



Revenue Collection and Economic Justice

Kenya National Tax Outlook Survey - 2021



Revenue Collection and Economic Justice

*Kenya National Tax
Outlook Survey - 2021*

Published by



With the support of



© East African Tax and Governance Network (EATGN)
Jaflo Limited | Block 3 | 106 Brookside Drive | Westlands

Contacts

Email: info@eataxgovernance.net / coordinator@eataxgovernance.net

Tel: (254) 20 24 73373, (254) 728 279 368

Website: www.eataxgovernance.net

Designed by

Evolve Media Ltd

This publication remains the sole property of EATGN. (2021)

*All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form, or by any means electronic, mechanical, photocopying, recording or otherwise, without the prior express and written permission of the publishers. Any part of this publication may be freely reviewed or quoted provided the source is duly acknowledged. **THIS PUBLICATION IS NOT FOR SALE.***

ACRONYMS	6
LIST OF FIGURES	7
LIST OF TABLES	8
EXECUTIVE SUMMARY	9
Key Findings	9
Conclusions	15
Recommendation	15
1. INTRODUCTION	17
1.1. Background Information	17
1.2. Survey Objectives	17
2. STUDY METHODOLOGY	17
2.1. Overview	17
2.2. Data Collection	18
2.3. Data Analysis	18
2.4. Study Timing	18
2.5. Respondents' Demographics	18
3. FINDINGS: KENYANS' KNOWLEDGE OF TAXATION	21
3.1. Proposed Taxes for 2021/2022	21
3.2. Government Tax Collection Targets	23
3.2.1. Factors related to Non-Achievement of Tax-collection Revenue Targets	24
3.2.2. Remedial Actions Taken by the GoK When It fails to Meet its Targets	26
3.3. Knowledge of COVID-19 Tax-Relief Measures	27
3.3.1. COVID-19 Tax-Relief Measures Still in Place	28
3.3.2. COVID-19 Rebates Impact on Kenyans Personal Financial Situation	30
3.4. Kenya's External Debt	31
3.4.1. Perceived Impacts of External Debt	32
3.5. Fairness of the Current Tax System	33
3.5.1. Reasons Why the Tax System is Unfair	34
3.6. Perception Towards Taxation	35
3.6.1. Equitable taxation	35
3.6.2. Foreign companies paying tax and personal tax avoidance	36
3.7. Willingness to Pay Tax	36
3.7.1. Payment of PAYE	38
3.7.2. Filling Tax Returns	39

ACRONYMS

CS	-	Cabinet Secretary
EAC	-	East Africa Community
EATGN	-	East African Tax and Governance Network
GoK	-	Government of Kenya
KRA	-	Kenya Revenue Authority
TJFK	-	Tax Justice Forum in Kenya
TJNA	-	Tax Justice Network Africa
PAYE	-	Pay As You Earn
VAT	-	Value Added Tax
KES	-	Kenya Shilling

LIST OF TABLES

Table 1: Awareness of proposed taxes	9
Table 2: COVID-19 tax relief measures	11
Table 3: COVID-19 tax relief measures	11
Table 4: Willingness to pay tax	12
Table 5: Paying PAYE and filing tax returns	14
Table 6: Demographics	19

LIST OF FIGURES

Figure 1: External debt and its impact	10
Figure 2: External debt and its impact	12
Figure 3: Drivers and barriers to paying tax	13
Figure 4: Study methodology approach	18
Figure 5: Knowledge of proposed taxes (By Total & Region)	21
Figure 6: Knowledge of proposed taxes (By Total, Gender, Setting, Age & Employment Status)	22
Figure 7: Knowledge of proposed taxes (By Total & Region)	22
Figure 8: GoK tax collection targets (By Total, Gender, Setting, Age & Employment Status)	23
Figure 9: GoK tax collection targets (By Total & Region)	24
Figure 10: Reasons why the government never meets its tax-collection revenue targets (By Total, Gender, Setting, Age & Employment Status)	25
Figure 11: Reasons why the government never meets its tax-collection revenue targets (By Total & Region)	25
Figure 12: Actions taken by GoK when it fails to meet its target (By Total, Gender, Setting, Age & Employment Status)	26
Figure 13: Actions taken by GoK when it fails to meet its target by (By Total & Region)	26
Figure 14: Tax-relief measures introduced by the government (By Total, Gender, Setting, Age & Employment Status)	27
Figure 15: Tax-relief measures introduced by the government (By Total & Region)	28
Figure 16: Tax-relief measures still in operation	28
Figure 17: Tax-relief measures still in operation (By Total, Gender, Setting, Age & Employment Status)	29
Figure 18: Tax-relief measures still in operation (By Total & Region)	29
Figure 19: Effects of tax rebates/measures on Kenyans (By Total, Gender, Setting, Age & Employment Status)	30
Figure 20: Effects of tax rebates/measures on Kenyans (By Total & Region)	30
Figure 21: Shifts in the external debt by total	31
Figure 21: Change in the amount of external debt (By Total, Gender, Setting, Age & Employment Status)	31
Figure 23: Change in the amount of external debt (By Total & Region)	32
Figure 24: Impacts of external debt (By Total, Gender, Setting, Age & Employment Status)	32
Figure 25: Impacts of external debt (By Total & Region)	33
Figure 26: Fairness of the current tax system (By Total, Gender, Setting, Age & Employment Status)	33
Figure 27: Fairness of the current tax system (By Total & Region)	34
Figure 28: Reasons why the tax system is unfair (By Total, Gender, Setting, Age & Employment Status)	34
Figure 29: Reasons why the tax system is unfair (By Total & Region)	35
Figure 30: Equitable taxation by total	35
Figure 31: Willingness to pay taxes (By Total, Gender, Setting, Age & Employment Status)	36
Figure 32: Willingness to pay taxes (By Total & Region)	37
Figure 33: Drivers and barriers to paying taxes	38
Figure 34: % Paying PAYE income tax (By Total, Gender, Setting, Age & Employment Status)	38
Figure 35: % Paying PAYE income tax (By Total & Region)	39
Figure 36: % That filed returns last year (By Total, Gender, Setting, Age & Employment Status)	39
Figure 37: % That filed returns last year (By Total & Region)	40

ACKNOWLEDGEMENTS

EATGN gratefully acknowledges Christian Aid (CA) for generously supporting this initiative. Specifically, EATGN thanks the CA team of Charles Opiyo, Nicholas Obuya, Susan Kibor, Peter Ndungu, Rita Owiti, Caroline Ngumba and Njoroge Mucheru. Thanks for your patience towards a small organization navigating research during this difficult COVID-19 context.

Special thanks go to TJNA staff and to the EATGN steering committee, namely Regina Navuga of Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) Uganda, Cyrus Nkusi of Governance for Africa (GFA) Rwanda, Prime Nkezumukama of Dukingire Isi Yacu – Burundi, Nicholas Lekule of Policy Forum in Tanzania, and Celine Awour of International Institute for Legislative Affairs (ILA) in Kenya for their constant support.

We are thankful for the work done by TIFA Research Limited in conducting this survey. Also, full appreciation goes to the entire EATGN team comprising of the regional coordinator Leonard Wanyama plus interns Brenda Osoro and Everlyn Muendo who made the logistics plus publication of this study possible.

Executive Summary

Considering growing debt constraints and the needs arising within the context of the COVID-19 pandemic, the Kenyan government is making changes to its tax regime through various legislative processes. Noting recent tax measures, debt debates, and what was then a forthcoming 2021/2022 budget, the East African Tax and Governance Network (EATGN) and Tax Justice Network Africa (TJNA) sought public perceptions to inform its advocacy activities. It is against this background that TIFA Research Limited was commissioned to undertake a National Tax Outlook Survey. To address the objectives of assessing the emerging context, current issues, challenges facing Kenyans and trends concerning taxation, a national household survey was conducted with a total of 1,525 respondents aged 18+ years. The data was collected telephonically between the 24th and 28th of June 2021.

Key Findings

Knowledge on Proposed Taxes - The 2021/2022 budget proposals sought to: introduce a 16% Value Added Tax (VAT) on bread; a 1.5 % tax on digital/online businesses; increase excise duty on motorcycles to 15%; and increase taxation on alcohol manufacturing; plus loss making companies as well as tax on retirees' incomes. Despite the fact that these recently proposed taxes have an important bearing on pertinent issues in the lives of Kenyans, more than half of the interviewed population lacked knowledge of them. Only a quarter of the respondents could recall proposed taxes on an increase in fuel-levy (25%) and on VAT imposed on bread (17%). Across the demographics, lack of knowledge of these proposed taxes was also observed.

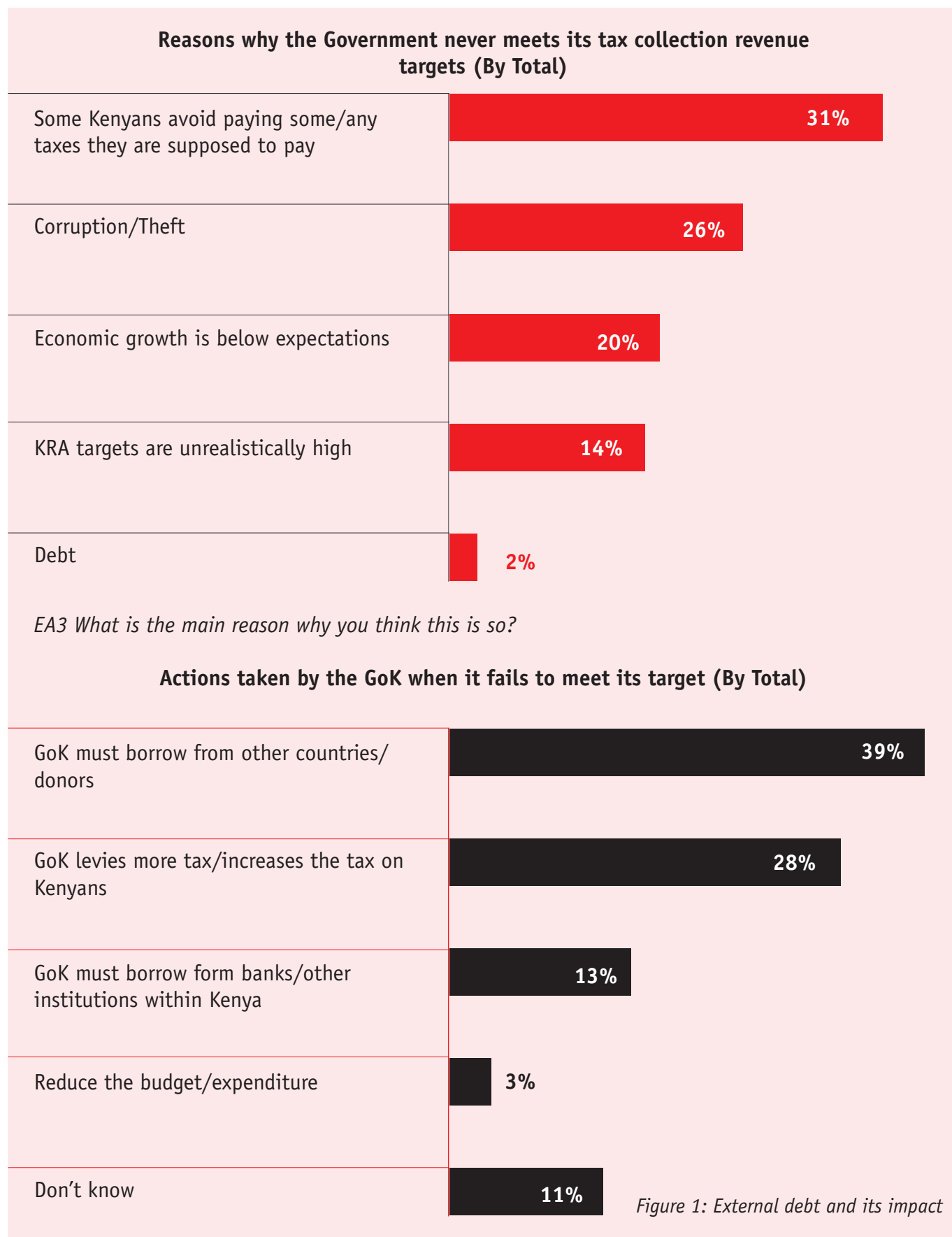
	Total	Gender		Employment Status			Observation
		Male	Female	Formal	Informal	Jobless	
Don't know	54%	55%	52%	55%	58%	51%	More males say 'don't know' and are therefore, less knowledgeable
Tax relief for low-income earners	25%	26%	25%	27%	25%	26%	No significant differences by gender and employment
VAT reduction	17%	19%	15%	18%	17%	16%	Males more knowledgeable No significant differences by employment

Table 1: Awareness of proposed taxes

Government Ability to Meet Revenue Targets - Since the 2013/14 financial year, the Kenya Revenue Authority (KRA) has never surpassed its targets. However, in the financial year 2020/21 KRA surpassed its revenue target despite the economic slump resulting from the COVID-19 pandemic.¹ Findings of this study show that current public perceptions on the government's ability to meet its revenue targets are split across three main views: that government never meets its targets (34%); always meets targets (25%); and sometimes meets targets (25%).

1. KRA (Kenya Revenue Authority), 'Annual Revenue Performance FY 2020/2021', PRESS RELEASE, 04 July 2021, <https://www.kra.go.ke/en/media-center/press-release/1299-annual-revenue-performance-fy-2020-2021#:~:text=In%20the%20FY%202020%2F2021,compared%20to%20last%20Financial%20Year.>

Barriers to Tax Revenue Collection - Among the reasons given by Kenyans as to why the government does not achieve its tax collection revenues, tax avoidance was at the top of the list having been identified by 31% of the respondents followed by fraudulent financial practices (corruption and theft) at 26%. Poor economic growth was cited by 20% of the respondents.



Bridging Tax Revenue Short Falls - Incurring foreign debt (39%), increasing local taxes (28%) and borrowing locally (13%) were considered the main actions taken by government when faced with the challenge of low tax revenues. Government financial austerity seemed to be an issue that was not in consideration as the mentions of the Kenyan government cutting its budgetary expenditure were rather low (3%). Notably, more of those in formal employment (44%) stated that GoK must borrow from other countries/donors when it fails to meet its target compared to those in the informal sector (36%), and jobless respondents (39%).

Knowledge of COVID-19 Tax-Relief Measures and Those Still in Place - A majority (70%) of the respondents were not aware of the tax-relief measures that were introduced by the GoK to cushion Kenyans from the economic losses caused by the COVID-19 pandemic. Lack of knowledge of these measures was highest among female respondents. Notably, those in informal employment and the jobless were less knowledgeable than those employed.

	Total	Gender		Employment Status			Observation
		Male	Female	Formal	Informal	Jobless	
Don't Know	70%	61%	78%	55%	72%	73%	More females, informal and jobless are less knowledgeable
Tax relief for low-income earners	13%	16%	10%	25%	11%	10%	Males and formal sector workers more knowledgeable
VAT reduction	11%	15%	10%	15%	10%	11%	Males and formal sector workers more knowledgeable

Table 2: COVID-19 tax relief measures

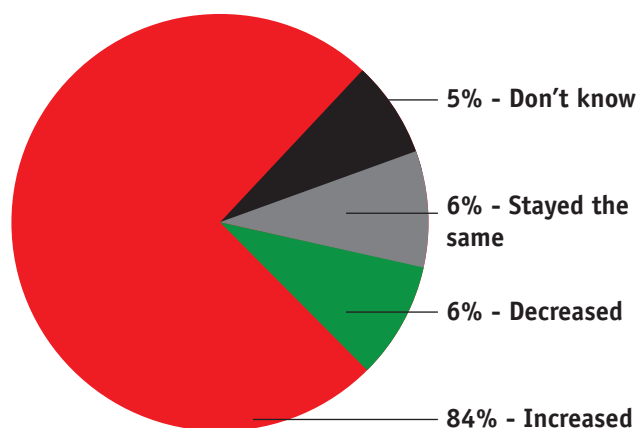
Kenya reinstated the pre-COVID-19 tax rates on 1st January 2021. Despite this, according to research, 60% of Kenyans do not know which tax-relief measures are still in operation, while a majority of Kenyans are still not aware of what these measures were in the first place.

	Total	Gender		Employment Status			Observation
		Male	Female	Formal	Informal	Jobless	
Don't Know	60%	65%	52%	56%	63%	60%	More females, informal and jobless are less knowledgeable
Tax relief for low-income earners	10%	7%	14%	17%	9%	7%	Males and formal sector workers more knowledgeable
Decrease in PAYE	9%	7%	12%	11%	7%	10%	Females and jobless more knowledgeable

Table 3: COVID-19 tax relief measures

Amount and Impact of External Debts in Kenya - In December 2020, the Treasury indicated that the country's external debt figure was KES 7.2 trillion, which was 65.6% of GDP. The IMF loaned Kenya another KES 3.4 trillion, which the IMF has since pressured the government to add to its register arising from parastatals and county loans. Kenya's debt portfolio therefore stands above KES 11 trillion. Against this backdrop, an overwhelming majority of Kenyans feel that there has been an enormous increase in Kenya's external debt, which they consider to be a very serious problem.

Change in the amount of external debt (By Total)



Impact of external debt (By Total)

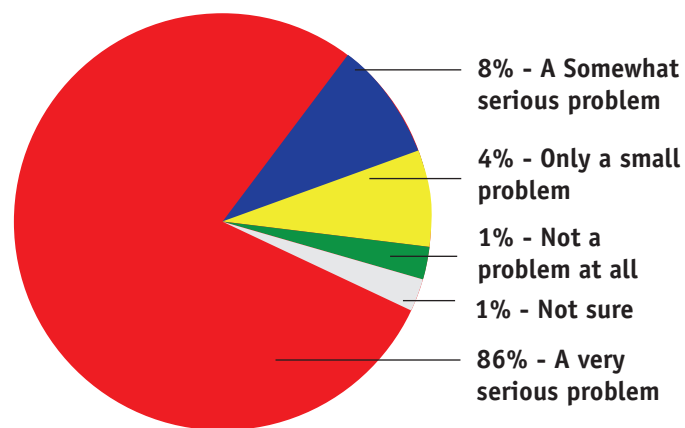


Figure 2: External debt and its impact

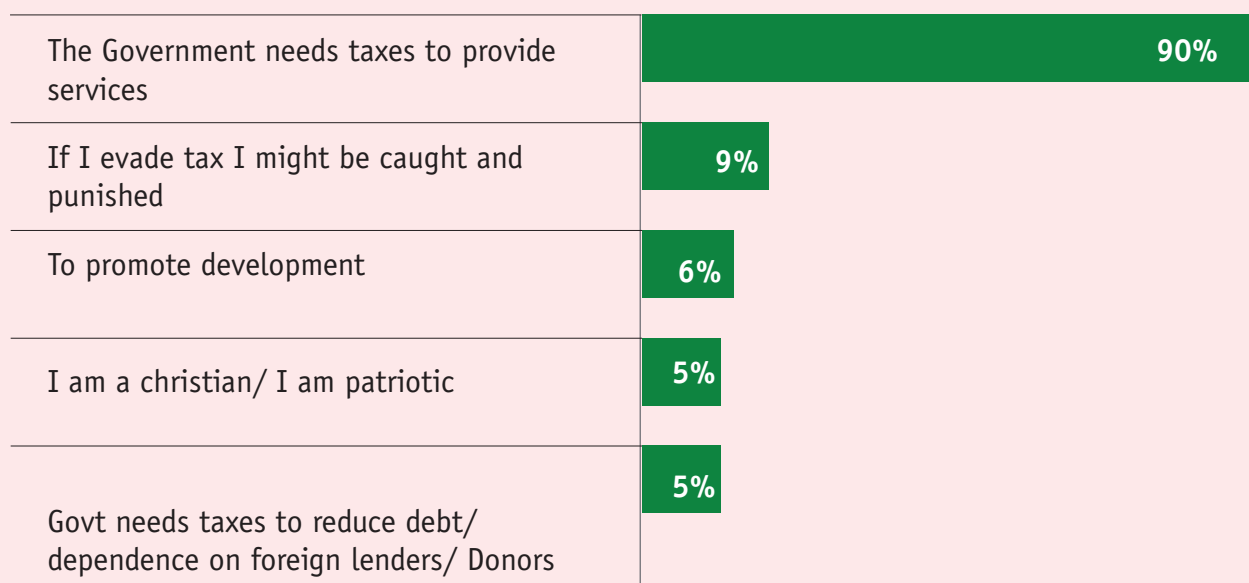
Fairness of Tax System and Willingness to Pay Tax - Over half of respondents (56%) cited that they would continue to willingly pay taxes even if nothing would happen to them if they didn't pay. The main reason they would pay tax willingly is because they understand that the government needs taxes to provide services.

