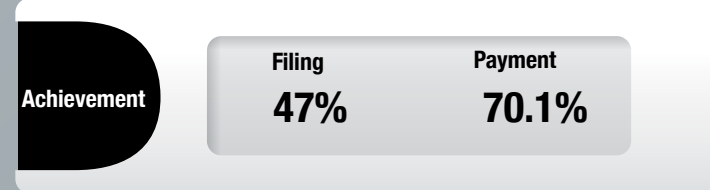
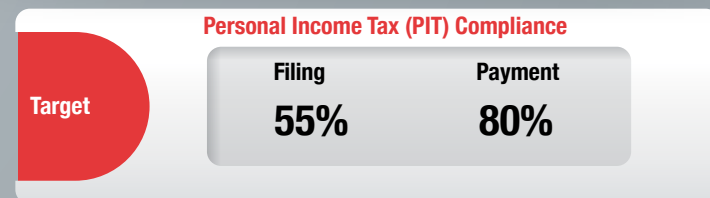
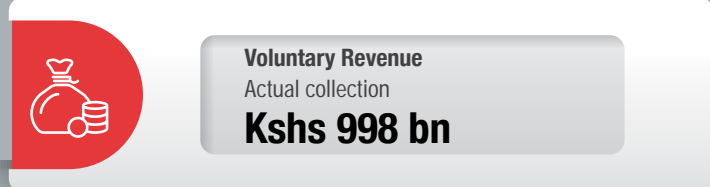
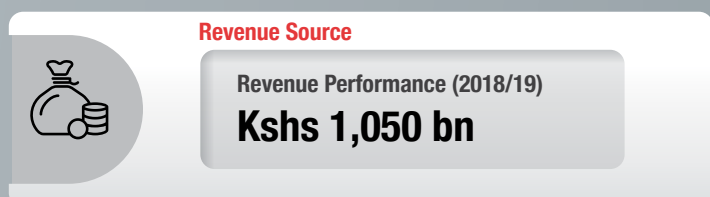
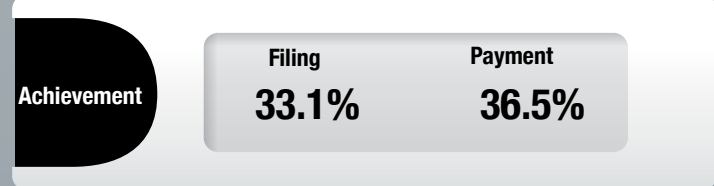
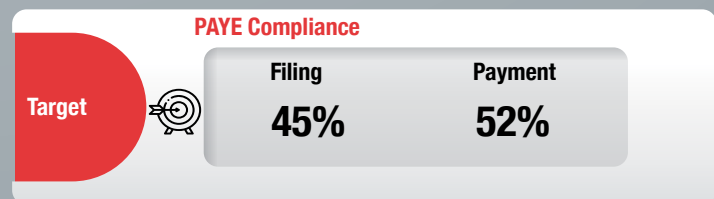
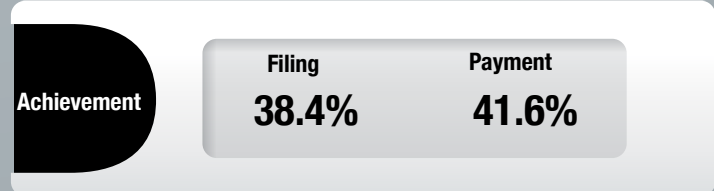
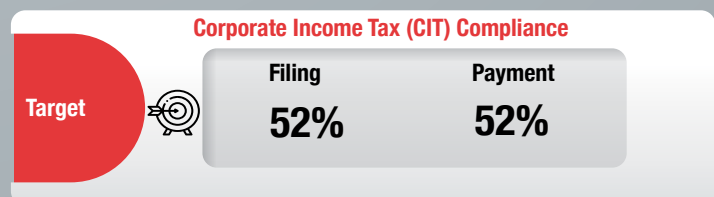
	2018/19	2017/18	Growth Amount	%
Remissions	23,920	22,135	1,785	8.1%
o/w TREO Exports (EPP0)	1,393	1,218	175	14.4%
o/w Other TREO (EGSP)	22,526	20,917	1,609	7.7%
Exemptions	41,910	62,467	(20,558)	-32.9%
o/w Other aid funded project goods	11,983	24,454	(12,471)	-51.0%
Other Treasury undertakings (D0090)	22,449	30,073	(7,625)	-25.4%
Diplomatic Privileges	4,176	3,589	587	16.4%
Raw materials for manufacture of medicaments	-	250	(250)	-100.0%
Travelers personal Effects	804	729	74	10.2%
Total	65,829	84,602	(18,773)	-22.2%

