PRESS STATEMENT

CIVIL SOCIETY ORGANIZATIONS (CSOS) MEDIA STATEMENT ON THE FINANCE BILL, 2023

Pockets are empty: shield Mwananchi from the high cost of living, protect local businesses.

FOR IMMEDIATE RELEASE

Monday, 22nd May 2023.

INTRODUCTION:

The country is in an economic crisis; this year, for every 100 shillings the government collects as revenue, more than 65 shillings goes to service the national debt. More devastating, the first three quarters the Kenya Revenue Authority (KRA) in the revenue collection for the 2022/2023 Financial Year have been below target. Out of the targeted Ksh 2.07 trillion for the current fiscal year, Ksh 1.57 trillion has been collected. Almost 25% below the target amount. The above financial predicament notwithstanding, the government, through the National Treasury, has put together an expansionary national budget for the 2023/2024 financial year totalling Ksh 3.6 trillion with a projected deficit of Ksh 768 billion in the 2023/2024 financial year.

The high debt burden, the unmet revenue collection and a large budget deficit require fiscal consolidation and revenue mobilization. The government, as required in every financial year, tabled the Finance Bill 2023/2024 before the National Assembly on 4th May 2023 for the first reading.[1] The Departmental Committee on Finance and National Planning published the notice for public participation and submission of memoranda on 7th May 2023[2]. The public participation window closed on 20th May 2023.

To respond to the call for public participation and submission of memoranda, the Okoa Uchumi members held a two-day workshop to review the proposed tax amendments. Members take note of the amendments proposed in the Finance Bill, 2023, under each category of tax follows:

[1] http://www.parliament.go.ke/sites/default/files/2023-05/FINAL%20ORDER%20PAPER%20FOR%20THURSDAY%2C%204TH%20MAY%202023.pdf
[2] https://twitter.com/MzalendoWatch/status/1655119767601139712?s=20

1. **Value Added Tax Proposed (VAT):** A total of eleven (11) amendments have been proposed. Out of these, the Coalition endorses three (3) – please see the policy brief shared with you for

details. The coalition members, however, oppose a number of the proposals that are problematic and inconsiderate of the current economic situation as follows:

- An increase of VAT rate on petroleum products from the current 8% to the proposed standard rate of 16% is opposed. We note that an increased rate of VAT on petroleum products would increase the cost of production and worsen the current state of the high cost of living.
- Amendment of section 33 (iii), First Schedule [1] – We oppose this and ask the parliament to reject this proposal with the justification that these industries employ young people and women. Lifting of VAT exemptions could increase the cost of business, which could cause layoffs.
- The Amendment of section 33 (xvii), Section 66 on the Removal of VAT exemption on inputs or raw materials locally purchased or imported by manufacturers of clean cookstoves – Members oppose this because removing the VAT exemption on inputs or raw materials locally purchased or imported by manufacturers of clean cookstoves would increase the cost of producing climate-friendly stoves. In the context of the devastating effects of climate change, this proposal is unconscionable.
- The proposal to remove the VAT exemption on the supply of maize (corn) flour, cassava flour, wheat or meslin flour and maize flour containing cassava flour -This is opposed by the CSOs as this will raise the cost of living for many Kenyans.

2. **Excise Duty Proposed Amendments:** A total of eighteen (18) amendments were considered by members. Out of these, the coalition endorses thirteen (13) of them for their consideration of the current cost of living in the county.

Members oppose a total of five and recommend that the national assembly reject these:

- The excise duty on Mobile money transfer services to be increased from 12% to 15% of the excisable value – Members oppose this proposed amendment because it may lead to reduced transactions, thus reducing excise duty collection.
- Deleting "imported" to include locally manufactured sugar confectionery. Both imported and locally produced are to be excisable at Ksh 36.74 per Kg. Members reject this and recommend retaining the current status noting that taking this proposal up would hurt local production.
- The proposal to introduce an excise duty of Ksh. 25 per kg for powdered juice is rejected by the Coalition as it affects our local fruit industry. The powdered juice is a refined juice product, thus reducing wastage as it has a longer shelf life. Members recommend that a no excise duty Powdered juice as it is currently.
- The introduction of an excise duty on all sugar imported and locally produced, excluding imported or locally produced sugar purchased by the pharmaceutical industry, at Ksh. 5 per kg is opposed as it would hurt locally manufactured sugar and local farmers. The coalition recommends that there be no excise duty on all sugar imported and locally produced, excluding imported or locally produced sugar.

3. **Income Tax Proposed Amendments:** A total of seventeen (17) amendments were considered by members of the Coalition. Thirteen (13) of these are endorsed for their consideration of the current cost of living in the county.

Those opposed and recommended for rejection by the National Assembly are:

- Introduction of 10% P.A.Y.E tax on the first Ksh. 24,000 without relief – The coalition recommends retaining but with 100% relief as it is currently with the justification that the relief will cushion low-income earners from the high cost of living.

● Introduction of 35% P.A.Y.E for those earning a monthly income of Ksh. 500,000 and above per month - The coalition members reject this proposed amendment and recommend that the new rate of 35% should apply to those earning more than Ksh. 1,000,000 per month. This will ensure the majority of Kenyan households' disposable income remains constant to enable them to survive the harsh economic conditions.

● The amendment on the turnover tax threshold proposed to be revised so that Ksh 500,000 to Ksh. 15,000,000 taxed at 3% is rejected. Members recommend that the status quo (turnover tax threshold of from Ksh 1,000,000 to Ksh. 50,000,000 taxed at 1%) be retained. Members note that increasing the turnover tax from 1% to 3% may discourage the informal sector from embracing the turnover tax as the increase in rates may be viewed as punitive, in a sector that is still new in the taxation net and a major contributor to the economy.