	Total	Gender		Employment status			Observation
		Male	Female	Formal	Informal	Jobless	
% who say tax system is not fair	50%	53%	47%	56%	49%	49%	More males. More formal employment respondents
% willing to pay tax	56%	64%	49%	55%	57%	56%	More males. No differences by employment status

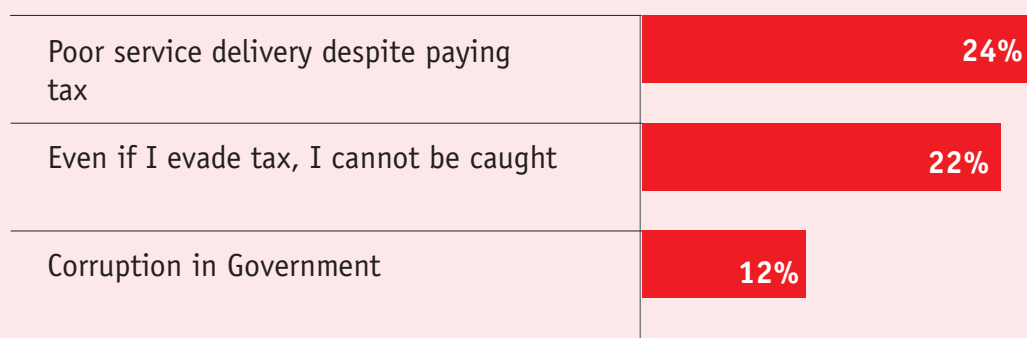
Table 4: Willingness to pay tax

Almost half of the respondents who were willing to pay taxes attributed it to the fact that government needs taxes to provide services while those who mentioned that they were unwilling were more concerned about the poor public service delivery despite paying taxes. This was followed by the perception that those evading tax cannot be caught.

Drivers for paying tax



Barriers to Paying Tax



EA15 Why are you willing/unwilling to pay taxes?

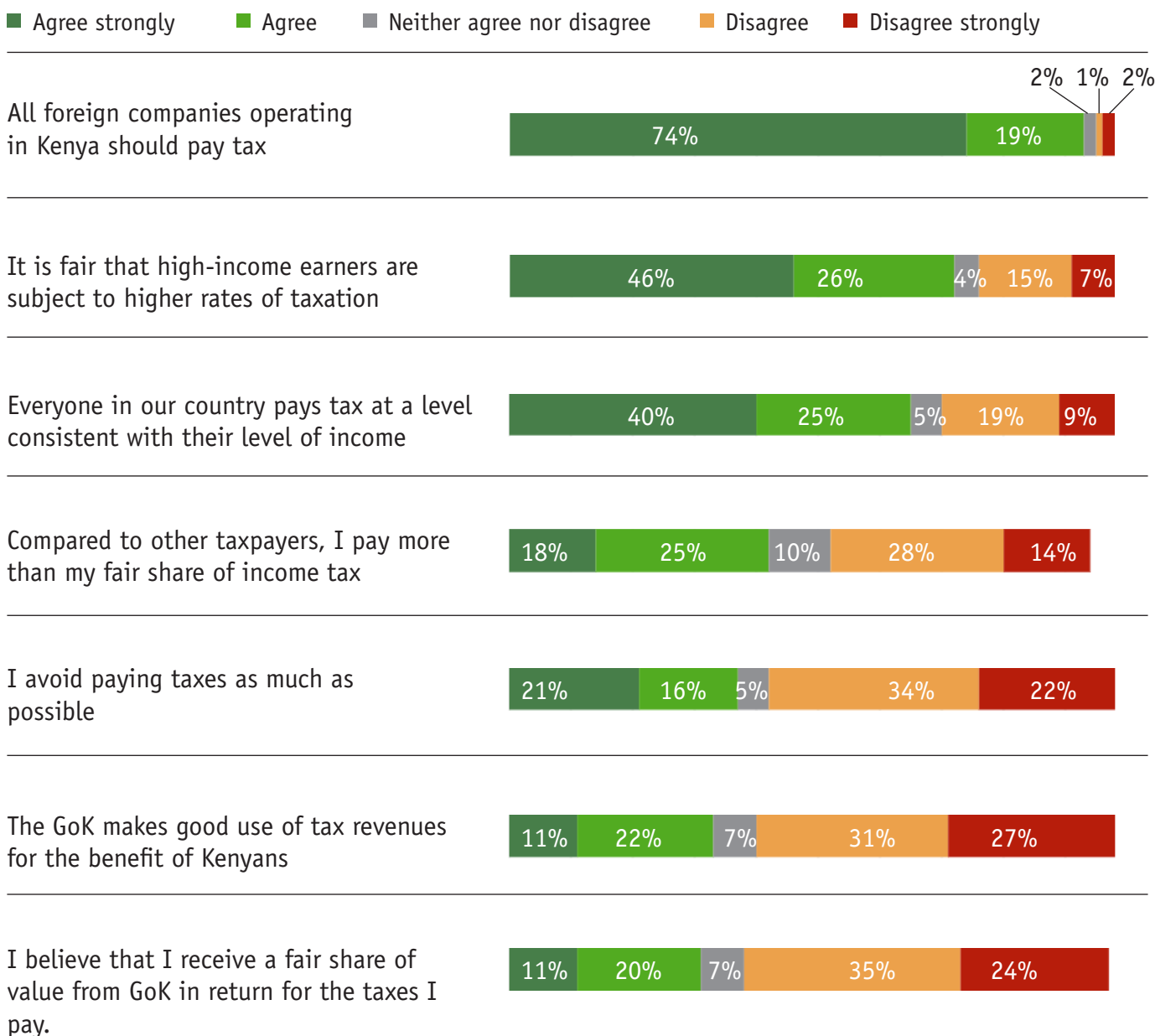
Figure 3: Drivers and barriers to paying taxes
Base= all respondents

Pay As You Earn (PAYE) and Filing Tax Returns - Only two out of ten respondents (29%) claimed to have paid PAYE on income tax. Only half of them (52%) filed tax returns with a majority of them being from the formal employment sector (70%).

	Total	Gender		Employment Status			Observation
		Male	Female	Formal	Informal	Jobless	
% paying PAYE	29%	34%	25%	56%	30%	-	More males. More formal sector employees
% who filed returns last year	52%	59%	46%	70%	48%	49%	More males. More formal sector employees

Table 5: Paying PAYE and filing tax returns

General Perception Towards Taxation - There was a broad feeling and acceptance among respondents that all foreign companies operating in Kenya should pay tax in the country. Secondly, over half of respondents believed they don't receive a fair share of value from GoK in return for the taxes that they pay. Lastly, a good deal believed that GoK doesn't make use of tax revenues for the benefit of Kenyans.



Conclusion

Taxpayers' awareness

- Taxpayer awareness of most proposed taxes and COVID-19 tax rebates is low. Low tax knowledge can lead to mistrust and negative attitudes towards taxes, while good tax knowledge is correlated with a positive attitude towards taxes.

Taxation and the social contract

- Kenyans feel that the government seldom achieves its tax collection revenue targets. They also see a strong link between low tax collection and challenges such as high external debt to more taxation of citizens.
- The government is supposed to ensure the fulfilment of economic and social rights to include the provision of basic goods plus services. Kenyans feel that the government is not fulfilling its responsibilities in the provision of these constitutionally guaranteed rights and should be held to account for not doing so.

Equitable taxation

- Kenyans believe that a good tax system should treat taxpayers in the same economic situation equally. Both local and multinational enterprises need to be taxed according to similar rates and all sources of income be equally taxed to create a level playing field. Kenyans feel that the tax system unfairly targets locals. They also feel foreign companies should pay more taxes.

Fairness of the tax system

- Citizens who find the tax system to be unfair are still willing to pay taxes. On the flip side, however, those who stated that they are unwilling to pay are concerned about the poor public service delivery despite paying taxes. This low tax morale is further exemplified by revelations that citizens' trust in government varies positively and significantly with the quality of public goods/ services.

Barriers to effective citizen participation in taxation

- Distrust of government is a major hindrance in Kenyan involvement in public finance management issues. Citizens have no faith in how the government will spend collected revenues and hence are not likely to comply with their duty to pay taxes. The citizens' willingness to pay taxes is low, as they perceive that the government is not responsive to their needs, resulting in poor service delivery.

Recommendation

There is a massive need for public awareness campaigns on tax issues and rights which include basic taxes, benefits of taxation and tax rebates. Advocacy efforts towards the government should always seek to improve the quality of service in tax payment processes to encourage taxpayers to pay their tax. Nonetheless, Kenyans see a link between tax evasion, corruption, poor economic growth, and low revenues.



PHOTO CREDIT: www.unsplash.com

1. INTRODUCTION

1.1. Background Information

The East African Tax and Governance Network (EATGN) is a civil society collaborative initiative of individuals and non-state actor institutions in the East African Community (EAC) that share the understanding that taxation is fundamental in achieving social justice and development goals.

EATGN operates in a complex and constantly changing context within the tax justice arena. It champions for tax justice for sustainable development in governance, through public policy advocacy, research, and capacity building to create links between various constituencies in the region, in the process seeking to enhance domestic resource mobilization.

Tax Justice Network Africa (TJNA) is a Pan-African organisation that promotes socially just, accountable, and progressive taxation systems in Africa. It advocates for tax policies with pro-poor outcomes and tax systems that curb public resource leakages, in the process seeking to enhance domestic resource mobilisation.

EATGN seeks to work with its Kenyan membership to build a stronger voice on tax justice at the country level through the Tax Justice Forum in Kenya (TJFK) project.² TJFK is an initiative that seeks to: understand why civil society groups should get involved in tax policies; examine basic issues in Kenyan tax policies; develop knowledge on revenues in the budget process; create approaches so that budget groups can use them in conducting revenue advocacy work; build an evidence base for fiscal justice; analyse revenue policies in detail; monitor tax compliance and administration; assess major tax policy changes; and collect information on revenues from extractive industries.

1.2. Survey Objectives

This survey is an exploratory national analysis of tax issues. It hopes to help build credibility and generate traction on tax advocacy initiatives in Kenya by providing relevant knowledge for EATGN, TJNA membership and its partners. The main objective of this perception survey was to assess the emerging context, current issues, challenges facing Kenyans, and trends concerning tax issues.

2. EATGN (East Africa Tax and Governance Network), Working to the future: Deliberations of the East Africa Tax and Governance Network (EATGN) Steering Committee, 12 -15 February 2018, Marasa Umubano Hotel, Kigali Rwanda

2. STUDY METHODOLOGY

2.1. Overview

In executing this research, a quantitative method was adopted. The study methodology was implemented through four key phases as summarized below.

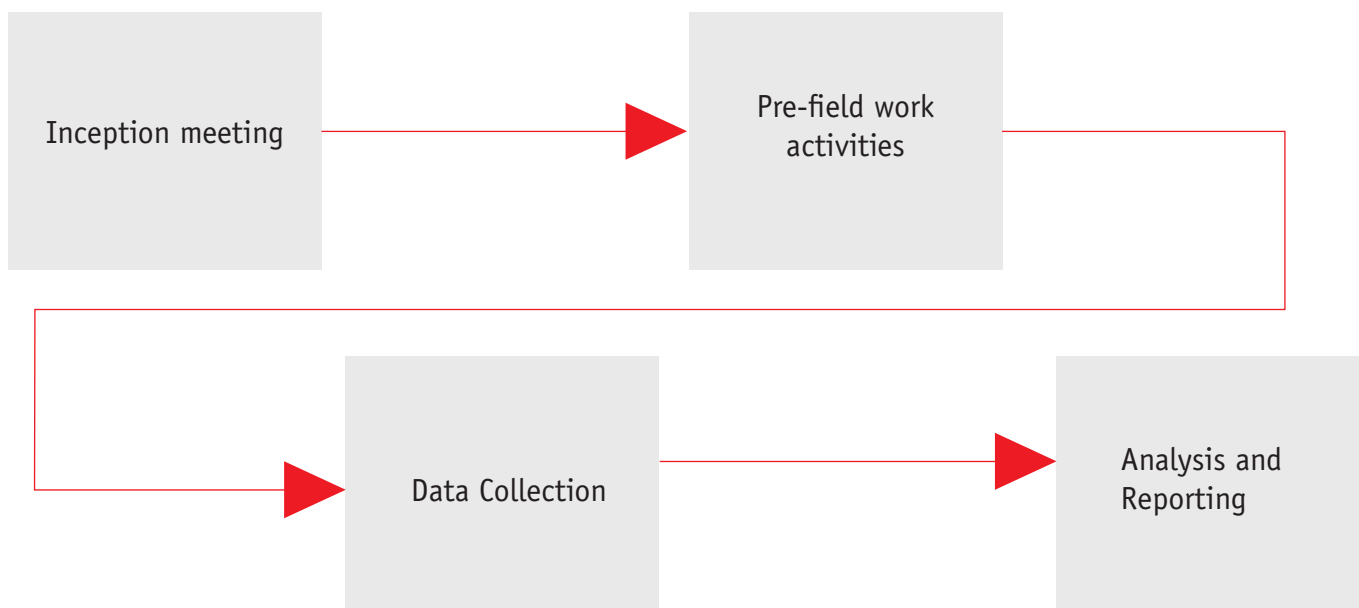


Figure 4: Study Methodology Approach

2.2. Data Collection

Data was collected through telephonic interviews amongst people over 18 years of age (Male and Female) nationwide. Considering that data was collected telephonically, database was filtered to ensure that respondents from all age groups were captured and that other demographic requirements such as gender were also captured and represented. The total sample achieved was 1,525 respondents.

2.3. Data Analysis

After data collection, TIFA embarked on data processing, cleaning, and coding while also enforcing quality control for data entry and detecting any data fabrication. Data was cleaned for completeness and consistency. The cleaned data was then analysed using the Statistical Package for the Social Sciences (SPSS) software. Frequency distribution tables were informative and especially helped in summarizing data from respondents, percentages, and other diagrams such as bar charts and pie charts were used during the analysis.

2.4. Study Timing

The National Treasury and Planning Cabinet Secretary, Hon. Amb. Ukur Yatani, presented his 2021/2022 budget proposals on the 10th of June 2021. Data was collected between the 24th and 28th of June 2021. These means that the budget proposals had been widely televised and discussed in the media for at least two weeks before the data collection phase.

2.5. Respondents' Demographics

Out of a total of 1,525 respondents who were interviewed, a majority (64%) resided in the countryside. About 54% were within the age bracket of 18 to 34 years. A majority of the respondents (67%) had an education beyond secondary school. In terms of employment status, a majority, (53%), were jobless, and (32%) were employed in the informal sector.

Region	Actual Number	Percentage
Central	166	10.9%
Coast	139	9.1%
Eastern	268	17.6%
Nairobi	170	11.1%
North Eastern	61	4.0%
Nyanza	188	12.3%
Rift Valley	388	25.4%
Western	146	9.6%
Gender		
Female	782	51.3%
Male	743	48.7%
Age Group		
18 to 34 years	819	53.7%
35+ years	706	46.3%
Marital Status		
Married/civil partnership	810	53.1%
Living with a partner but not married	23	1.5%
Dependent of a parent or another adult in the household	1	0.1%
Single living alone – never married	455	29.8%
Single living with a friend and/or relative	169	11.1%
Divorced or separated	35	2.3%
Widowed	28	1.8%
Employment status		
Formal employment	227	14.9%
Informal employment	483	31.7%
Jobless	813	53.3%
Refused to answer	2	0.1%

Table 6: Demographics



PHOTO CREDIT: www.unsplash.com

3. FINDINGS: KENYANS' KNOWLEDGE OF TAXATION

3.1. Proposed Taxes for 2021/2022

The Cabinet Secretary for the National Treasury and Planning, (CS) Ukur Yatani, presented a KES 3.6 trillion budget on the 10th of June 2021 for the financial year 2021/2022. Through the Finance Bill 2021, the minister sought to introduce a 16% Value Added Tax (VAT) on the supply of ordinary bread and increase exercise duty on motorbikes to 15%. This would mean an increase in the cost of bread and means of transport. In addition, the Government introduced a tax on digital/online businesses at 1.5% of the gross transaction value; and proposed to increase taxation on alcohol manufacturers, loss making companies as well as retirees income tax.

Despite these new taxes touching on issues pertaining the daily lives of Kenyans, it seems like more than half of them – based on research results from a sample interviewed – lack knowledge on these tax proposals. A quarter of the respondents mentioned an increase in fuel-levy, with less than 20% mentioning proposed VAT on bread and various food items.