Remissions grew by 8.1% while exemptions declined by 32.9%. The decline in exemptions was driven by aid funded project goods and other Treasury undertakings, given completion of major Government projects, i.e., SGR. Therefore, the overall decline in remissions and exemptions had a positive revenue impact of Kshs 18,773 million

4.2 Domestic Tax Compliance

a) Revenue Performance

Outcome 2: Increased Tax Compliance



Domestic Taxes Revenue Performance

Tax Type	Printed Estimate June 2018	Revised Estimate May 2019	Actual Result 2018/19	Increase/ Decrease on Printed Estimate	Increase/ Decrease on Revised Estimate	Actual Result 2017/18	Growth (2018/19 over 2017/18)
	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	Kshs Million	%
VAT Domestic	257,316	241,124	230,348	-26,968	-10,776	205,099	12.3%
Withholding VAT	110,432	103,851	113,868	3,436	10,017	97,771	16.5%
PAYE	448,040	403,344	392,693	-55,347	-10,651	364,104	7.9%
Other Income Taxes	381,353	328,805	287,370	-93,983	-41,435	272,219	5.6%
Corporation Tax	227,791	197,317	168,783	-59,008	-28,534	160,059	5.5%
Withholding Tax	130,289	112,859	105,256	-25,033	-7,603	100,623	4.6%
Excise Duty*	50,441	56,573	49,920	-521	-6,653	84,535	-40.9%
Domestic Excise Duty	64,003	64,003	59,509	-4,494	-4,494	53,011	12.3%
Capital Gains Tax	7,450	4,140	2,951	-4,499	-1,189	16,640	-82.3%
Rental Income	7,582	7,582	8,584	1,002	1,002	6,058	41.7%
Stamp Duty	12,466	9,493	9,947	-2,519	454	12,143	-18.1%
Land Rent	2,474	862	588	-1,886	-274	601	-2.2%
Total Exchequer Revenue	1,231,125	1,115,926	1,049,911	-181,214	-66,015	961,399	9.2%
Agency Revenue**	490	490	511	21	21	506	1.0%
Total DTD Revenue	1,231,615	1,116,416	1,050,423	-181,192	-63,825	961,905	9.2%

* Excise Duty includes: Domestic Excise, Excise on Airtime and Excise on Financial Services.

** Agency Revenue includes: KEBS levy and Sugar levy.

KRA collected Kshs 1,050.4 billion in Domestic Taxes revenue during the 2018/19 financial year, Kshs 63.8 billion deficit on the Revised Estimate of Kshs 1,116.4 billion. All major tax heads namely VAT, PAYE, Corporation tax and Excise duty posted deficits.

Pay-As-You-Earn (PAYE)

Year	Actual	% Year-on-year Change	% of Exchequer Revenue	% of GDP
	Kes million	%	%	%
2013/14	252,974	19.86%	27.53%	4.98%
2014/15	277,068	9.52%	27.11%	4.74%
2015/16	312,032	12.62%	27.45%	4.63%
2016/17	336,596	7.87%	26.44%	4.32%
2017/18	364,104	8.17%	27.49%	4.30%
2018/19	392,693	7.85%	26.73%	3.92%

PAYE has declined from 5.0% of GDP in 2013/14 to 3.9% in 2018/19 n over 1 percentage point. A growth of 7.85% is the lowest experienced in the last five years. This is due to Tax policy driven by the widening of tax brackets and increase of personal relief by 10% for two consecutive years i.e.2017 and 2018. Moreover, sluggish growth in new jobs and near stagnant salaries especially in the private sector weighed in on the PAYE performance.

Withholding Income Tax

Year	Actual	% Year-on- year Change	% of Tax Revenue	% of GDP
	Kes million	%	%	%
2013/14	56,816	-13.1%	6.18%	1.12%
2014/15	92,678	63.1%	9.07%	1.58%
2015/16	82,690	-10.8%	7.27%	1.23%
2016/17	97,009	17.3%	7.62%	1.24%
2017/18	100,623	3.7%	7.51%	1.19%
2018 /19	113,868	13.2%	7.72%	1.14%

Withholding Income tax has been on a downward trend in the last five years from a high of 1.58% of GDP in 2014/15 to 1.14% of GDP in 2018/19. Completion of critical phases in major infrastructure projects and the capping of interest rates in the financial sector are the two salient factors that influenced the outturn of contractual fees and interest from banks components of withholding Income tax.

