



## **THE NATIONAL TREASURY AND PLANNING**

### **OPENING REMARKS BY THE CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING, HON. (AMB.) UKUR YATANI, EGH, DURING THE LAUNCH OF THE 6<sup>TH</sup> ANNUAL TAX SUMMIT ON NOVEMBER 4, 2020**

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- **Chairman and Members of KRA Board,**
- **Commissioner General and Staff of KRA,**
- **Distinguished Guests, Ladies and Gentlemen**

**Good Morning,**

I am pleased to join you as we launch this year's Annual Tax Summit. Let me first commend the Kenya Revenue Authority for withstanding the current unprecedented challenges brought about by the Covid-19 Pandemic and remaining steadfast in organizing this annual Summit to discuss pertinent topics in tax administration.

Indeed, the Annual Tax Summit has been set aside to engage with stakeholders on all tax matters with a view to improving tax administration including addressing major tax challenges, both at strategic and operational levels. I hope that this year's forum will go a long way in fostering an all-inclusive tax administration approach.

**Ladies and Gentlemen,**

The theme for this year's Summit; *“Enhancing Revenue Administration for Economic Sustainability”* could not have come at a better time given our determination to fight the covid-19 pandemic while keeping the economy afloat. In this respect, this Summit seeks to drive public participation in discussions geared towards enhancing tax administration to strengthen the resilience of our economy during and after the Covid-19 Pandemic.

As you are aware, the outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies including Kenya. The Pandemic has not only disrupted our livelihoods but to a greater extent affected productivity in all sectors of the Kenyan economy leading to a contraction of 5.7 percent in the second quarter of 2020 (April-June).

**Ladies and Gentlemen,**

It's worthy to note that, when Covid-19 struck, despite dwindling revenues, we swiftly moved to implement measures to cushion the economy, support vulnerable segment of the population as well as increase service delivery:

- **Firstly,** In April 2020, we implemented the first phase of the fiscal policy measures to support our citizens and businesses. The measures included exempting from PAYE persons earning Ksh 24,000 and below; reducing corporate and personal income tax rate from 30 % to 25 %; reducing the VAT rate from 16 % to 14 % and reducing turnover tax rate from 3 % to 1 %.

Overall, these measures are estimated to cost the exchequer **Ksh 172.0 billion** in revenue foregone by the Government in one financial year.

Further, we enhanced liquidity of the business sector through payment of VAT arrears and verified pending bills.

- **Secondly**, on the monetary policy front, the Central Bank of Kenya lowered the Central Bank Lending rate from 8.25% to 7.25 % in March, 2020 and later down to 7.0% signalling lower general lending rates thus expected to support economic activities. Additionally, CBK reduced the Cash Reserve Ratio from 5.25% to 4.25% availing more liquidity to banks for onward lending and further raising the maximum limit for mobile money transactions from Ksh 70,000 to Ksh 150,000.
- **Third**, we enhanced the cash transfer programme with an additional Ksh 10.0 billion in order to cushion vulnerable Kenyans, particularly, the emerging urban vulnerable as a result of job losses.
- **Fourth**, to stimulate and sustain economic activities, we embarked on the implementation of the second phase of support through the **Economic Stimulus Programme (ESP)**. This Programme targets to disburse **Ksh 53.7 billion or 0.5% of GDP** through labour-based activities in the areas of infrastructure, education, business liquidity, health, manufacturing, tourism, sanitation, food and agriculture.

- **Fifth**, we are planning an elaborate Post Covid-19 Economic Recovery Strategy(roadmap) which will re-position the economy on a steady and sustainable growth trajectory.

**Ladies and Gentlemen,**

As we implement these measures to cushion the economy and the citizens from the negative impact of the Pandemic, it is critically important that we continue to implement targeted programmes that will foster economic growth and development. To achieve this, the Government needs steady and sustainable sources of funding.