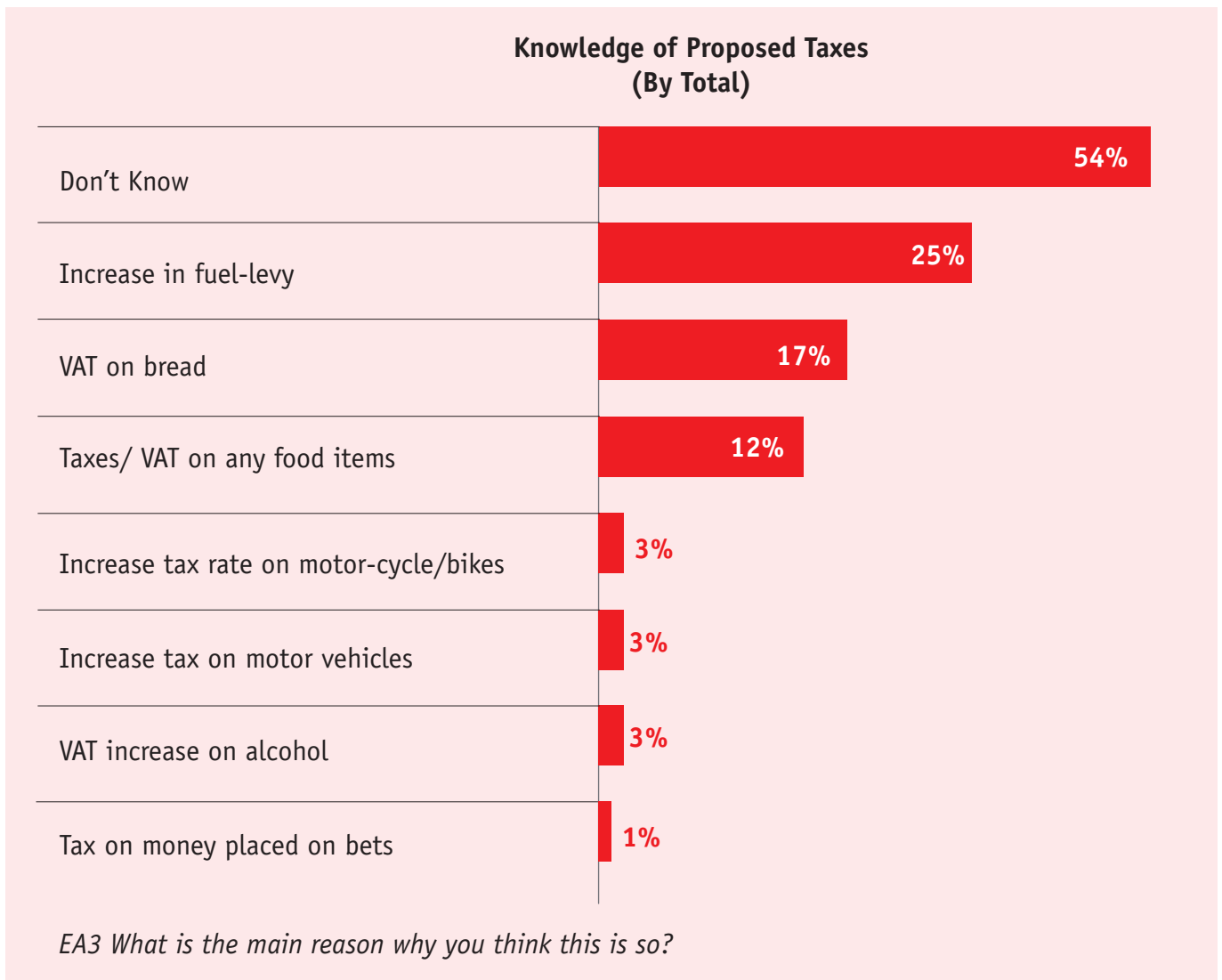
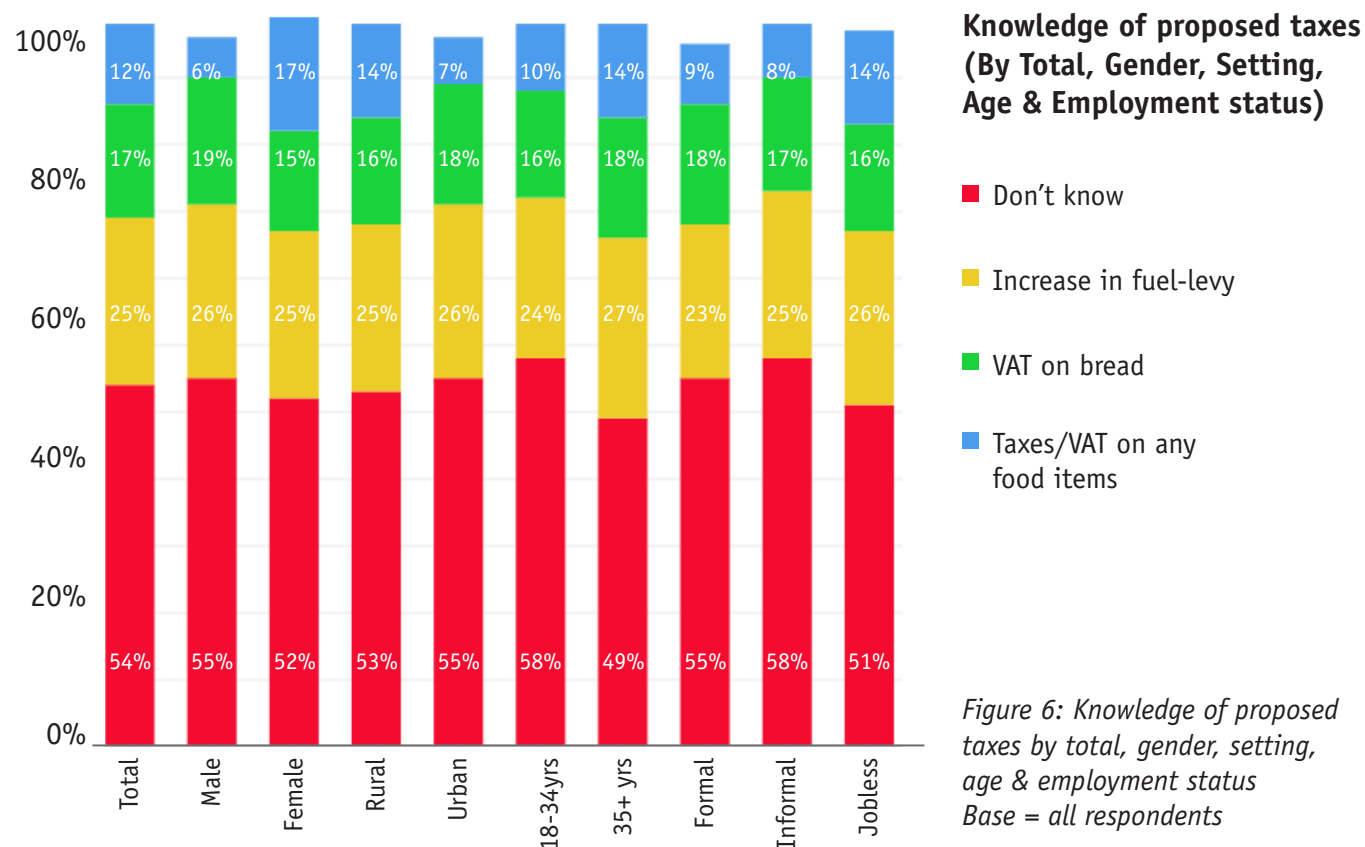
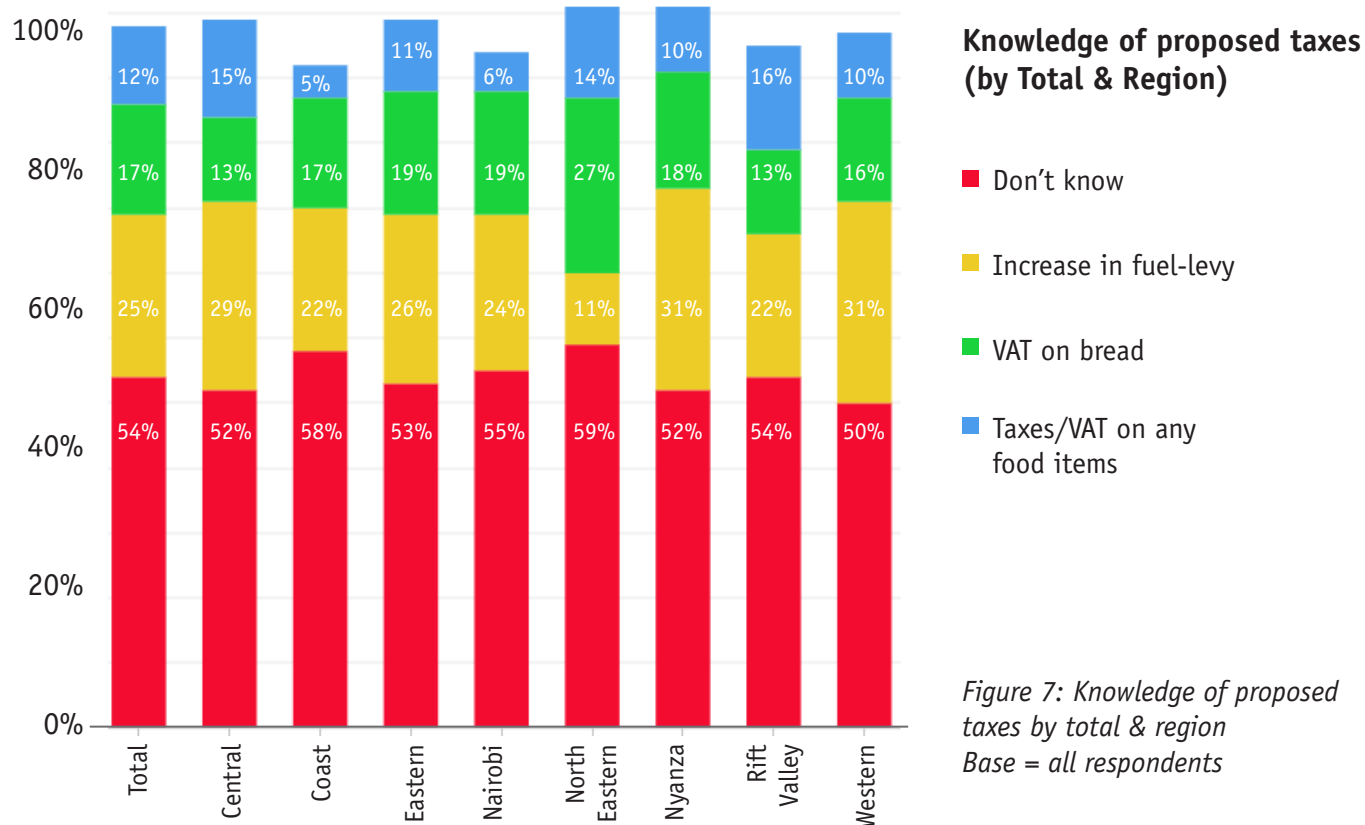


Figure 5: Knowledge of proposed taxes by total
Base = all respondents

This incidence of lack of knowledge on proposed taxes is high across all demographics. More female respondents have knowledge on taxes on any food items compared to male respondents. Those in rural areas have slightly better knowledge on taxes on any food items than those in urban areas, with the youth less knowledgeable on proposed taxes compared to the older generation.



The regions with the highest lack of knowledge of proposed taxes were North Eastern and Coastal regions. The Rift Valley region recorded the highest number of those who were aware of proposed taxes.



3.2. Government Tax Collection Targets

Close to a third of Kenyans, mostly males, felt that the government never meets its tax collection revenue targets. It was noted from both genders that, the older generation was of the opinion that the government never meets its tax collection revenue targets as compared to the youth. In terms of employment status, most respondents had the same view apart from a considerable number of those who are formally employed, who believe that government sometimes meets its tax-collection revenue targets.

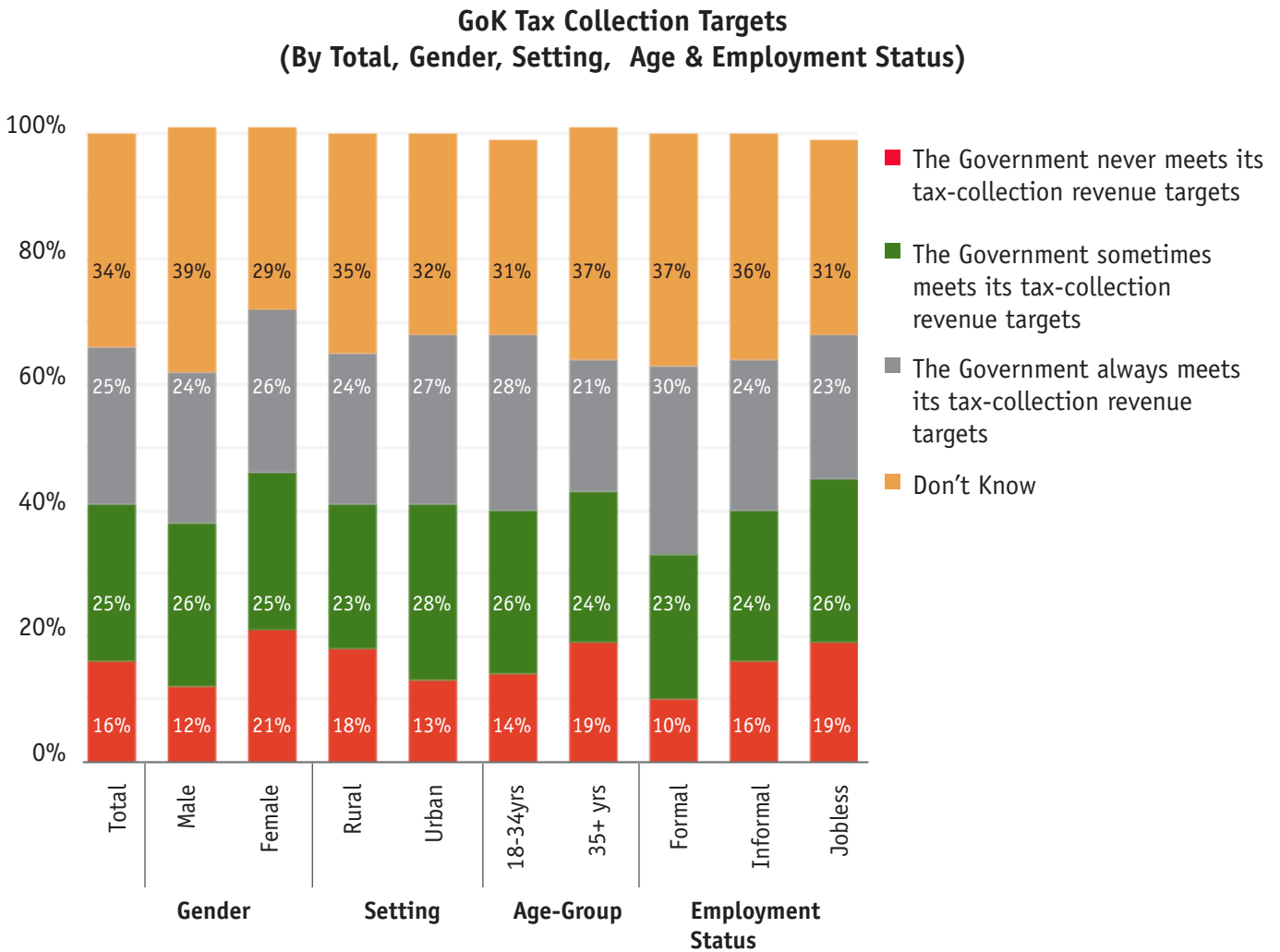


Figure 8: GoK tax collection targets by total, gender, setting age & employment status
Base = all respondents

In terms of region, most of the respondents who mentioned that the government never meets its tax collection revenue targets were from the North Eastern and Coastal regions.

GoK Tax Collection Targets (By Total & Region)

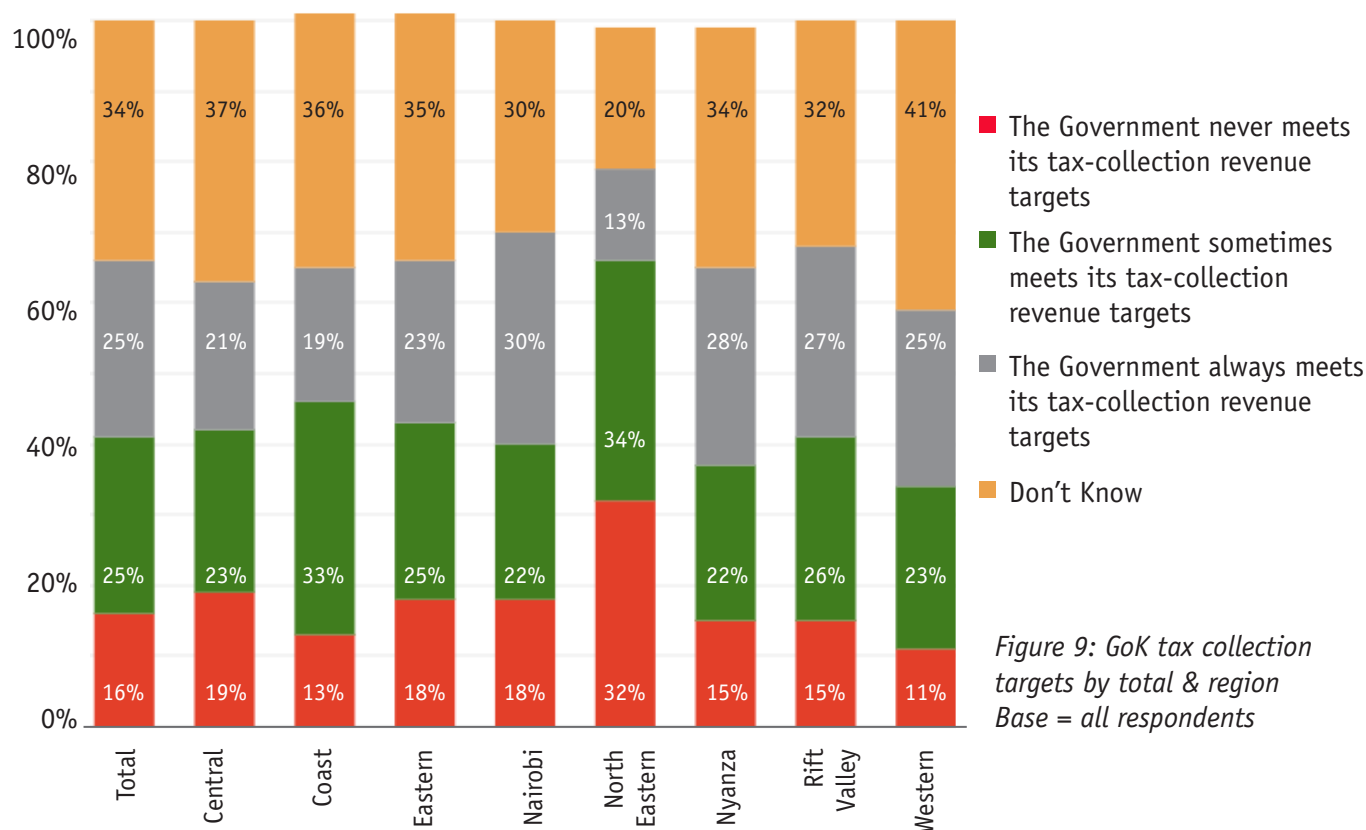


Figure 9: GoK tax collection targets by total & region
Base = all respondents

3.2.1. Factors related to Non-Achievement of Tax-collection Revenue Targets

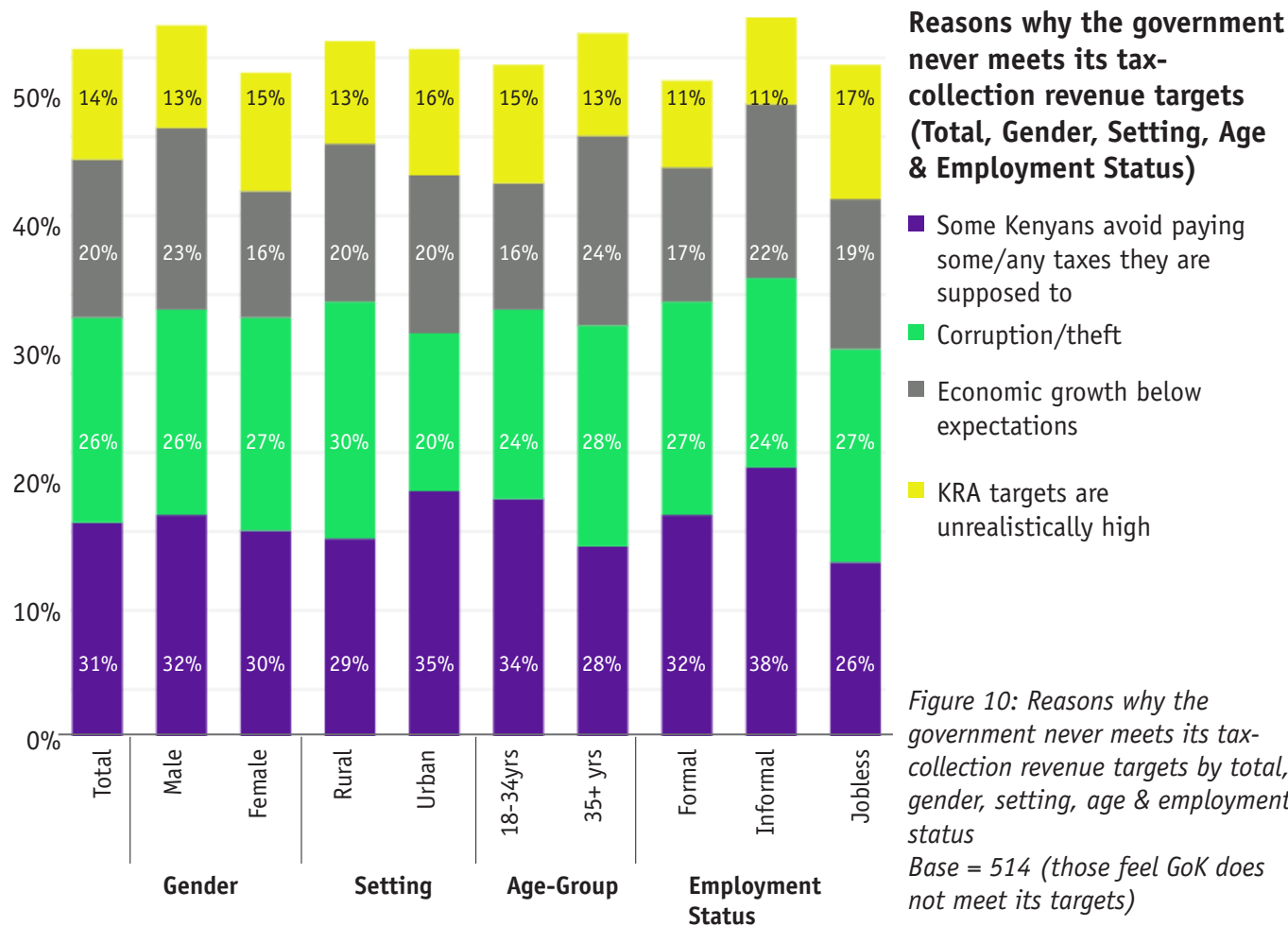
There were several reasons given as to why the Kenyan government does not meet its tax revenue targets. Top of the list is tax avoidance by 31% followed by 26% who believed that fraudulent financial practices (corruption and theft) are to blame.