Corporate Income Tax

Year	Actual Kes million	% Year-on- year Change %	% of Exchequer Revenue %	% of GDP %
2013/14	135,971	22.91%	14.80%	2.68%
2014/15	126,541	-6.93%	12.38%	2.16%
2015/16	152,407	20.44%	13.41%	2.26%
2016/17	174,188	14.29%	13.68%	2.23%
2017/18	159,697	-8.32%	12.06%	1.89%
2018/19	167,958	5.17%	11.43%	1.67%

Corporation tax has declined from 2.7% of GDP to 1.7% over 2013/14-2018/19 ñ a full percentage point. During which period: introduction of capping of interest rates, completion of phase I of the SGR project, bearish run in the Nairobi Securities Exchange and growth in Investment Deductions being some of the factors that have contributed to the decline.

Corporation Tax by Sector

Sector	2016/17 Kshs million	2017/18 Kshs million	Growth %	2018/19 Kshs million	Growth %
Financial and Insurance Activities	66,395	56,470	-14.95%	62,321	10.36%
Banks	56,448	43,269	-23.35%	48,718	12.59%
Insurance	4,002	5,170	29.19%	3,950	-23.60%
Other financial services	5,945	8,031	35.09%	9,653	20.19%
Information and Communication	27,822	29,069	4.48%	31,577	8.63%
Telecommunication	23,839	26,202	9.91%	27,656	5.55%
Others	3,983	2,867	-28.02%	3,921	36.76%
Manufacturing	24,015	21,804	-9.21%	19,801	-9.18%
Transportation and Storage	11,191	7,233	-35.37%	6,380	-11.80%
Construction	6,966	7,996	14.79%	5,313	-33.56%
Real Estate Activities	6,633	7,249	9.29%	6,620	-8.68%
Wholesale and Retail Trade	5,962	6,049	1.45%	8,097	33.87%
Electricity, Oil, Gas, Steam and Air conditioning supply	5,289	6,731	27.25%	6,378	-5.24%
Agriculture, Forestry And Fishing	4,402	4,395	-0.16%	5,927	34.85%
Other Sectors	15,512	12,701	-18.12%	15,544	22.38%
Total	174,188	159,697	-8.32%	167,958	5.17%

Corporation Income Tax by Sector

The top five sectors i.e. Finance & Insurance, Information & Communication, Manufacturing, Transportation & Storage and Construction contributed **78.52%** of corporation income tax collection in the 2018/19 period out of which only Financial & Insurance Activities and Information & Communication exhibited growths. The Banking sector is rebounding from a contraction experienced in the preceding year because of introduction of interest rate capping in late 2017. High costs and bearish Nairobi Securities Exchange market are some of the factors that plunged the insurance sector into reduced profitability. Contraction in the construction sector is down to scaling down of activities by major contractors upon completion of phase I of the SGR project. It is worth noting that a growth of **73.8%** in Investment Deductions influenced the outturn of collections in the manufacturing sector.

Domestic VAT

Year	Actual	% Year-on- year Change	% of Tax Revenue	% of GDP
	Kes million	%	%	%
2013/14	108,380	22.42%	11.79%	2.13%
2014/15	129,234	19.24%	12.65%	2.21%
2015/16	159,370	23.32%	14.02%	2.37%
2016/17	193,081	21.15%	15.17%	2.48%
2017/18	205,099	6.22%	15.49%	2.42%
2018 /19	230,348	12.31%	15.68%	2.30%

Domestic VAT has been on an upward trajectory up until the last two years where it has declined to 2.30% of GDP in 2018/19.

VAT Refunds

Year	Actual	% Year-on- year Change	% of VAT Revenue	% of GDP
	Kes million	%	%	%
2013/14	12,632	4.10%	11.66%	0.25%
2014/15	16,352	29.40%	12.65%	0.28%
2015/16	13,010	-20.40%	8.16%	0.19%
2016/17	20,038	54.00%	10.38%	0.26%
2017/18	16,458	-17.90%	8.02%	0.19%
2018 /19	13,563	-17.59%	5.89%	0.14%

VAT refunds have slowed down as a percentage of GDP in the last five years from a high of 0.28% in 2014/15 to a low of 0.14% in 2018/19. The policy changes on taxpayers eligible for VAT claims (exporters) and the claim apportionment formula as well as the impetus to clear backlog as two key factors that have helped reduce the stock on VAT refunds.

