



PRESS STATEMENT

CIVIL SOCIETY ORGANIZATIONS UNDER THE OKOA UCHUMI CAMPAIGN COALITION REVIEW OF THE DRAFT NATIONAL TAX POLICY

03, August 2022

About us:

The Okoa Uchumi campaign is a civil society platform committed towards working with stakeholders to resolve Kenya's public debt crisis. The campaign advocates for balanced and equitable budgets as a means of achieving debt sustainability and economic inclusion. The campaign seeks to bolster constitutional safeguards in public debt management and to push for the accountability of political leaders in public debt management.

Civil Society Organizations under the Okoa Uchumi Coalition met to review the Draft National Tax Policy. *The National Tax Policy is a proposal by the government to have an efficient and fair tax system that promote equity in tax administration and predictable tax environment for business to operate.*

The policy provides broad principles of tax administration and revenue collection in Kenya and sets parameters on **tax policy** and other tax related matters. It sets out guidelines for **tax reforms and forms the basis for tax legislation and review.**

The review by the **Okoa Uchumi Campaign coalition partners** is on the **Implementation Framework, Predictability, VAT Exemptions, Excise Duty, Tax Incentives, Existence of Hard to tax areas and Income Tax.**

The following are some of our concerns on:

- **Implementation Framework**

Under the implementation framework, taxpayers have a role and responsibility to give feedback on tax administration services. However, the framework does not provide a mechanism for consideration and/or response to the feedback. Given the current limited focus on taxpayers' feedback, there is need to develop a **clear feedback** loop in part as an element of stakeholder engagement and secondly to underscore the importance of the policy's guiding principle.

- **Predictability**

Under the predictable tax rates and tax base, the tax policy provides for the requirement to have stakeholder engagement before undertaking any amendment of the tax laws. The policy should recommend for the enactment of a **Public Participation Act** or the development of public participation guidelines to enable effective stakeholder engagement as tax issues are cross cutting and are matters of national importance.

VAT Exemptions

There is a proposal to have a single **VAT Tax rate of 16%** with preferential VAT rates to be **discounted at 25%**. If increased, the highest rate would be 20% with the lowest rate at 12%. This will have an impact on some of the items with preferential rates like LPG currently taxed at 8%. If this policy was to be adopted today, LPG whose VAT tax rate is 8% will automatically go up to at least 12%. This has a ripple effect to the economy and would generally hurt low-income earners. We propose for the **introduction of additional special VAT rates** for special categories of goods like LPG because of the ripple effect this has on the economy and the VAT on essential products given the potential these products have, in hurting low-income earners.

Excise Duty

There is need for clarity on the role and uses of excise duty. Since Excise duty is traditionally a **sin tax** meant to discourage consumption of certain harmful products. It therefore isn't clear on whether the government is trying to discourage the consumption of certain products like communication and financial services currently excisable. There is also need for clarity on the other objective of government for excise duty provided for by the Draft National Tax policy.

Tax Incentives

The policy provides for accountability frameworks which are a bit vague, thus the lack of accountability frameworks in determining the tax foregone as a result of the tax incentives. Treasury and KRA should **keep a public record** on the tax expenditure to allow for transparency and accountability on the beneficiaries of the tax incentives and the criteria for the selection of the beneficiaries provided. Given that tax incentives are tax expenditures, there is need to include revenue foregone in the annual budgets to account for the tax foregone.

Existence of Hard to tax areas

There is need for the government to consider other ways of taxing the informal sector other than **presumptive tax**. The informality should not just be restricted to the informal sector but also the professional sectors with soft skills which may be easy to hide hence hard to tax.

Income Tax

The policy provides for the need for the review of exemptions to go through an Act of parliament but at the same time gives the Cabinet Secretary ability to income tax exempt goods.



Okoa Uchumi Campaign coalition partners are compiling the comprehensive review of the draft National **Tax Policy** to submit to the National Treasury by the **5th of August 2022**.

As partners we welcome opportunities to engage further on our concerns through your various platforms.

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