On the other hand, there were 14% Kenyans who see a link between poor economic growth and low tax revenues. According to the African Development Bank (AfDB), Kenya's economy has been hurt by the COVID-19 pandemic and in 2020, GDP growth was expected to slow down to 1.4% from 5.4% in 2019. According to the World Bank, an expected growth rate of 4.5% is expected in 2021.⁴

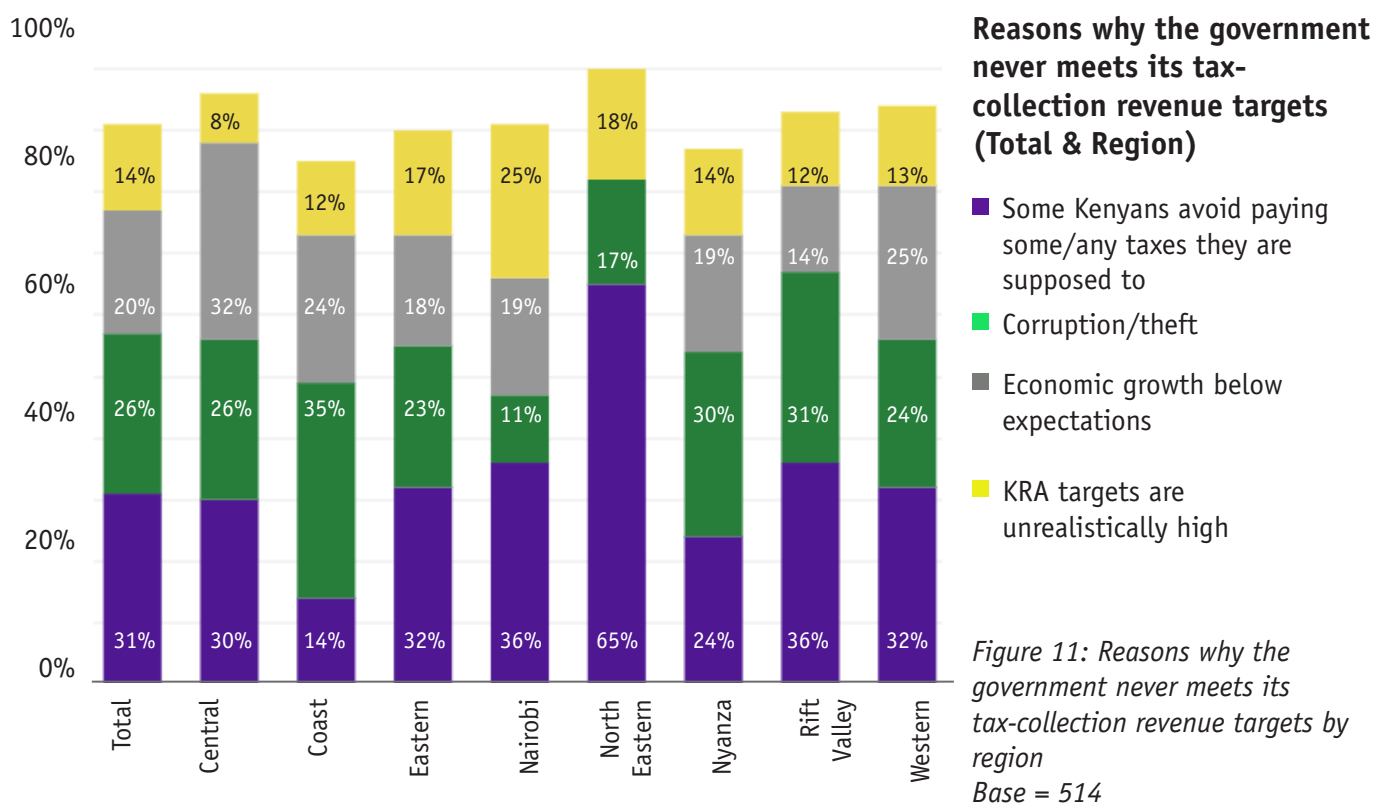
There were more male than female respondents who linked poor economic growth to the government's inability to meet its targets. Corruption/theft was mentioned more by respondents in rural areas than those in urban areas whilst tax avoidance was mentioned more by the youth than the older respondents. Those in informal employment were more likely to point to tax avoidance as a factor that leads to below par tax revenues.

3. AfDB (African Development Bank), 'Kenya Economic Outlook', African Economic Outlook 2021 - From Debt Resolution to Growth: The Road Ahead for Africa, March 2021, <https://www.afdb.org/en/countries-east-africa-kenya/kenya-economic-outlook>

4. World Bank, 'Kenya's Economy is Staging a Partial Recovery but Uncertainty Remains High and Prospects Hinge on the COVID-19 Vaccination Drive' PRESS RELEASE, 30 June 2021, <https://www.worldbank.org/en/news/press-release/2021/06/30/kenya-s-economy-is-staging-a-partial-recovery-but-uncertainty-remains-high-and-prospects-hinge-on-the-covid-19-vaccination-drive#:~:text=NAIROBI%2C%20June%202020%20%2%80%94,growth%20to%20stall%20last%20year.&text=%E2%80%9CThe%20outlook%20remains%20unusually%20uncertain,the%20course%20of%20the%20pandemic>



Mentions that some Kenyans avoid paying some/any taxes as they are supposed to was highest in the North Eastern region.



3.2.2. Remedial Actions Taken by the GoK When It fails to Meet its Target

Incurring foreign debt (39%), increasing taxes (28%) and borrowing locally (13%) were considered the main actions that can be taken by the government when faced with the challenge of low tax revenues. Mentions of austerity policies or lowering budgetary expenditure were rather low (3%).

Slightly more than a third of the respondents agreed that the GoK must borrow from other countries/donors when it fails to meet its targets. More males were of this opinion compared to their female counterparts. There was no significant difference between the youth and the older generation with both sharing similar views. More of the respondents informal employment felt that GoK must borrow from other countries/donors when it fails to meet its targets compared to those in the informal sector and those who are jobless.

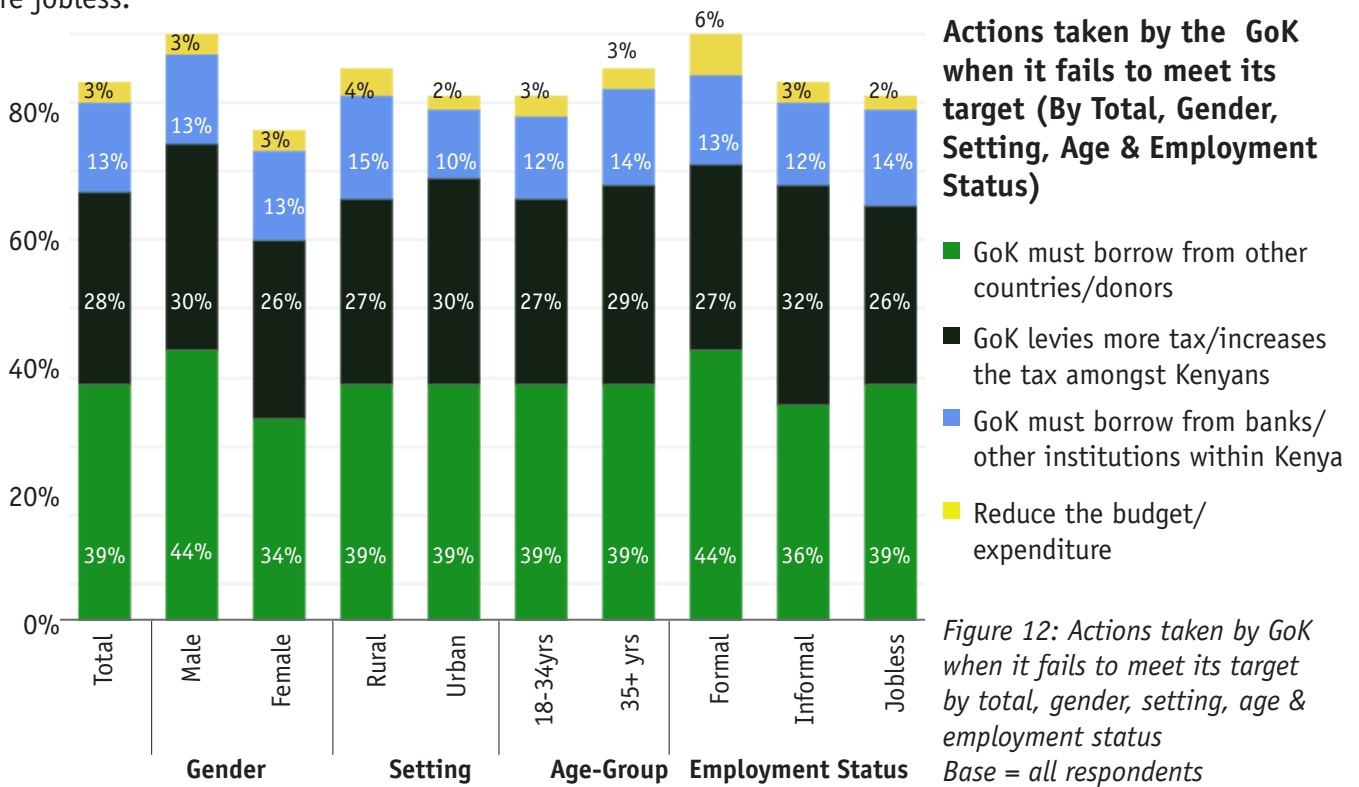


Figure 12: Actions taken by GoK when it fails to meet its target by total, gender, setting, age & employment status
Base = all respondents

Across all regions, a majority of Kenyans believe GoK must borrow from other countries/donors to sustain its activities.

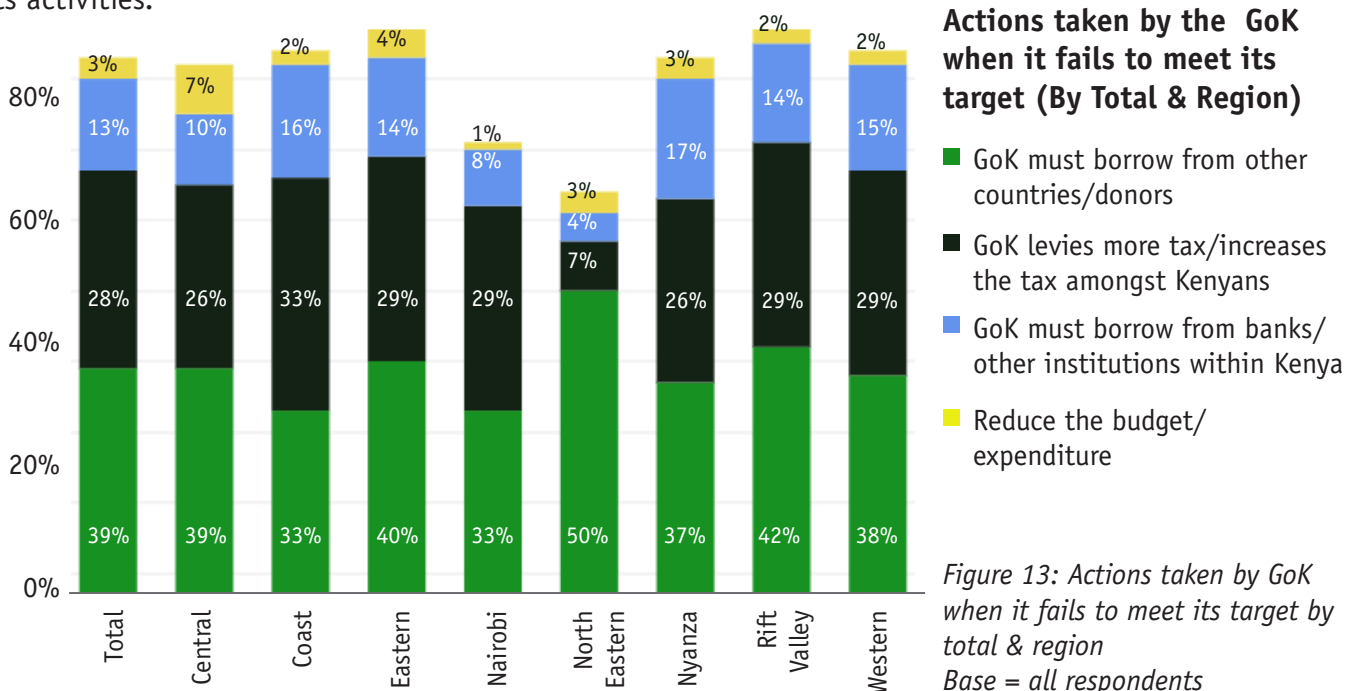


Figure 13: Actions taken by GoK when it fails to meet its target by total & region
Base = all respondents

3.3. Knowledge of COVID-19 Tax-Relief Measures

In 2020, GoK outlined several tax proposals intended to provide relief regarding the coronavirus (COVID-19) pandemic. The government proposals included;

- A reduction of the resident corporate income tax from 30% to 25% to allow companies additional resources to sustain their operations;
- A 100% tax relief for individuals earning gross monthly income of up to KES 24,000 (generally classified as “low-income earners”);
- A payment of additional income for a person earning a monthly income of KES 24,000;
- A reduction of the top “pay as you earn” (PAYE) rate from 30% to 25%.

A large majority of the respondents admitted that they did not know of the tax-relief measures that were introduced by the Government to help Kenyans manage the economic losses caused by the COVID-19 pandemic. Lower levels of knowledge were reported amongst females (compared to the males) and rural dwellers. Notably, those in formal employment were more informed about the COVID-19 tax-relief measures as compared to those working in the informal sector and those who are jobless. This could be attributed to the fact that most of these measures had a higher impact on the formal sector.

The tax-relief measures introduced by the Government to help Kenyans with the economic losses (By Total, Gender, Setting, Age & Employment Status)

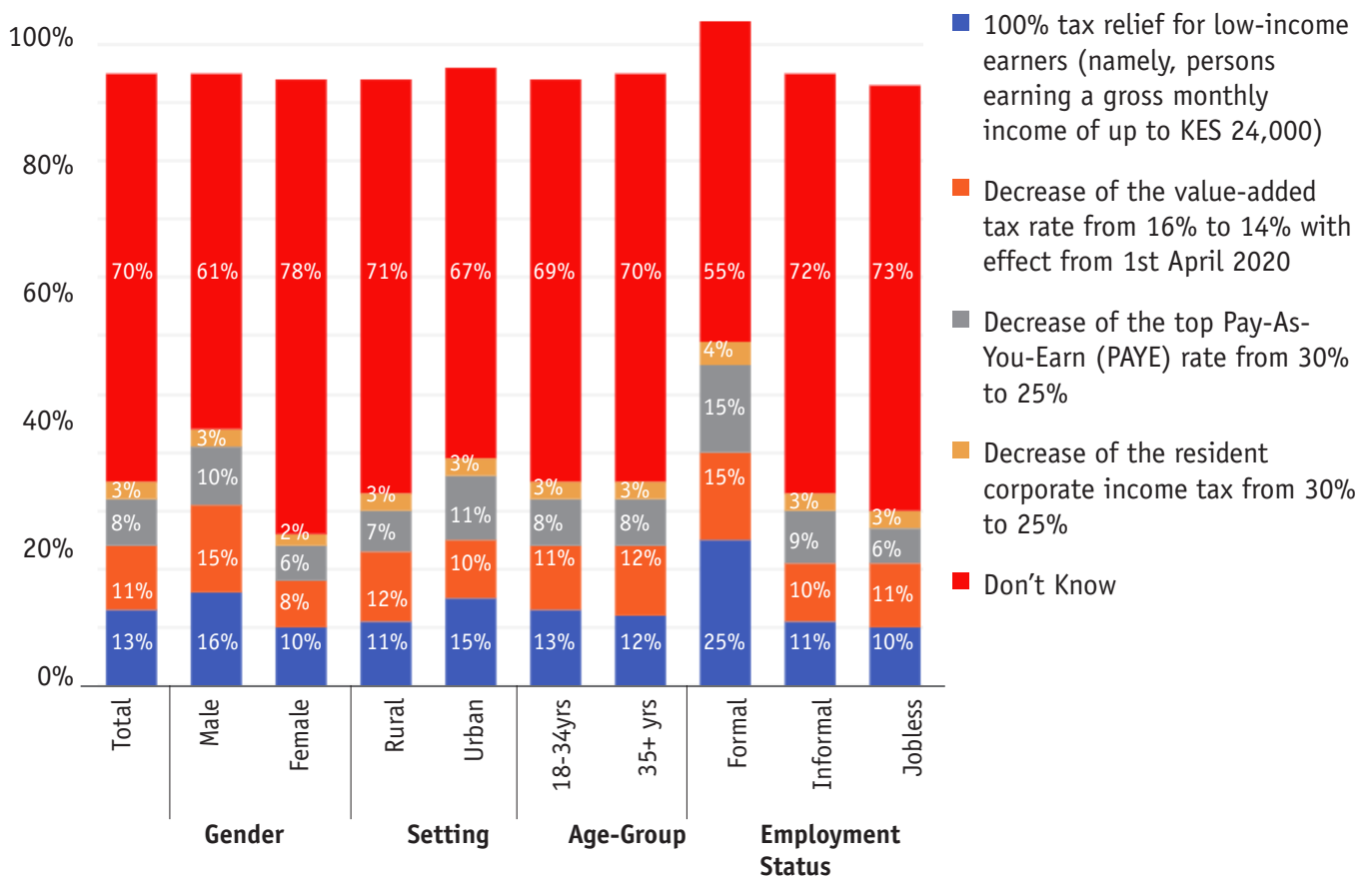
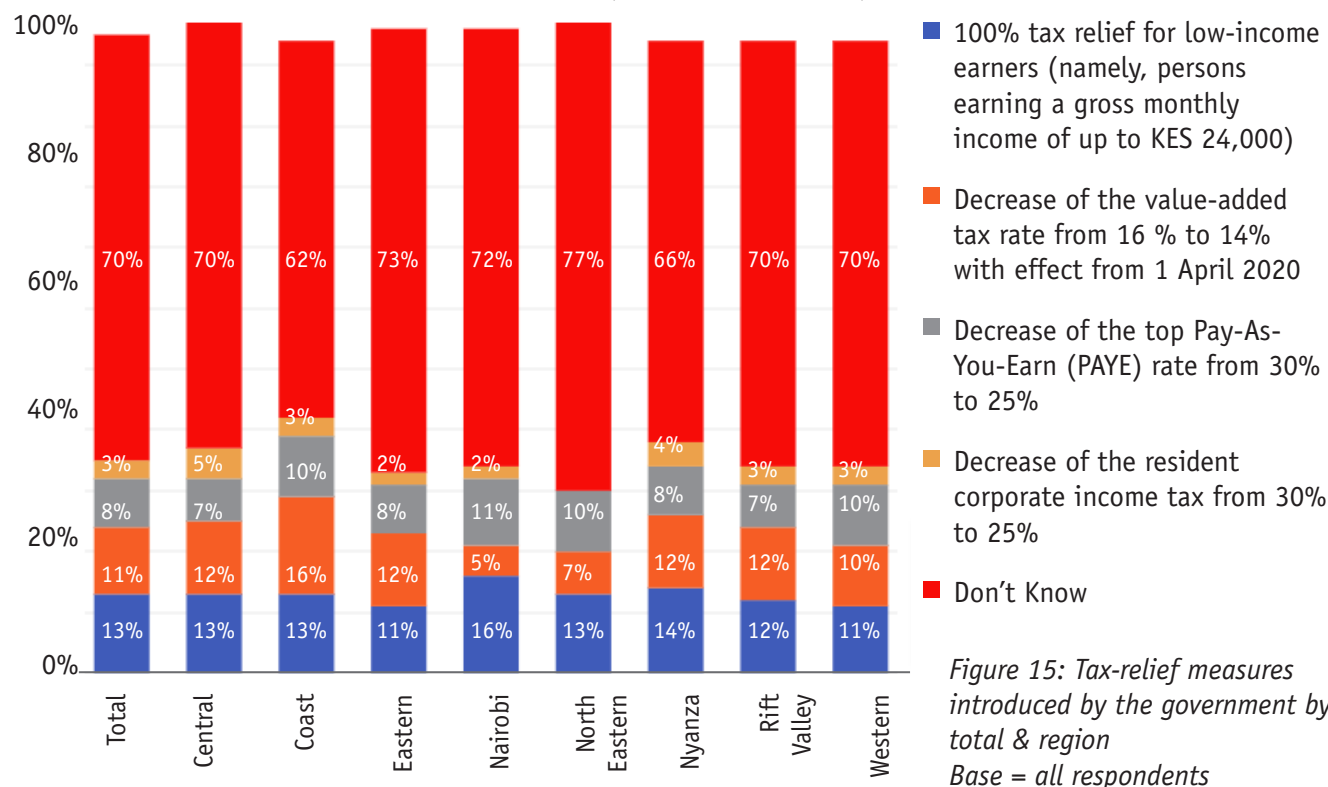


