

# TAX JUSTICE AND POVERTY

**NARROWING WEALTH GAP AND  
PUBLIC DEPENDENCE ON EXTERNAL  
FINANCING:  
KENYA COUNTRY REPORT**

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# The Research and Project

Two issues led to this research project:

- increasing **wealth gap (inequality)**; and
  - the resultant **increasing poverty**, - people and nations.
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- ❑ Economic theory and policy-making - influenced by the view that inequality is good. It helps spur growth and that benefits all due to a “trickle-down” effect. ... “the rising lifts all the boats”. - good ... but any exaggeration harms.
  - ❑ Neo-liberal market economics uses this to in its drive for profits and capital accumulation - at the expense of the human person (labourer, consumer).
  - ❑ This is a presentation of the Kenya country report of the “Tax Justice and Poverty Project”

# Poverty...

Of the 49.9 million people:

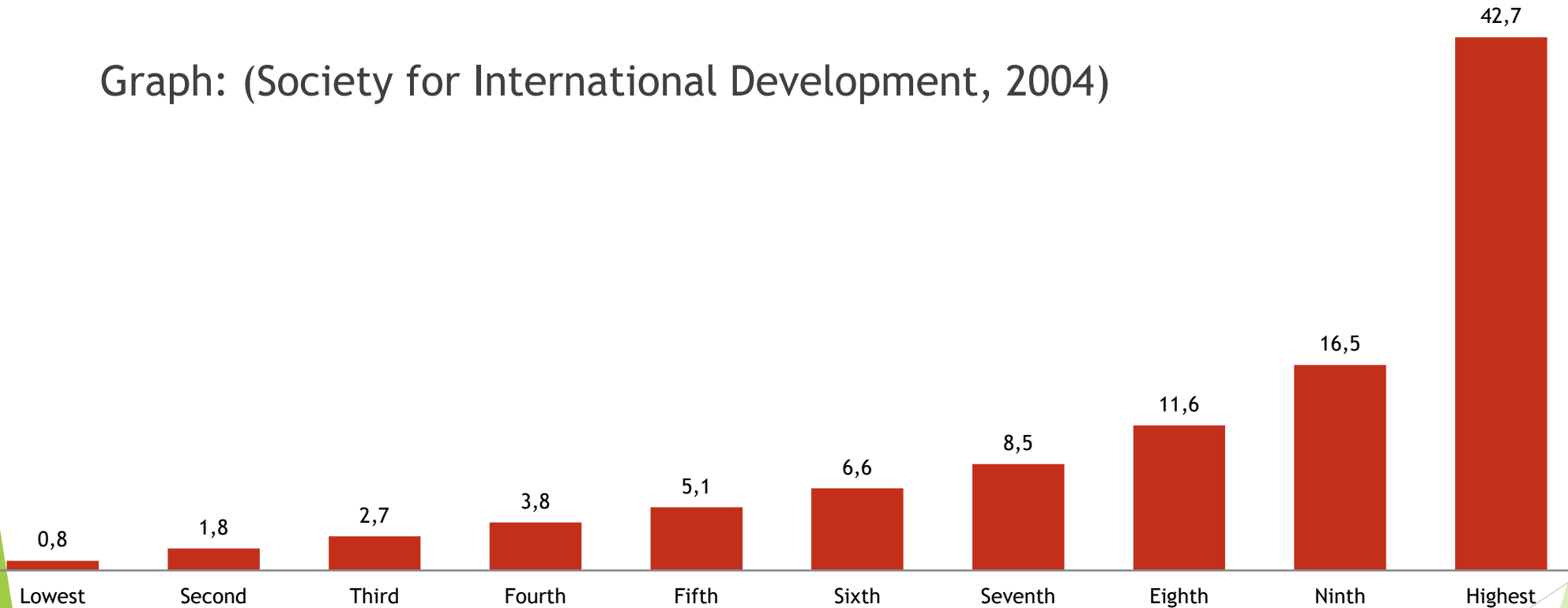
- ❑ 14.7 million (29.4%) below extreme poverty line threshold of \$1.90 (Sh197) per day
- ❑ 19 million Kenyans (40% by 2014 figures) considered poor by multidimensional standards\*\*
- ❑ 6 million (about 13%) were regarded as destitute



# Inequality...

- about 8,900 people (less than 0.1 per cent) own a disproportionately large portion of the income. 80% people own only 40.9% of income.

Graph: (Society for International Development, 2004)



Only 20% of the land is arable; 3% (elite people) own 20% of it while the rural population resides on only 5% of this arable land



# Inequality (income & wealth ...)





# Analysis

As a reality:

- ❑ 73% of the population is youth (30 years or younger)
- ❑ Over 1 million youth need employment annually but only 155,000 get it, - lack skills exacerbates this.
- ❑ By 2015, about 799.7 new jobs created.
- ❑ 700,000 public servants, representing less than 2%, and took 627bn Kenyan shillings (\$6bn); half of the revenue in 2015/16 FY.