Domestic Excise

Year	Actual	% Year-on- year Change	% of Tax Revenue	% of GDP
	Kes million	%	%	%
2013/14	35,855	7.8%	3.90%	0.71%
2014/15	38,246	6.7%	3.74%	0.65%
2015/16	48,986	28.1%	4.31%	0.73%
2016/17	55,499	13.3%	4.36%	0.71%
2017/18	53,011	-4.5%	3.95%	0.63%
2018 /19	59,509	12.3%	4.04%	0.59%

Domestic Excise duty has steadily been declining from a high of 0.73% of GDP in 2015/16 to a low of 0.59% in 2018/19.

Domestic Excise duty is solely dependent on volumes delivered.

In the last two years two major excisable products i.e. beer especially premium beer and cigarettes have experienced contraction in volumes delivered affecting remittances. The other major product – spirits experienced inhibited growth in 2017/18 due to drought that affected availability of locally sourced raw material. Else, 2017/18 has seen a reverse in the spirits sub-sector.

b) Summary of revenue impact from interventions

(values in Kshs mn)	2018/19
Revenue Performance	1,050 bn
o/w from Voluntary compliance	998 bn
o/w from enforcement and compliance activities	52 bn

During the 2018/19, enforcement and compliance activities yielded 5% of the total revenue realized.

c) Enforcement Measures

Intervention	Measure	Number of Interventions (No) Actual FY 2018/19	Revenue Raise (Kshs Mn) Actual FY 2018/19
Debt Enforcement	No. of cases processed		40,366
Taxpayer Recruitment	No. of taxpayers recruited	1,969,054	3,304
Audit of Taxpayers	No. of audited concluded		
Tax base expansion:			
Landlords	No. of landlords recruited	36,818	881
Professional	No. of professionals brought to compliance	1,519	
E-commerce	No. of e-commerce players brought to compliance	-	
High Net Worth individuals	No. of e-HNWI brought to compliance	323	5,613
Domestic VAT decliners	% of decliners/total payers	54.5%	
Corporation decliners	% of decliners/total payers	51.7%	
Withholding Tax decliners	% of decliners/total payers		
PAYE decliners	% of decliners/total payers	43.3%	
Conversion of intelligence reports	No. of Reports converted	31	1,971
Total			52,135

Enforcement work undertaken in the 2018/19 financial year by the Domestic Taxes department generated Kshs 52,135 million. The bulk of revenue realized (76.7%) was from Debt enforcement measures that targeted to reduce the debt portfolio. The other two critical measures that generated about 23% of revenue realized were taxpayer recruitment and High net worth individuals program.

d) Value of Credits

Tax Head	FY 2018/19	FY 2017/18	Growth
Domestic VAT	161,809,725,587	133,039,319,708	19.9%
Corporation Tax	22,969,223,081	46,788,470,609	(50.9%)
Total Taxpayer Credits	190,188,573,235	186,265,791,606	2.1%

At the end of the 2018/19 financial year, the value of credits recorded a growth of 2.1% primarily due to a growth of 19.9% from Domestic VAT. The high growth in Domestic VAT is partially driven by the withholding VAT credits.

On the other hand, value of credits resulting from corporation tax declined by 50.9% on the backdrop of improved performance especially from the banking sector that accounted for about 41% of credit reduction from the preceding financial year.

4.3 Tackling Tax Crimes: DETECT, DETER, DISRUPT

		Number of interventions	Revenue raised (Ksh.Mn)	Revenue Collected (Ksh.Mn)
Role	Measure	Actual 2018/19	Actual 2018/19	Actual 2018/19
DETECT				
Intelligence	No. of cases	452	33,941	7,486
Informers	No. of cases	8	3	1,044
Departmental referrals	No. of cases	51	24	
Internally generated	No. of cases	637	749	
Multi Agency Team	No. of cases	27	71	
Total		1,175	34,788	8,530
DETER				
Revenue protected	Kshs. Mn	1,175	34,788	8,530
DISRUPT				
Syndicates disrupted	No. of cases	288	2,504	1,675

TACKLING TAX CRIMES

During the financial year 1,175 tax evasion cases were detected and Kshs 34,788 million revenue raised out of which Kshs 8,530 million was collected.

During the same period, 288 tax evasion syndicates were disrupted with Kshs 2,504 million raised out of which Kshs 1,675 million was collected.

The following enforcement measures were applied during the year: Arrest and prosecution of offenders, Recovery of debts, Issuance of Departure Prohibition Orders, Issuance of agency notices, Preservation of Funds, Assets caveats, Cancellation of TCC, Deactivation of PINS, Stoppage of cargo clearance among others.

In the financial year 2019/20 the department will focus on Investigations, Prosecutions and Publicity (IPP).