Figure 14: Tax-relief measures introduced by the government by total, gender, setting, age & employment status
Base = all respondents

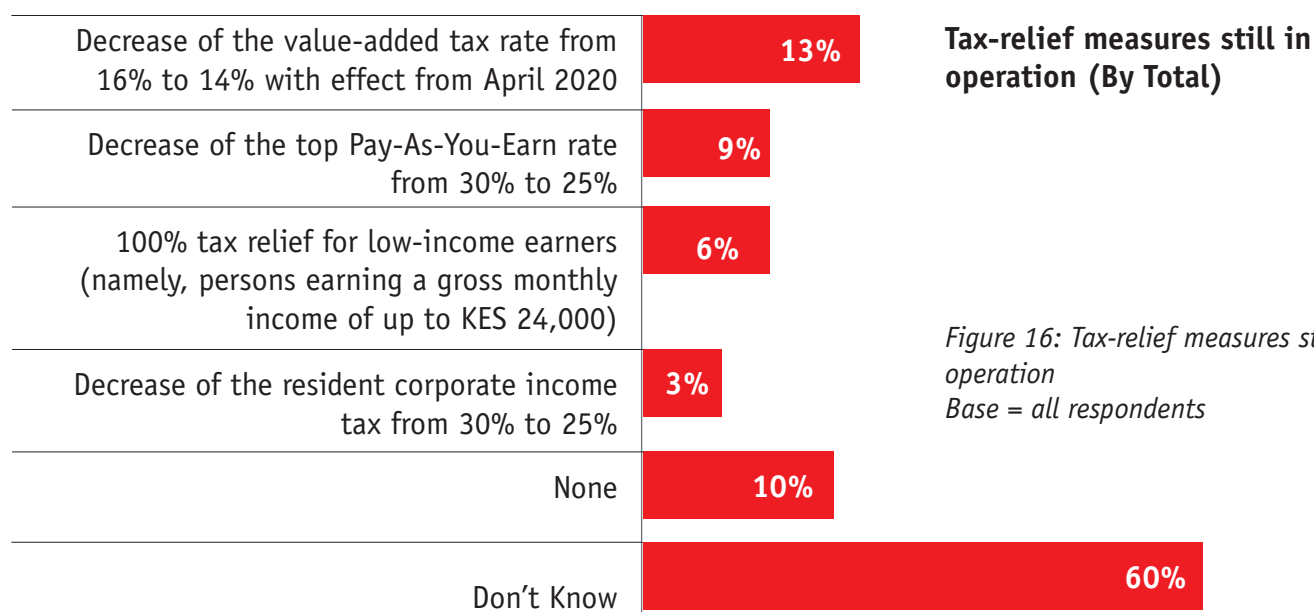
Of the 8 regions, North Eastern ranked the highest in terms of respondents who were not aware of the tax-relief measures put in place by the government.

The tax-relief measures introduced by the Government to help Kenyans manage the economic losses (By Total & Region)



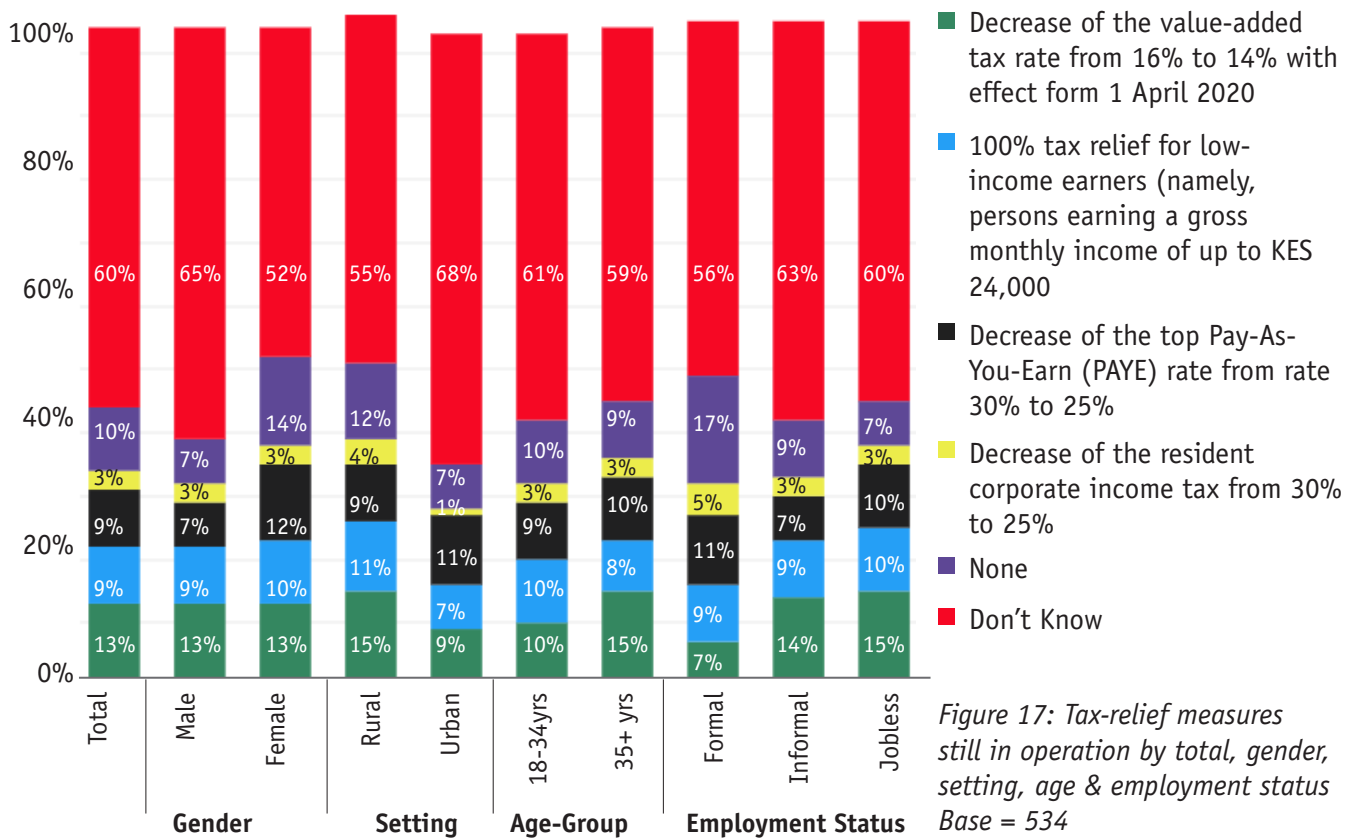
3.3.1. COVID-19 Tax-Relief Measures Still in Place

The government of Kenya reinstated the pre-COVID-19 tax rates on 1st January 2021. The government indicated that the rebates had led to a reduction in tax revenue, and this was taking a toll on the Kenyan economy and government budget. More than half of the respondents (60%), mentioned that they did not know of the tax-relief measures still in place. There were also respondents who thought that VAT and PAYE reliefs were still in place.



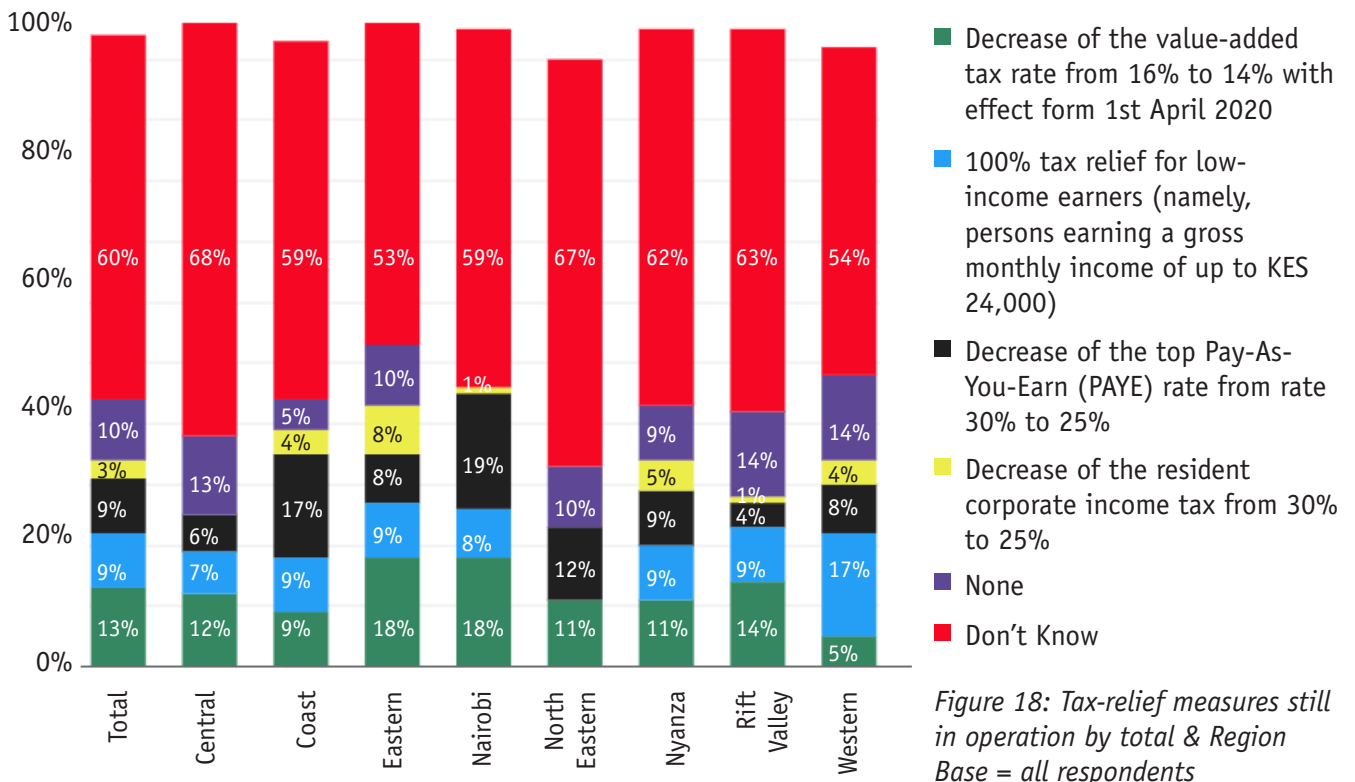
There is lack of knowledge on whether these tax relief measures are still in existence. Lack of knowledge was recorded more amongst females (compared to males) and within the urban respondents (compared to rural folk). There were no significant differences in the age groups. Notably, the lack of knowledge on these measures was mentioned more amongst those in the informal sector and the jobless.

Tax-relief measures still in operation (By Total, Gender, Setting, Age & Employment Status)



Compared to other regions, Central and North Eastern had the highest mentions of not knowing whether the tax relief measures were still in place.

Tax-relief measures still in operation (By Total & Region)



3.3.2. COVID-19 Rebates Impact on Kenyans Personal Financial Situation

A fifth of the respondents felt the tax rebates/measures only slightly supported Kenyans with their financial situations. This was an opinion that evenly supported across all the demographics, with the exception of the North Eastern region, where a majority of the respondents claimed the tax rebates/measures had not helped at all.

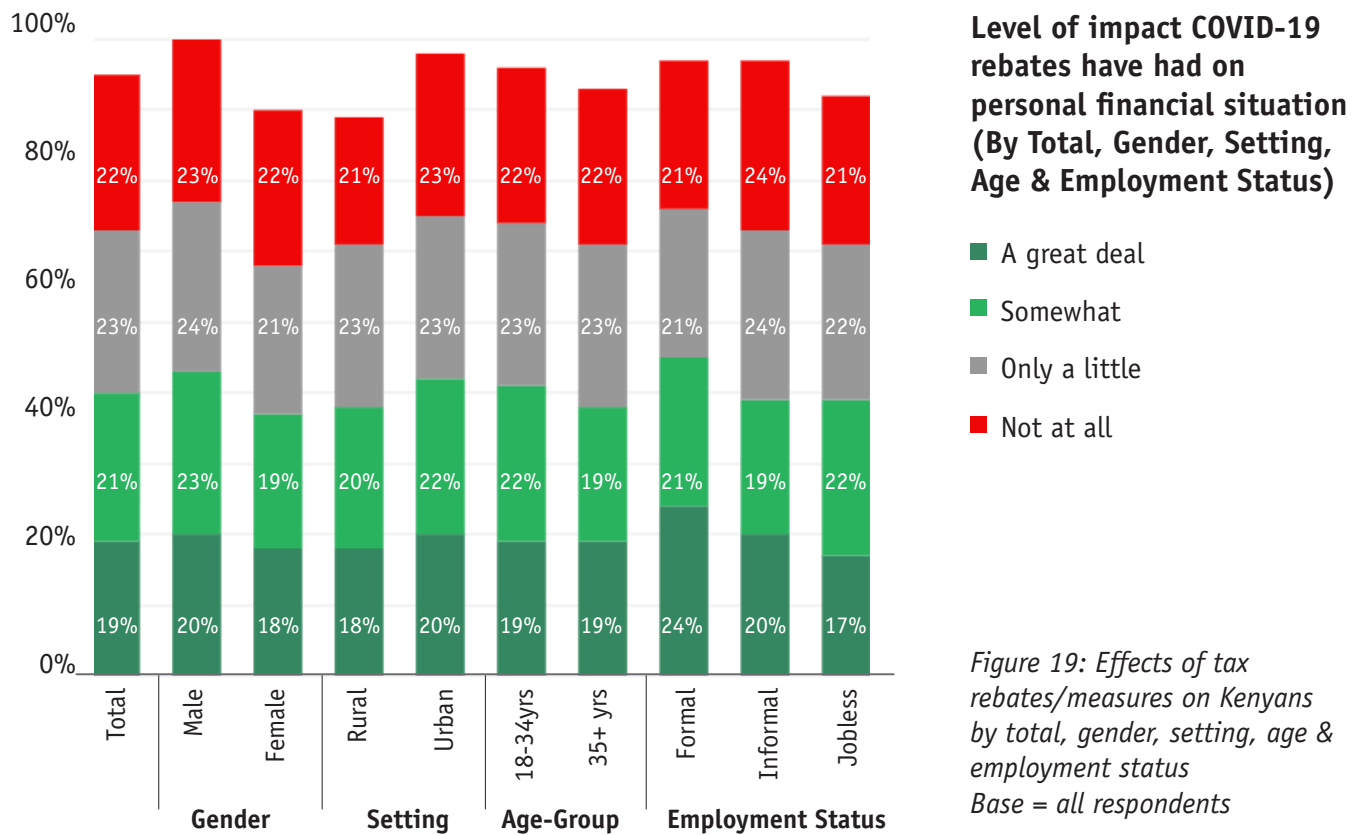


Figure 19: Effects of tax rebates/measures on Kenyans by total, gender, setting, age & employment status
Base = all respondents

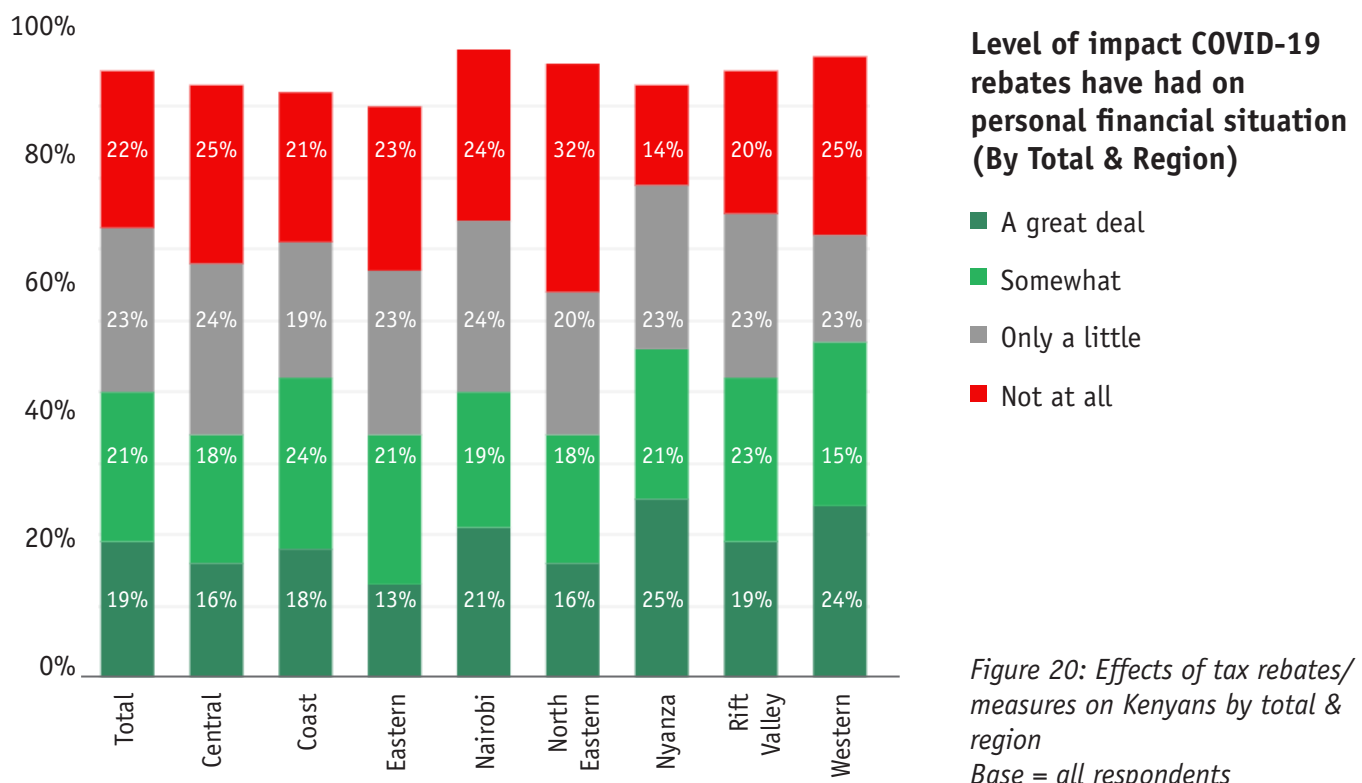
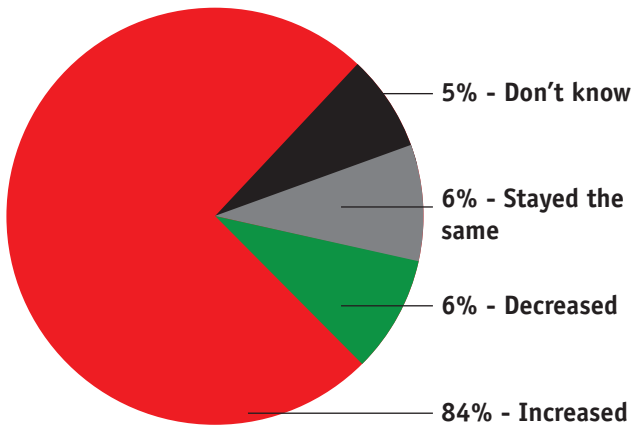