In this regards, the Government needs to raise enough revenue to provide the citizens with quality services like health, education and infrastructure. It is therefore imperative for the country to focus on policy reforms that will enable efficient revenue mobilization. This Summit therefore comes at an opportune time when the Government is considering appropriate policies that will facilitate efficient and sustainable mobilization of the much-needed revenue.

**Ladies and Gentlemen,**

Allow me at this stage to highlight a few of the policies measures that we shall be implementing.

**First**, we are considering a review of tax expenditures and incentives to minimize revenue loss. Over time, the Government has expanded the scope of tax incentives with a view to reducing the tax burden, attract investments, and encourage economic growth. These incentives include preferential rates of tax, enhanced investment

deductions, tax reliefs, zero rating for VAT purposes, remission of taxes and exemptions. The effect of these has been a year on year increase in tax expenditure, which constrains revenue mobilization.

Indeed, it is estimated that Kenya's tax expenditure amounted to **Ksh 535.9 billion in 2018 or 6.0% of GDP**. Of this, VAT accounted for 69.2% followed by corporate income tax at 15.7% and Customs exemptions and remissions accounting for 13.9%. Certainly, Kenya's tax expenditure to GDP of 6% compares unfavourably with the about 1.4% in Mauritius. It is therefore fundamental that as a country we reconsider tax policies that provide for such expenditures to ensure sustained revenue mobilization.

### **Ladies and Gentlemen,**

Another policy area that we are currently considering is the taxation framework for digital economy. In the recent years, the digital economy has gained significant prominence within the global economy as a driver of innovation and competitiveness, becoming a subject of wide policy debates globally. It is estimated that the sector contributes over 11 trillion US Dollars to the global economy representing over 15 percent of the global GDP.

In Kenya, the ICT sector has grown at an average of 10.8 percent annually over the last five years with its output totalling to Ksh 427.0 billion in 2019. With the expanding internet penetration and the growing global innovation in digital technologies, it is expected that the digital economy will continue to grow exponentially, not just in Kenya but also globally. With this, businesses are changing

their models to take advantage of the opportunities presented by the new operating ecosystem, and tax administration processes and policies equally must align.

In this regard, Kenya is implementing digital services tax having passed the Finance Act, 2019, which provides for taxation of supplies made through a digital market place. A mechanism for non-residents to account for VAT on supplies made in Kenya through a digital marketplace has been provided for in the VAT (Digital Market Place Supply) Regulation 2020.

In this respect, effective 1<sup>st</sup> January, 2021, Kenya shall implement Digital Service Tax (DST) payable at 1.5% of the gross transaction value of income derived or accrued in Kenya from services offered through a digital market place. The legislative process that led to these provisions was consultative and included inputs from key players in the industry.

**Ladies and Gentlemen,**

This taxation of the digital economy will not only expand the tax base but will also ensure equity in the taxation system. I am therefore, delighted to note that this will be one of the areas the Summit will be focusing on, and I believe that we shall at the end of this forum, come up with solutions that can further enhance the digital economy policy environment.

Besides these policy considerations, we are also looking into ways of improving competitiveness of our business environment. A good business environment boosts

the growth of industries, while a weak one can stifle productivity and profitability of businesses.

According to World Bank's Doing Business Report 2020, the country's ranking improved from position 92 in the past year to position 61 out of 190 economies. We are implementing various reforms including full automation of Government services to speed access while reducing the cost of access. The goal is to improve our ranking to top below 40. We call upon the support of all stakeholders to make this goal achievable. In this regard, we shall continue working to streamline fiscal policies with a particular attention to tax and customs policies with a view to promote industrialization, encouraging local investments and enhance revenue collection.

I believe this forum will provide a good opportunity for us to deliberate on various topics with both a global and African focus. We are looking forward to innovative ideas that will help us improve tax administration and subsequently enhance domestic revenue mobilization.

**Ladies and Gentlemen,** it is now my pleasure to declare the 6<sup>th</sup> Tax Summit officially launched, and wish you fruitful deliberations.

**Thank you**

**THE NATIONAL TREASURY AND PLANNING  
4<sup>TH</sup> NOVEMBER 2020**