Kshs 8,530 Million

Total collected from tax evasion cases that were detected

4.4 Tax Disputes Resolution

FY 2018/19

	Courts	TAT	ADR	IRO
CASES FILED				
Opening Balance (No. of Cases)	624	321	39	0
Cases Filed (No.)	247	674	522	58
Cases Dealt with (No.)	883	1,030	561	58
Revenue in Dispute (KShs. Mn)	81,408	209,717	62,695	41,872
CASES CONCLUDED				
Total Cases Concluded	215	255	445	52
Original Assessment Upheld	191	18	8	27
Assessment Varied	0	0	183	20
Original Assessment Vacated	24	0	46	5
Other Disposal	0	237	208	0
No. of Cases Pending end of period	656	740	116	6
REVENUE IMPLICATIONS				
Revenues Released (KShs Mn)	12,534	123	8,102	627
Revenue Released: % of Disputed Revenue	15.4%	0.1%	1.3%	1.5%
Revenue in Pending Cases	52,944	196,344	37,442	322

NOTES:

1. The total number of cases filed for the FY 2018/19 is 979 cases. This figure does not include the ADR figure of 522 cases as the same has already been counted/included in the TAT figure of 674 cases.
2. For purposes of revenue in dispute the amount from ADR of KShs. 62,695 (Mn) was dropped from the total calculation as that figure was counted in the TAT figure of KShs. 209,717(Mn).
3. Revenue **Released as a % of Disputed Revenue**- The percentage is calculated as a ratio of revenue yield Vis-a Vis the disputed revenue for all the concluded cases.
4. **Duplication of Cases**- All applications for ADR largely emanate from the Tax Appeals Tribunal Cases with a few from Courts. It is evident that all cases at the Tribunal are either pending hearing or before ADR.
5. **Independence**- the Dispute Resolution process is stepwise from Assessments to Objections, Objection decisions to appeals at the Tax Appeal Tribunal or Courts. These processes are independent of each other
6. **Objections**: - Out of the disputed revenue of KShs. 41,872 million under objections, KShs. 37,821 proceeded to the appeal stage at the Tax Appeals Tribunal.

DISPUTE RESOLUTION

During 2018/19, 979 disputes filed were recorded at various levels. The highest number (69%) were filed at the Tax Appeals Tribunal (TAT). A total of **KShs 332,997 million** was tied up in disputes. A total of **730** disputes were finalized during the year. Of these **244** cases had the original assessment being upheld, **203** disputes (**183 – ADR, 20 nIRO**) where the assessments were varied while in 75 cases the assessments were vacated. (**24- Court; 46 -ADR and 5- IRO**).

KRA thus recorded a **33.4%** performance rate in terms of its decisions being upheld. Concluded disputes released **Kshs. 21,385 million** for collection. This was **30%** of the original revenue in dispute of the cases concluded in the FY.

Factors that undermined the use of the dispute resolution system included:

- i Delay in constituting the TAT,
- ii Staffing issues in the Tax Dispute Resolution (TDR) division



5. IMPLEMENTATION OF KRA'S REFORM AGENDA

KRA Reform Agenda





- Data Driven Compliance
- Resolution of Tax Disputes through Tax dispute Resolution (TDR)
- Enhanced scanning (Integrated Scanner Command Centre) (ISCC)
- ICMS
- RECTS
- Tax before expansion

- **Data driven compliance:** The implementation of the iTax domestic taxes system has facilitated the detection of non-compliance through data matching and 3rd party data utilization. The intervention exploits compliance on detected malpractices. Of particular importance is the focus on IFMIS/iTax integration to ensure all suppliers to national and county government are compliant.
- **Enhanced scanning to detect concealment:** KRA currently scans containers focusing on those profiled as high risk. This initiative aims to raise the scanning coverage to 80%. The intervention is built around the operationalization of nine additional scanners at the points of entry. KRA already has a centralized control centre and establishment a fully functional scanner unit to monitor scanning operations from a remote control.
- **Roll Out of the Integrated Customs Management System (ICMS):** The ICMS project is being implemented and roll out of completed modules is ongoing. The overall objective of icms is to enhance efficiency in Customs practices such as clearance of goods and people across the borders. Full roll out will facilitate more efficiency and raise productivity. The system integrates all existing stand-alone Customs processes into one modern and more robust system that conforms to the best global Customs standards and practices.
- **Implementation of Regional Electronic Cargo Tracking System to tackle transit diversion:** Kenya has implemented the RECTS along with other regional partners. The intervention is focused on expanding RECTS to cover all transit cargo under customs control, commissioning smart gates at various exit points, and boosting capacity of rapid response unit.



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