Figure 20: Effects of tax rebates/measures on Kenyans by total & region
Base = all respondents

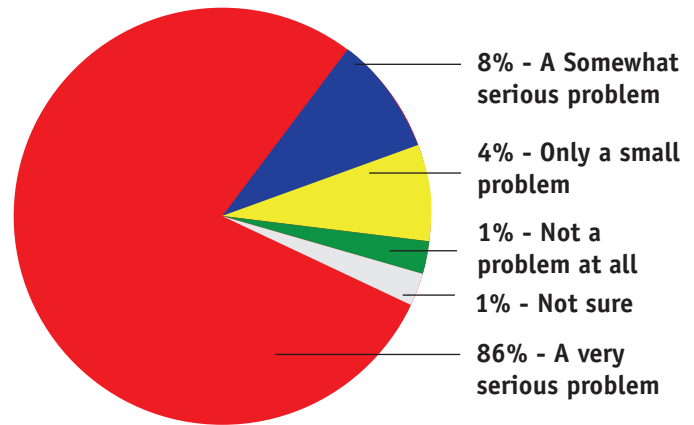
3.4. Kenya's External Debt

In December 2020, the Treasury indicated that Kenya had an external debt of 7.2 trillion, which was 65.6% of GDP.⁵ The International Monetary Fund (IMF) loaned Kenya another KES 3.4 trillion,⁶ which the IMF has pressured the government to add to its register arising from parastatals and county loans. Kenya's debt portfolio now stands above KES 11 trillion. Against this backdrop, an overwhelming majority of Kenyans feel that there has been an enormous increase in Kenya's external debt. These individuals consider this to be a very serious problem.

Change in the amount of external debt (By Total)



Impact of external debt (By Total)

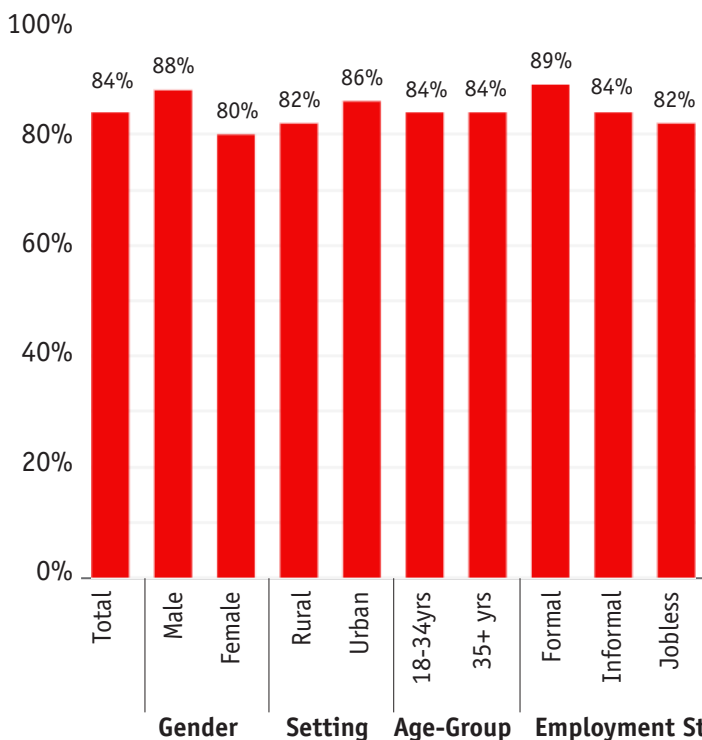


EA9 As far as you know, over the last ten years, has the amount of external debt of GoK(changed), that is, loans that have been taken away from outside Kenya that must be repaid...?

EA10 How much of a problem for the current and future governments do you think external debt is? (Why) Would you say that it is...?

Figure 21: Shifts in the external debt by total

Across all demographics, most respondents shared the same views with regards to the increment of the country's external debt with those who were formally employed carrying the highest percentage (89%).



% Increase in the Amount of External Debt (By Total, Gender, Setting, Age & Employment Status)

Figure 22: Change the amount of external debt by total, gender, setting, age & employment status
Base = all respondents

5. CBK (Central Bank of Kenya), Public Debt, GoK (Government of Kenya) Website, Centralbank.go.ke/public-debt/ accessed 20 August 2021
6. FSD (Financial Sector Deepening) Kenya, State of the Economy: Focus on the Impact of COVID on Women and Education, February 2021, fsdkenya.org/wp-content/uploads/2021/02/21-02-05-2020-State-of-the-Economy-FSD-Kenya-Presentation.pdf accessed 20 August 2021

All of the regions had more than 80% of the respondents citing that debt had increased with the exception of North Eastern.

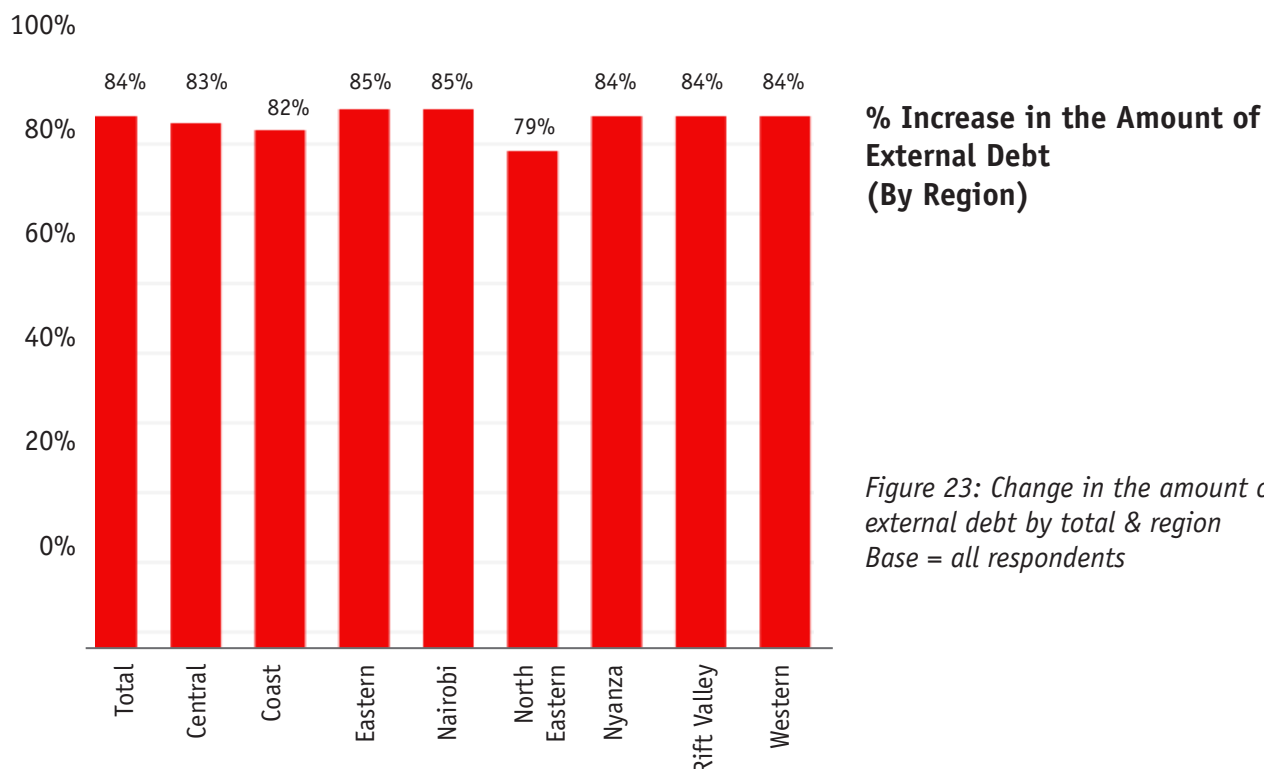


Figure 23: Change in the amount of external debt by total & region
Base = all respondents

3.4.1. Perceived Impacts of External Debt

A majority of the respondents (86%) cited the external debt as a very serious problem, with 8% claiming it is somewhat a serious problem, and only 4% thinking it is a minor problem. There were no significant differences across the demographics as they were all of similar opinions.

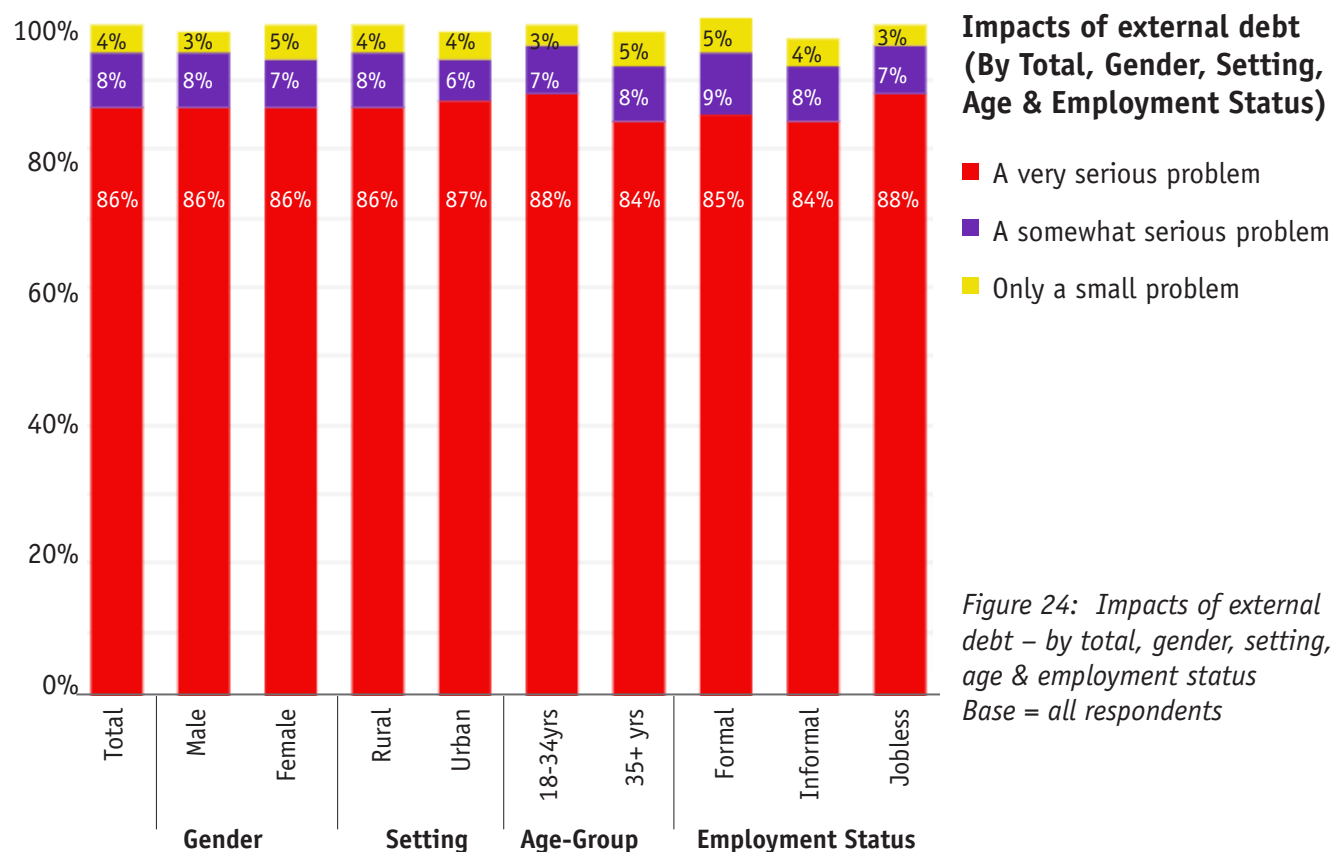


Figure 24: Impacts of external debt – by total, gender, setting, age & employment status
Base = all respondents

In Central and Western regions, 90% of the respondents viewed debt as a very serious problem. Meanwhile, Nairobi and Rift Valley regions had the highest percentage of respondents at 6% who only saw debt as a small problem. The perception of debt as a somewhat serious problem at 8% had no significant difference across the 8 regions.

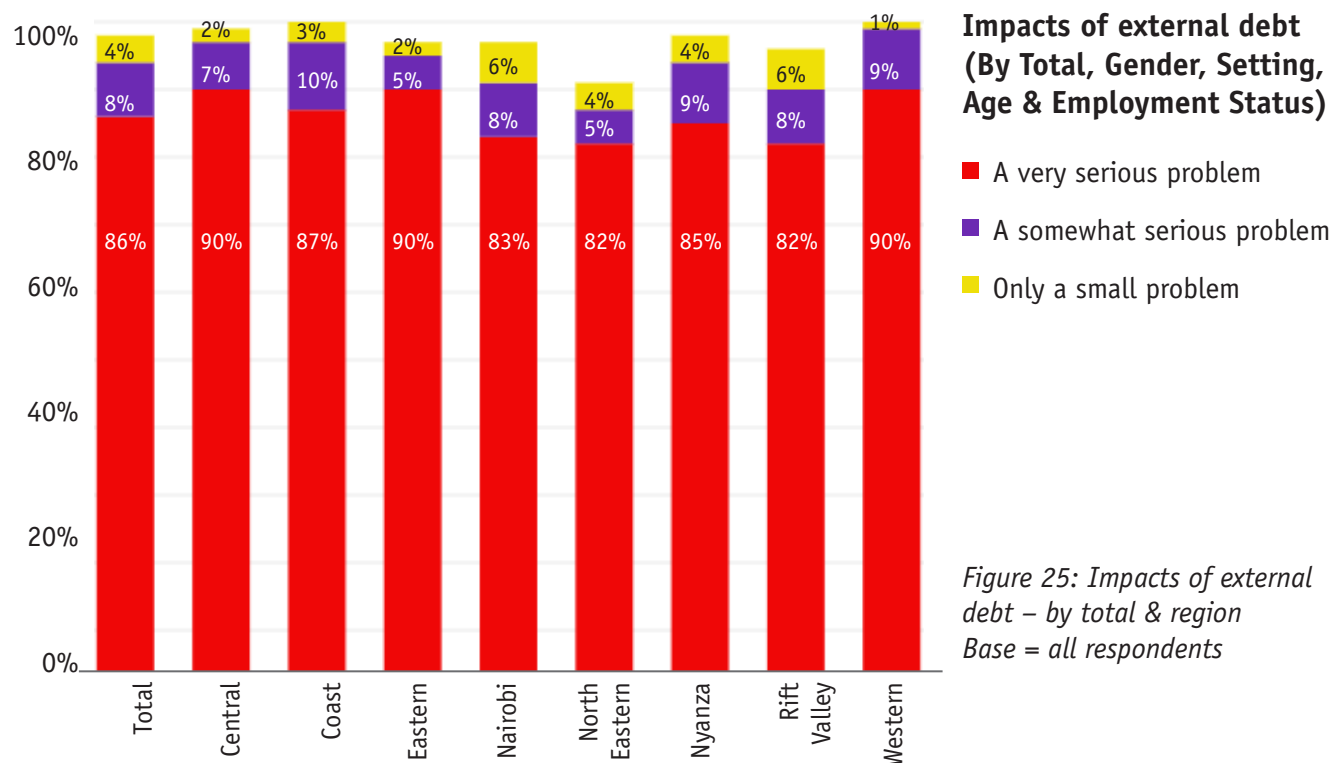


Figure 25: Impacts of external debt – by total & region
Base = all respondents

3.5. Fairness of the Current Tax System

Half of the respondents cited the current system as unfair, 23% thought of it as fair, 19% and 8% respectively thought that it is very fair or are not sure. More males (53%) than females (47%), notably the youths, (54%) mentioned it is unfair as opposed to the older generation (46%). On employment status, formally employed respondents (56%) felt that the current tax system is unfair.