The recommendations from the members of the Civil Society Organizations are made with the consideration of the prevailing economic situation of the country in mind. A national survey in December 2022 by Twaweza East Africa confirms that the most pressing issue plaguing the country is the cost of living, with 49% of citizens highlighting it as the primary concern. Additionally, the data from the same survey also revealed that more business owners reported their business is further declining compared to the previous year. It is, therefore, important that the government considers the citizens' and business owners' economic situations and recognize that overtaxing could lead to increased tax avoidance and evasion and, consequently, less tax collection.

Furthermore, business owners might close down their businesses due to the heavy taxation, leading to more lost revenue by the government. Imposing more taxes on an already suffering citizenry is punitive for a government that promised to uplift Mwananchi at the bottom of the economic pyramid. We ask that the National Assembly carefully considers the views expressed in this press statement and accompanying press brief, thus saving Kenyans from the possibility of being overtaxed.
As we shift the government focus from overtaxing citizens and businesses, we wish to propose the following as alternative measures that the government could use to meet its revenue collection taxes:

● First, **the government needs to relook the conditions imposed by bilateral donors** and in particular those driven by the IMF under the fiscal consolidation program. It must also urgently develop a debt renegotiation program and institute genuine austerity measures that address the high debt stock that is taking up most of the expenditure on revenue raised. The austerity measures must include a look at the hiring being done at the high level of state officers and public officers for political consolidation. This must be accompanied by appointment into leadership of people who hold the highest of integrity to create the required culture in our public service that will anchor transparency, accountability and participation that fosters ownership of our public finance processes by the people.

● Second, **reduce tax expenditures**, which are taxes forgone to provide incentives to businesses. These amount to about Kshs. 333 billion per year on average between 2017 and2021.

Clarity must also be provided on the beneficiaries of these tax expenditures to ensure equality in tax policy.

- Third, **push for the full devolution of functions from the national government to county governments**, which would eliminate duplication of functions and save resources. Some county government functions are still being fulfilled by state corporations, for which are budgeted. These corporations can be dissolved or privatised, and their funding passed to counties. According to the Parliamentary Budget Office, the government could make as much as Kshs. 30 billion a year from the privatisation of some state corporations.

- The fourth measure is to **empower and adequately finance institutions like the EACC and the judiciary** to aid the fight against corruption. The Kenyan government loses over 2 billion shillings daily to corruption which translates to around 730 billion per year.[2] In the last five years, there have been successful conviction and non-conviction-based forfeitures. However, many asset recovery cases are lost due to the lacklustre approach to investigation, lack of proper coordination among the asset recovery agencies, and political interference. The EACC, Judiciary and ODPP must be empowered to effectively pursue these cases by enhancing their independence and capacity to fight economic crime.

- Fifth, **empower the office of the Public Debt Management by making it an independent office.** Making the office independent would help it mitigate public debt conflicts and advise the government on the debt ceiling. Increased debt without a return on service from that debt caused by corruption and the Executive's ability to manipulate the debt increment. An independent office of Public Debt Management would be able to curb the harm caused by such corruption and manipulation.

- Sixth, **increase Parliament's oversight of budget implementation to reduce wasteful expenditure.** The role of overseeing the implementation of the national budget lies with the National Assembly. Pressure must be placed upon this body to take the implementation reports and recommendations from the Office of the Controller of Budget and the audit reports from the Office of the Attorney General. This will aid in holding the different MDAs to account for their spending.

The Finance Bill 2023 risks bleeding Kenyans dry through taxation. The proposed taxation measures are injurious to the Kenyan population. We urge Parliament to reject the proposal to overtax the employed population and informal sectors. Instead, focus on tax compliance on the existing taxes and a strong push for accountability of all revenue collected through taxes or acquired in debt.
It is evident that the effects of imprudent fiscal management have dire consequences on the incomes and quality of life. The past actions of our government that enabled graft and misappropriation of revenue are now affecting Kenyans who are struggling with access to essential services and reduced income due to inflation and the high cost of personal goods and public services.

Based on this awakening, Okoa Uchumi today announces the following actions:

1. We will collate all memoranda submitted to parliament by the people and disseminate widely the will of the people.

2. Mobilise all Kenyans to inform their member of Parliament on their stand on the finance bill 2023.
3. Have a people assembly of all 290 constituencies during the debate and voting on the finance bill and prepare and publish how each MP voted.

4. If the will of the people is subverted, we will commence the process of exercising our powers as the sovereign and commence public actions targeting the executive and Parliament across the entire country.

For more information, contact Rozalia Wangui via rozalia.wangui@tisa.or.ke or Angela Wangechi at angela.wangechi@tisa.co.ke.

Sincerely,

The undersigned Okoa Uchumi Campaign Members:

1. National Taxpayers Association
2. Kenya Human Rights Commission
3. The Institute for Social Accountability
4. Amnesty International Kenya
5. International Budget Partnership Kenya
6. Centre for Economic Governance
7. Civil Forum for Asset Recovery
8. Centre for Fiscal Affairs
9. Transparency International Kenya
10. REMUSI Housing
11. Oxfam Kenya
12. African Forum and Network on Debt and Development
13. EACHRights
14. Kenya Tobacco Control Alliance
15. Econews Africa
16. East Africa Tax and Governance Network
17. Tax Justice Network Africa
18. Uraia Trust
19. Christian Aid Kenya
20. Muslims for Human Rights
21. Inter-Religious Council of Kenya
22. Katiba Institute
23. Inuka Ni Sisi
24. Okoa Mombasa
25. Pawa254
26. ActionAid International Kenya
27. Institute of Public Finance

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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.