# Government Borrowing - Solution

- ❑ Borrowing: Kenya's public debt reached KSh 4.7 trillion, the fifth highest in Africa.
- ❑ Debt to GDP ratio stood at 60 per cent in 2016/2017 financial year, up from 52.1 per cent in the 2015/2016.
- ❑ The debt owed to lenders (many of them foreign) is expected to increase

# Taxation as a Solution

- ❑ Taxes - legitimate for government to raise domestic revenue.
- ❑ SDG 17, Section 17.1: to “strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection”.
- ❑ Can contribute to eliminating poverty and inequality (SDGs 1 and 10).
- ❑ Kenya’s commitment to the Addis Ababa Action Agenda (AAAA) (July 2015), strengthening mobilization and use of domestic resources.



## But ... Taxes?

Taxes are unpopular. A number of questions/issues continue to arise:

- ▶ Do we pay too much?
- ▶ Are the taxes put to good use?
- ▶ Are they levied fairly?
- ▶ Does it make sense to pay taxes when there is so much corruption in Government?
- ▶ Is the Government doing enough to fight against this fiscal fraud?

# An Assessment of Taxation in Kenya

- ❑ Kenya's "Vision 2030" upholds foreign direct investment (FDI) for development, giving taxation less emphasis.
- ❑ A side to it: tax policies favour the rich against the poor.
- ❑ The KRA Corporate Plan - "paying taxes" - falls in the broader strategy of "creating an inductive business climate".
- ❑ Seem to guide policy and strategy of taxation in Kenya as a source of raising domestic revenue.

# Kenya's Taxation...

- ❑ The 2010 Constitution allows taxation for revenue raising, but legal, administrative and policy loopholes exist.
- ❑ Legal: e.g. the Proceeds of Crime and Anti-Money Laundering Act 2009 (POCAMLA) (revised 2016 and signed into law in 2017), - tax evasion not considered a crime.
- ❑ Administrative: Staffing is inadequate, e.g. staff ratio at 2,971 persons per tax administrator, instead of 1000 persons: 1 tax administrator. By 2015, a gap of 1,989 existed to fill staff ceiling of 6,618 at the time.
- ❑ Policy: “Vision 2030” focus



# Results of the Gaps in Policy

Due to the loopholes:

- ❑ Kenya fails to collect \$1 billion annually due to exemptions and IFFs; a low tax contribution to the GDP
- ❑ Main tax revenue sources: Personal Income Tax-PIT, Corporate Income Tax-CIT, value added tax (VAT), excise duties, mostly direct taxes, -inadequate domestic revenue collection.
- ❑ Policies still neoliberal capitalist - privatization, liberalization, private profits at the expense of national interests
- ❑ “The Powerful 1%” - MNCs and few super rich influence and control policy formulation - thus exemptions, IFFs, etc.
- ❑ Tax burden - on masses but with low incomes.
- ❑ Limited funding - education, health, social protection, security, legislation, jurisdiction and executive representation.

# Revenue Limitations

Limited  
revenue for  
delivering key  
social service  
programmes in  
Kenya





# Impact of the skewed taxation policy

Friday, October 19, 2018 | DAILY NATION





# Impact of Increased Taxes on the Poor

Monday, October 1, 2018 | DAILY NATION





# Suggestions for improved Tax Revenue

Suggested reforms for increased revenue.

- ❑ Reviewing taxation laws for tax equity; - taxing the wealthy proportionately more (e.g. wealth taxation, inheritance tax and other wealth transfer taxes, luxury VAT, etc.).
- ❑ Strengthening and enforcing laws against fraud and crime, e.g. the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA 2017).
- ❑ Cooperating with and observing international tax governance and financial fraud regimes - e.g. Financial Action Task Force (FATF) & Tax Information Exchange Agreements (TIEAs), the OECD Multilateral Convention on Tax Matters.
- ❑ Administrative: - increasing staffing and capacity building, new technology and techniques, improved transparency - KRA, gov't, financial institutions and the wealthy, and supporting whistle-blowers.

# Suggestions ...

- ❑ Reforming the existing social security systems - NSSF, NHIF
- ❑ Reducing private sector influence - Corporate Social Accountability (CSA) instead of Corporate Social Responsibility (CSR).
- ❑ Review tax exemptions and other tax incentives
- ❑ Increase public awareness on tax matters - CSOs and community *barazas* to participate in tax debate and accountability.