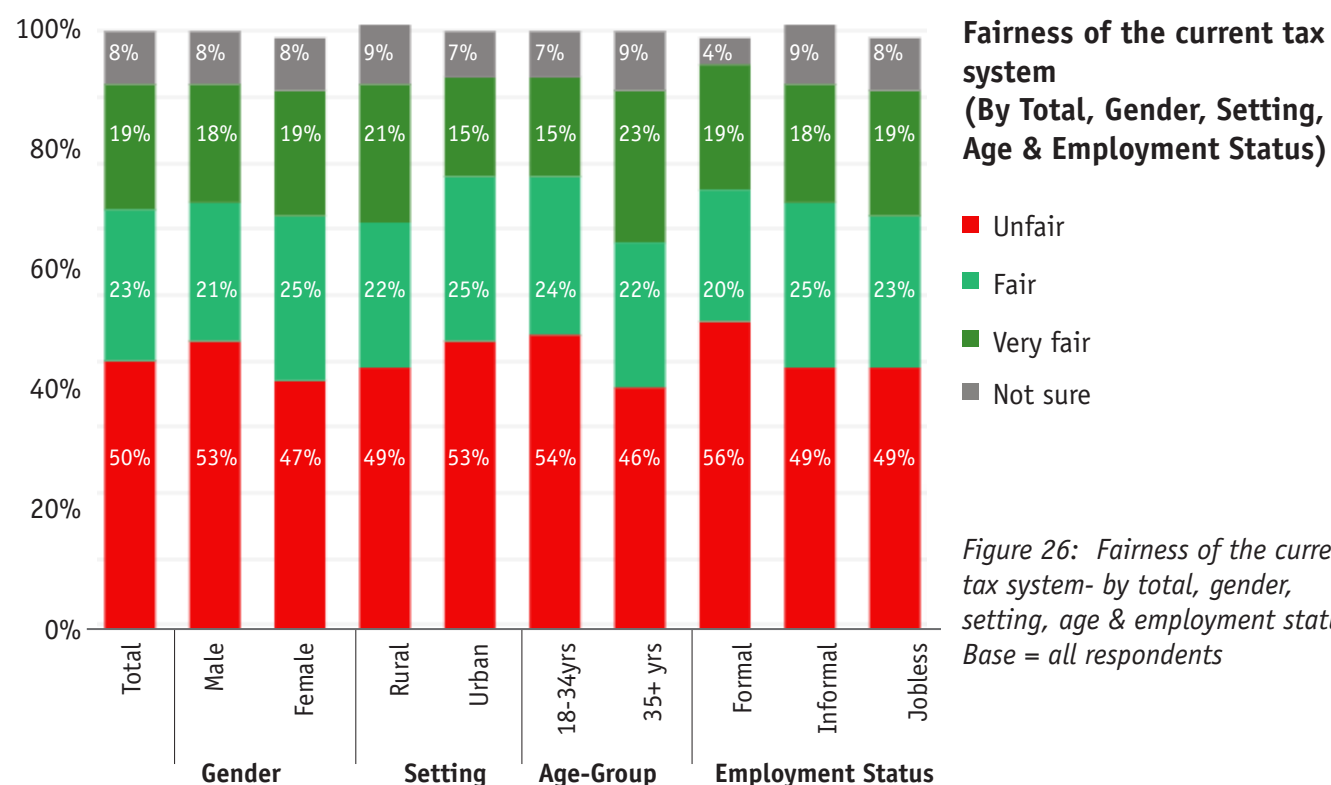
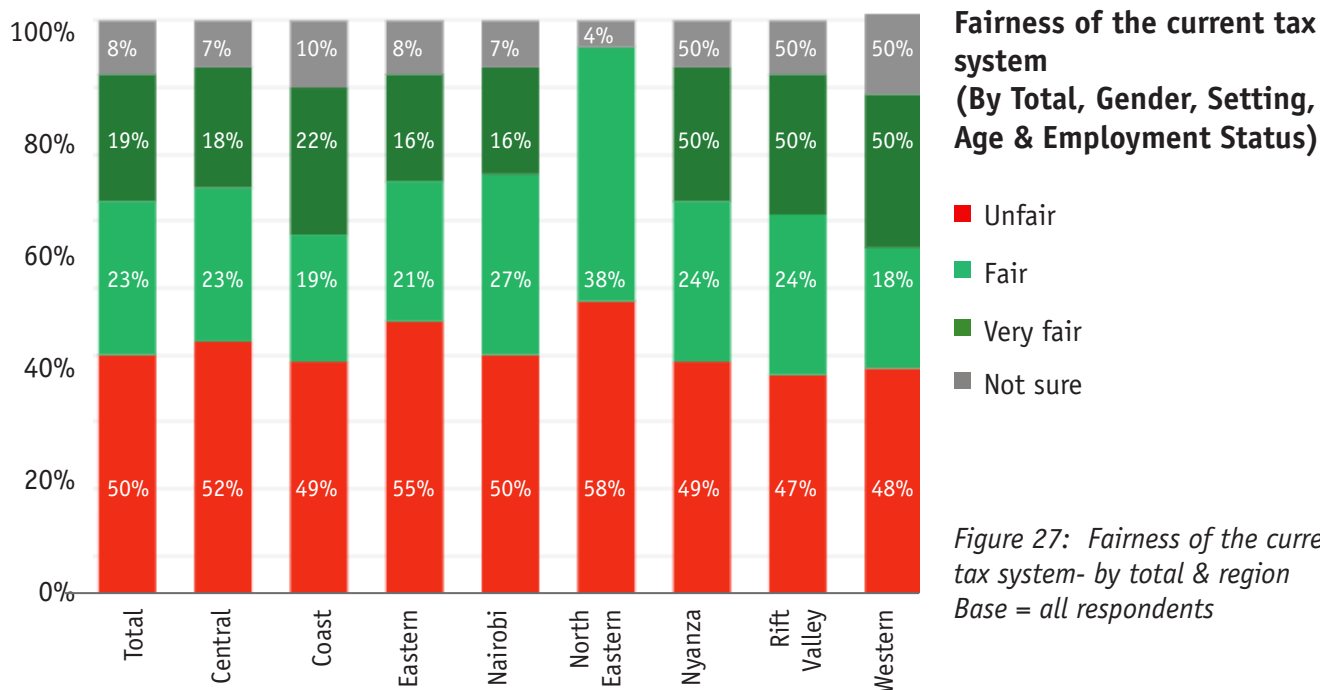


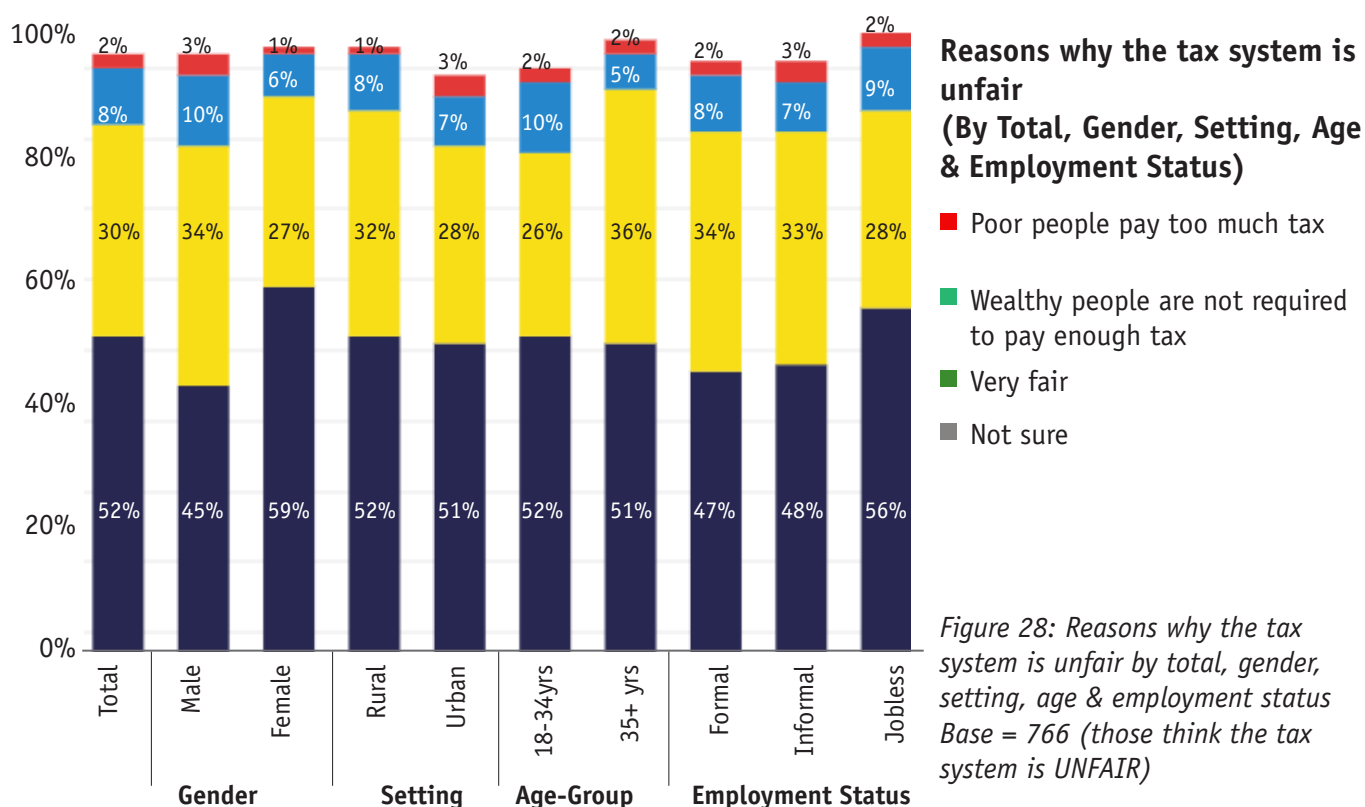
Figure 26: Fairness of the current tax system- by total, gender, setting, age & employment status
Base = all respondents

In the North Eastern region, most respondents (58%) feel that the system is unfair. In Central, Eastern and Nairobi regions, more than half of the respondents also mentioned that the system is unfair. There were no significant differences across the regions regarding the system being fair (23%) or very fair (19%).

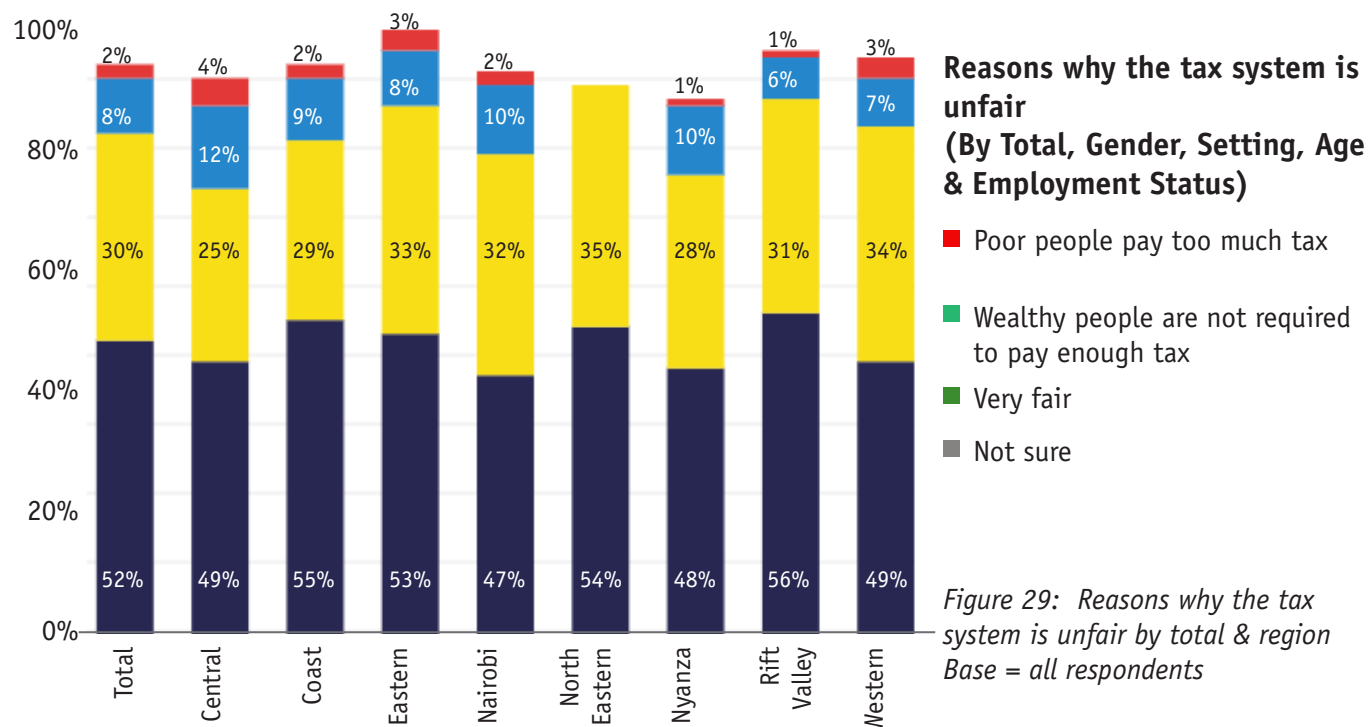


3.5.1. Reasons Why the Tax System is Unfair

More than half of the respondents felt that the tax system is unfair as poor people pay too much tax. 30% felt that corruption allows for unfair tax avoidance while 8% lamented that wealthy people are not required to pay enough tax. 2% mentioned that tax rebates take too long to process. More females hinted at poor people paying too much tax as one of the main reasons why the tax system is unfair.



There were no significant differences across all the regions.



3.6. Perception Towards Taxation

3.6.1. Equitable taxation

In terms of Kenyans' perceptions towards equitable taxation, there seems to have been a preference that high income earners be subjected to higher rates of taxation. Meanwhile, most of the respondents did not agree that the GoK uses taxes for the benefit of Kenyans.

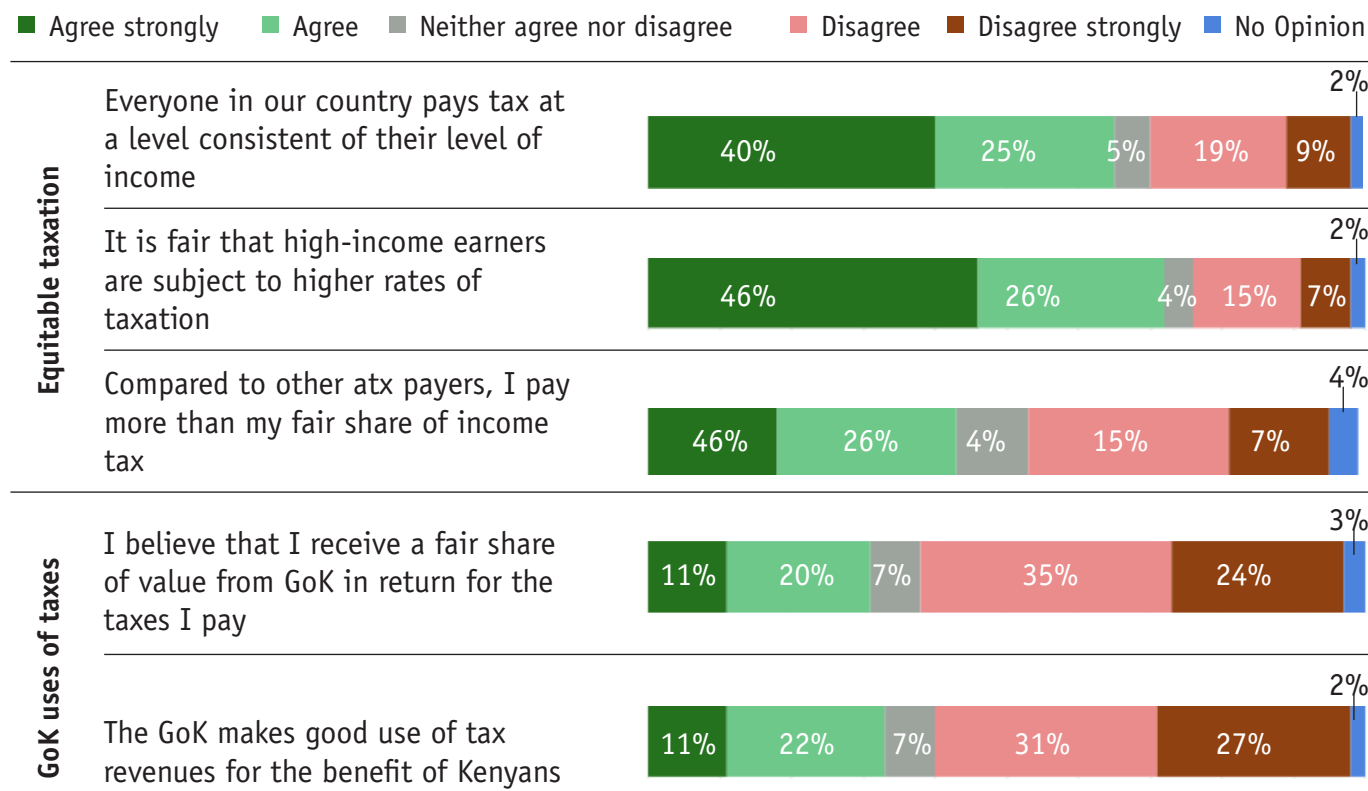
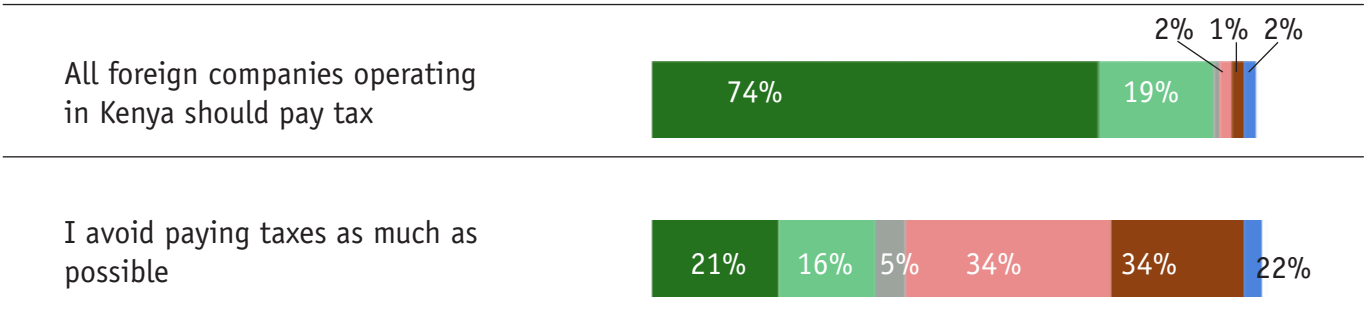


Figure 30: Equitable taxation by total
Base = all respondents

3.6.2. Foreign companies paying tax and personal tax avoidance

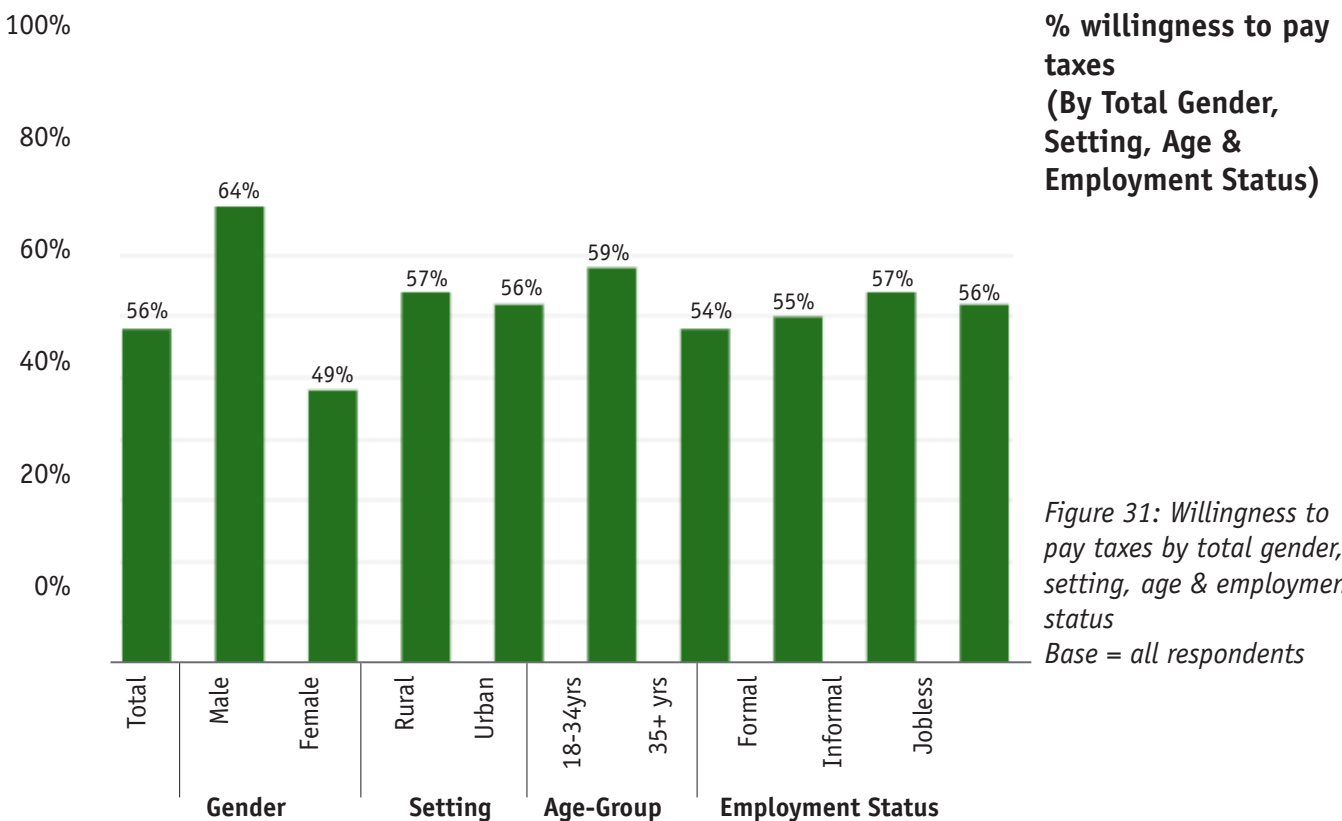
In May 2021, Parliament exempted Japanese companies, consultants and employees undertaking local projects funded through grants from Tokyo from paying tax.⁷ 93% of the respondents felt that all foreign companies in the country should pay tax. Meanwhile, only 37% of Kenyans confessed to tax avoidance practices.

■ Agree strongly ■ Agree ■ Neither agree nor disagree ■ Disagree ■ Disagree strongly ■ No Opinion



3.7. Willingness to Pay Tax

A majority of the respondents mentioned that they would be willing to pay taxes even if nothing would happen to them if they didn't. More males (64%) would be willing to pay compared to the females (49%). Notably, those who are in the rural areas (57%) and more youth (59%) mentioned that they would be willing to pay while there was no significant difference in the employment status of those willing to pay.



7. KNA (Kenya National Assembly), Report on the Consideration of the Exemption from Income Tax for Japanese Companies, Japanese Consultants, and Japanese Employees, Committee on Delegated Legislation, Twelfth Parliament – Fifth Session (2021), Legal Notice No. 15 of 2021, http://www.parliament.go.ke/sites/default/files/2021-05/Report%20on%20LN15%20of%202021%20Exemption%20from%20Income%20Tax%20for%20Japanese%20Companies%2C%20Consultants%20%26%20Employees_0.pdf

The Western region had the most respondents (61%) who mentioned that they were willing to pay compared to other regions. There was no significant difference across all regions regarding those who were not willing to pay (29%).

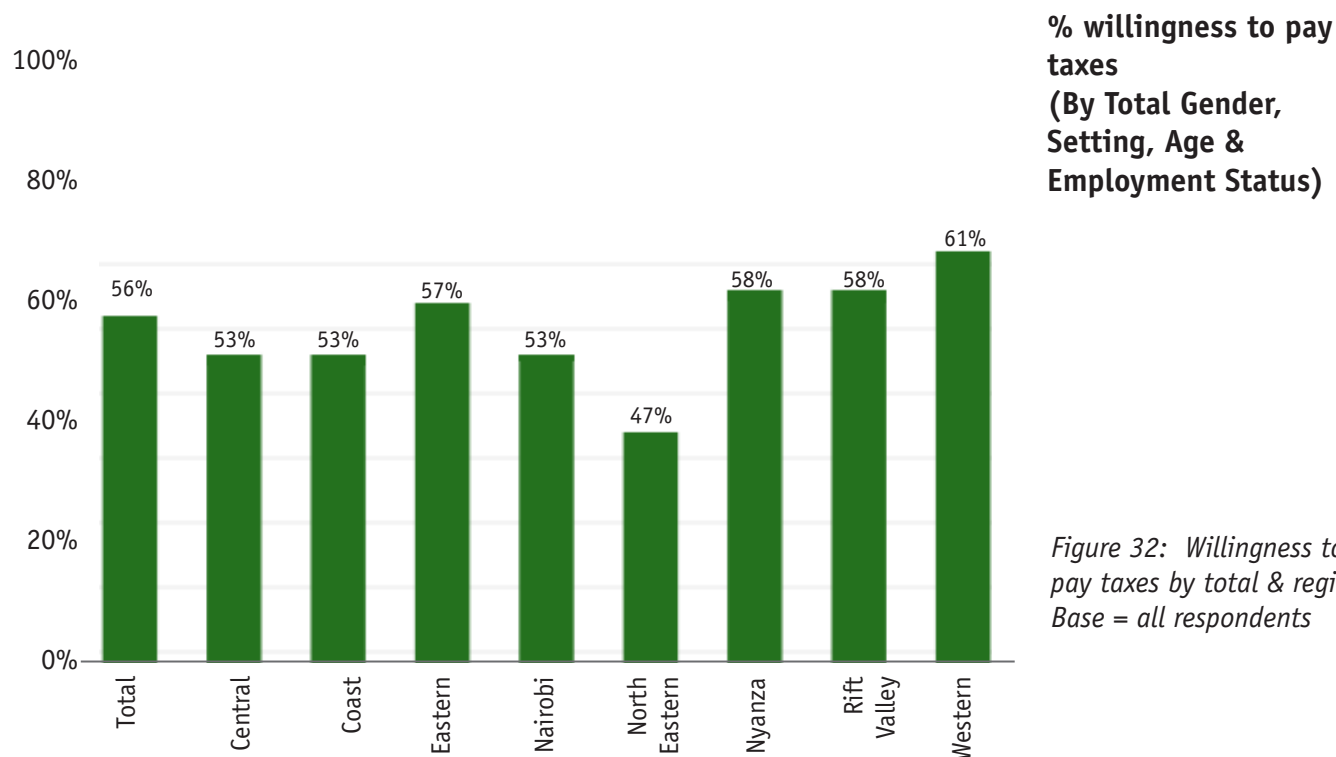


Figure 32: Willingness to pay taxes by total & region
Base = all respondents

A large majority (90%) of the respondents who were willing to pay taxes alluded to the fact that the government needs taxes to provide services. On the other hand, those who mentioned that they are unwilling to pay (24%) related it to poor service delivery despite paying taxes, followed by those who think that even if they evade the taxes, they cannot be caught (22%).

Drivers for paying tax

The Government needs taxes to provide services	90%
If I evade tax, I might be caught and punished	9%
To promote development	6%
I am a christian/ am patriotic	5%
Govt needs taxes to reduce debt/ dependence on foreign lenders/ Donors	5%

Barriers To Paying Tax

Poor service delivery despite paying tax	24%
Even if I evade tax, I cannot be caught	22%
Corruption in Government	12%

EA15 Why are you willing/unwilling to pay taxes?

Figure 33: Drivers and barriers to paying taxes
Base= all respondents

3.7.1. Payment of PAYE

Only two out of ten (29%) Kenyans claimed to have paid. In terms of gender, more males (34%) than females (25%) incur PAYE. There was no significant difference between rural (28%) and urban (32%) in terms of PAYE. The older generation (33%) incur PAYE more than the youth (27%). Respondents with formal employment (56%) pay any PAYE more than those in informal employment (30%) and those who are Jobless (22%).

% PAYE (By Total, Gender, Setting, Age & Employment Status)

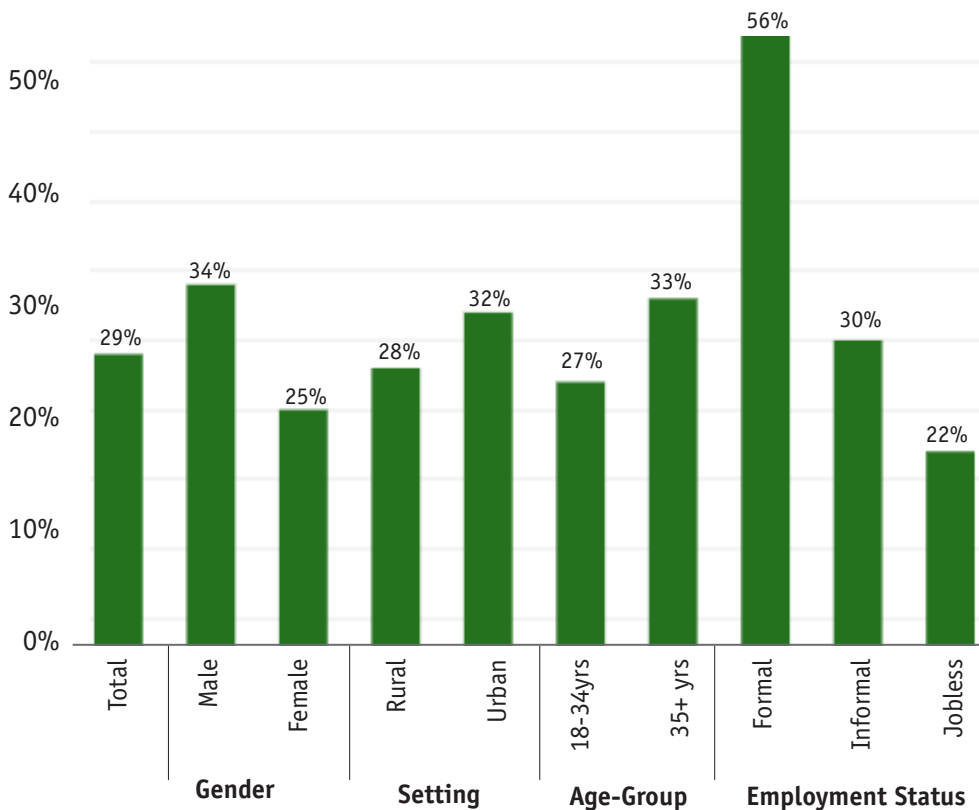


Figure 34: % PAYE by total, gender, setting, age & employment status
Base = all respondents

Nyanza region had the highest number of respondents (74%) who don't incur any PAYE. There was no significant difference in terms of not paying PAYE across all the regions, with all regions having more than (60%) of respondents who don't pay the PAYE.

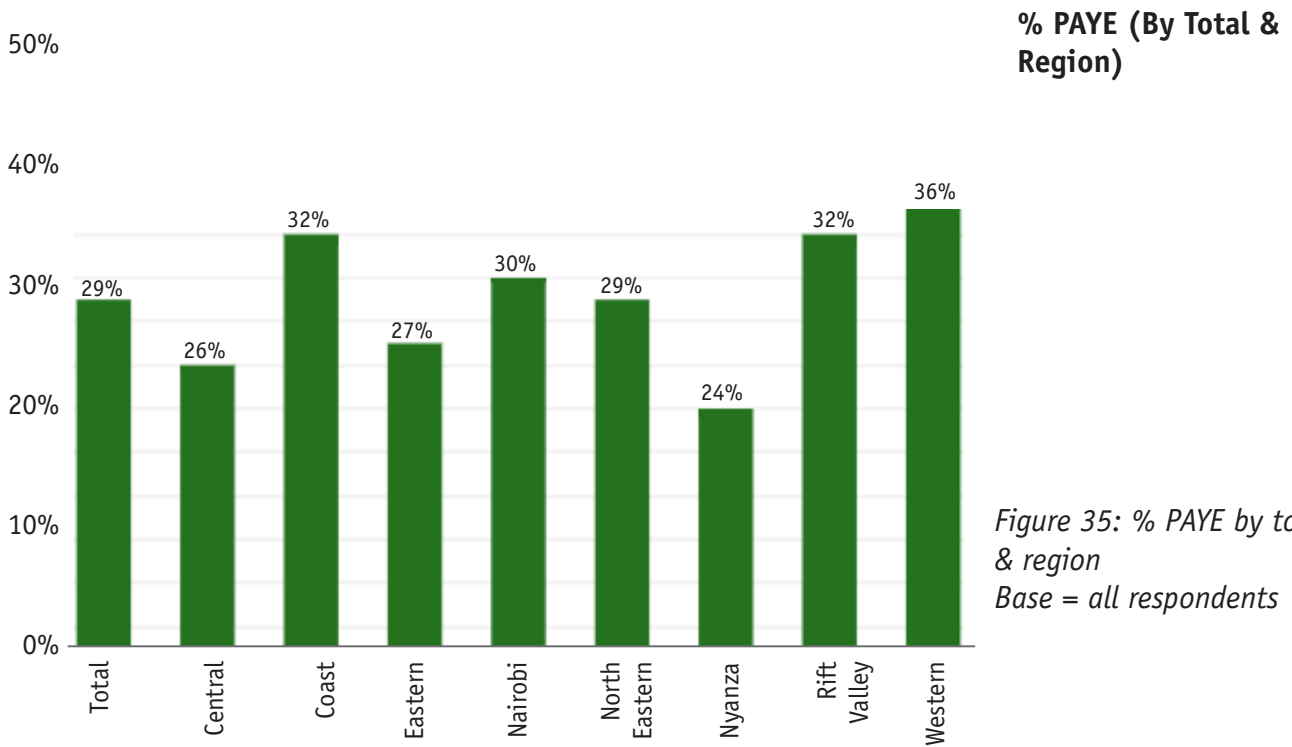


Figure 35: % PAYE by total & region
Base = all respondents

3.7.2. Filing Tax Returns

Half of the respondents (52%) filed returns last year. A majority of them being from formal employment (70%). More males (59%) than females (46%) filed returns last year while 58% of urban respondents filled tax return compared to the rural areas (49%). The youths (59%) filed more returns than the older generation (44%).

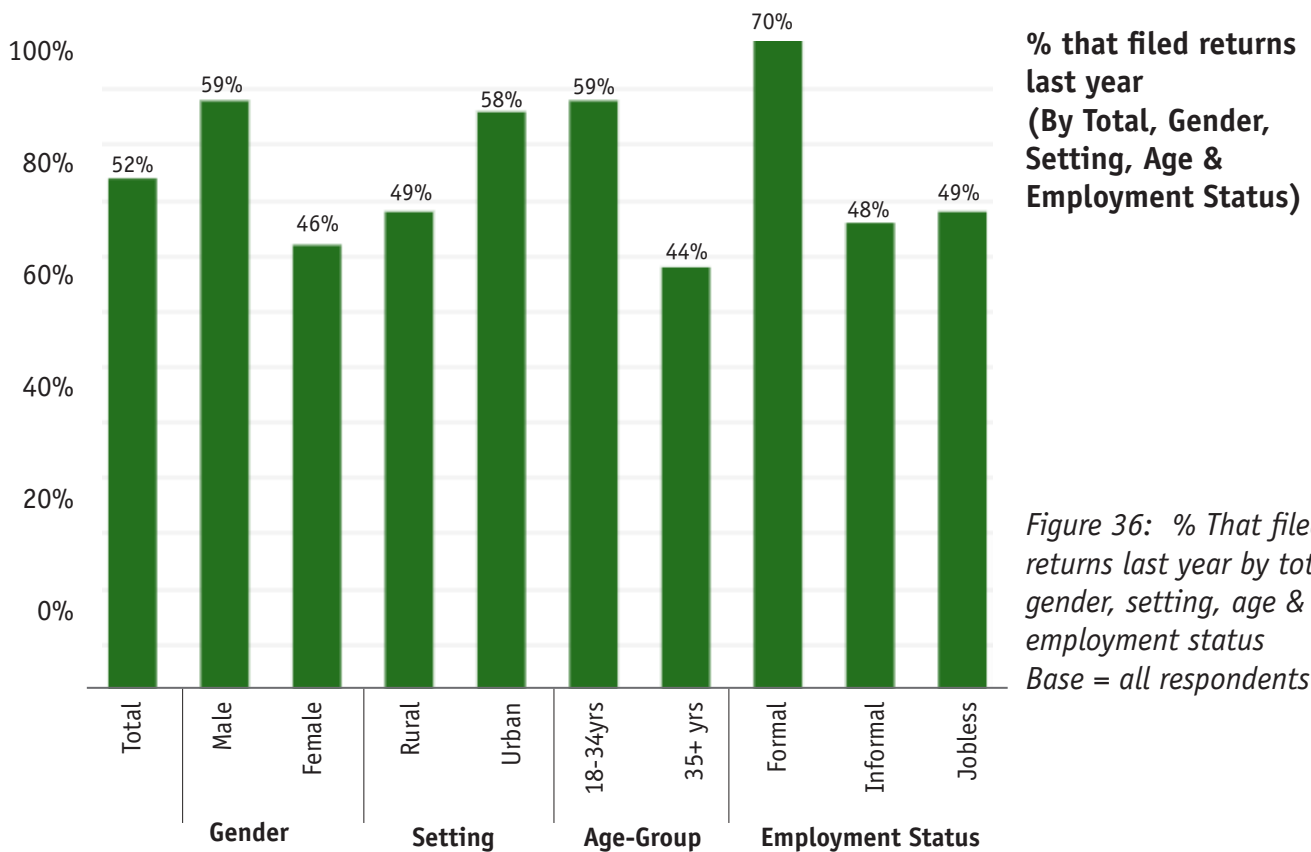


Figure 36: % That filed returns last year by total, gender, setting, age & employment status
Base = all respondents

North Eastern region (64%), had the most respondents that have not filed returns. Except for Nairobi (48%), Coast (46%), and North Eastern (33%), in all the other regions more than half the respondents had filed returns.

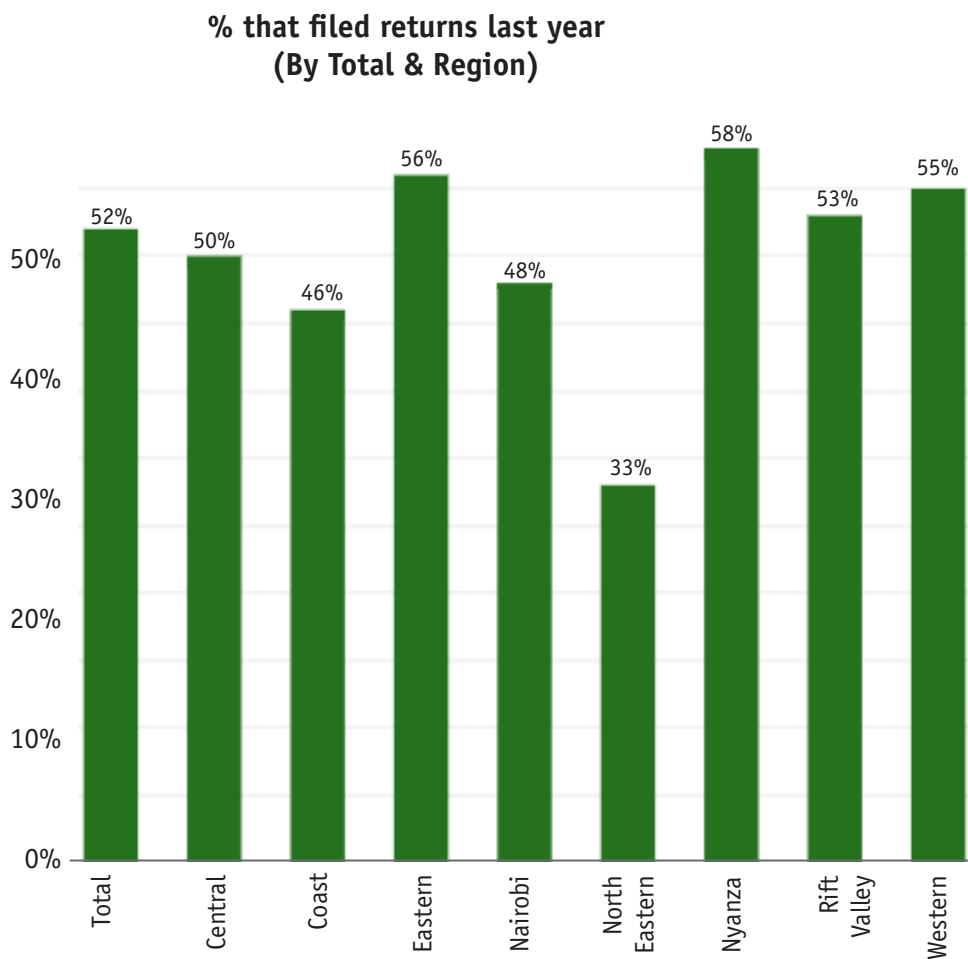


Figure 37: % That filed returns last year by total & region
Base = all respondents



ISBN 978-9914-40-524-8



9 789914 405248

EATGN is thankful for the support of our partners Christian Aid and Tax Justice Network Africa (TJNA).