# Reforms Guided by Values

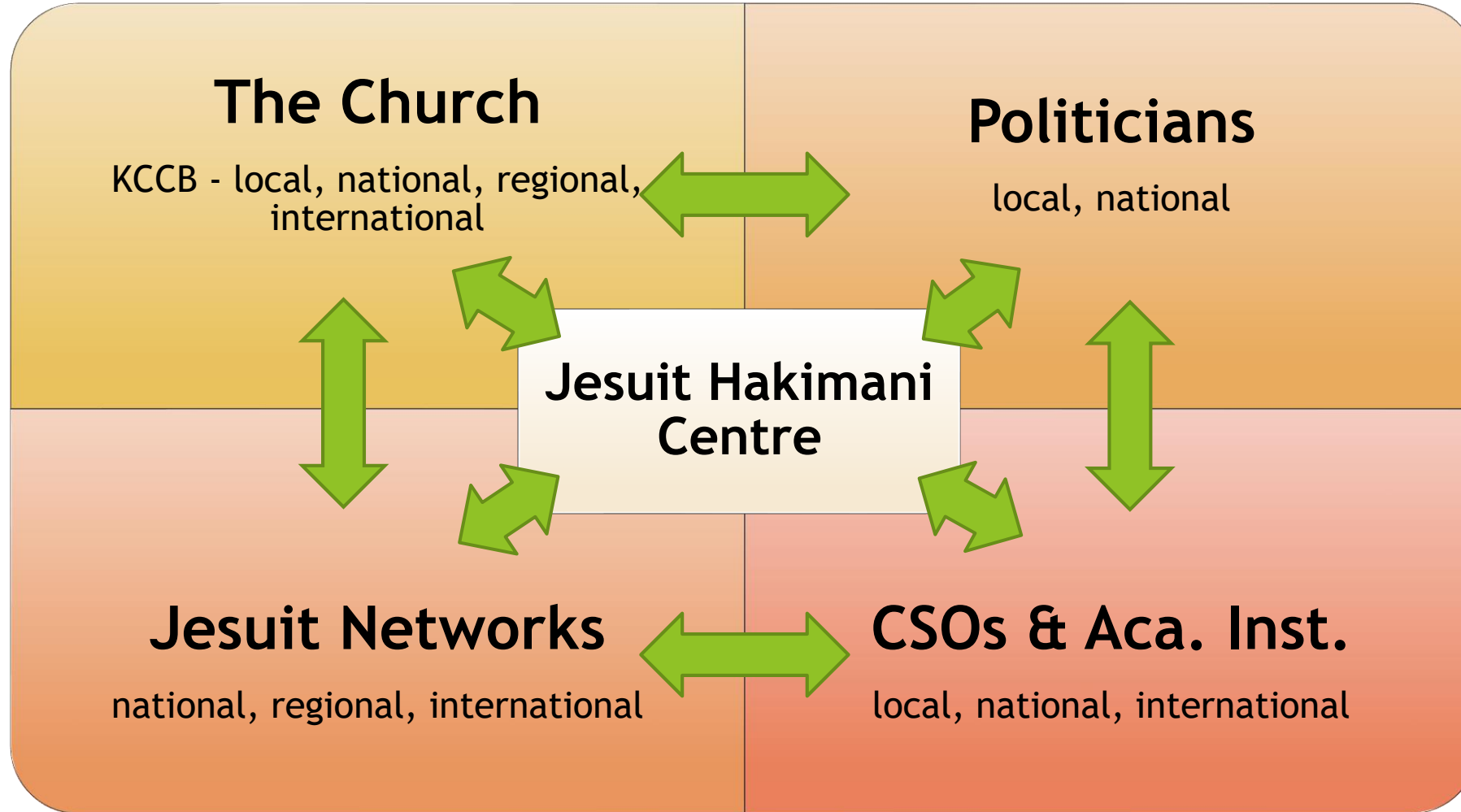
- ❑ Reforms require ethics and a value system - the human person (every citizen) - centre of policy making:
- ❑ The Catholic Social Teaching - the **human person** - a focus for policies, decisions and actions instead of the **markets**. CST emphasizes:
  - ❖ **Personalism** - the rights and dignity of each individual citizen, including the poor
  - ❖ **Solidarity** - active support - in need/ fellow human beings (Preferential Option for the Poor)
  - ❖ **Subsidiarity** - adequate structures for all to participate
  - ❖ **Social Justice** - enable individuals and groups to develop their capabilities in an environment sustainable now and in the future
  - ❖ Replace “**free market economy**” by a “**social market economy**” which serves people rather than people serving markets
  - ❖ Popes Paul VI, John Paul II and Benedict XVI, condemned inequality and called for forms of redistribution, including taxes as a means

# Need for Policy Dialogue

Actors should actively engage in advocacy and policy dialogue on:

- a) Reducing Illicit Financial Flows - losses \$ 1 billion annually.
- b) Reducing bribery and corruption recovery of stolen funds/assets.
- c) Reviewing tax incentives and privileges - \$1.1 billion annually.
- d) Taxing progressively, proportionally, and equitably according to the “Ability to Pay” principle.
- e) Improving transparency in taxation - policy review, reforms and implementation.
- f) Reviewing tax allowances to support low income households in lieu of social protection gaps.

# JHC Networking for Policy Dialogue



# Just and accountable tax revenue can ...

... better quality education



... better quality health services





The background features abstract, overlapping green geometric shapes, primarily triangles and polygons, in various shades of green, creating a modern and dynamic visual effect.

**#JustTaxesEradicatePoverty**

**Thank You!**



