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REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

THE MEDIUM-TERM REVENUE STRATEGY

(An Approach for Enhancing Domestic Revenue)

FY 2024/25 - 2026/27

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Foreword

The Medium-Term Revenue Strategy (MTRS) provides a framework for tax system reforms aimed at boosting domestic revenue which has been declining over time. A review of the tax policy and administration landscape is critical to improve efficiency in revenue collection, identify loopholes for tax evasion and enhance taxpayer compliance. The Strategy will facilitate mobilization of additional resources necessary for the implementation of the Fourth Medium Term Plan projects and programmes, that are aligned to the Bottom-up Economic Transformation Agenda

The Strategy covers the period FY 2024/25 to FY 2026/27 and is aligned to Resource Mobilization and Tax Reforms of Fourth Medium-Term Plan (MTP IV)2023-2027 of the Kenya Vision 2030. MTRS further complements the National Tax Policy, 2023 guidelines for governing tax administration and the tax system. The policy is expected to enhance efficiency of the tax system, provide consistency and entrench predictability in tax legislations and management of tax expenditure.

In spite of the past efforts to enhance revenue, Kenya's revenue yield is still below the desired East African Community target of 25 percent of GDP. The Strategy outlines tax reforms and its implementation is aimed at reversing the declining trend of the tax-to-GDP ratio towards achieving the optimal ratio of 25 percent by 2030. The reforms that will be implemented during the Strategy period aims at: financing resource requirements to attain the aspirations of the Kenya Vision 2030 through mobilizing adequate funds, attaining objectives of the National Tax Policy to attain predictability and certainty for stakeholders over the medium-term, and promoting investment across various sectors by removing market distortions.

We also acknowledge that, to achieve the desired revenue growth that will reduce the fiscal deficit to the EAC regional target of 3 percent of the GDP over the medium term, there is need for coherent reforms across all the tax heads to foster greater and equitable revenue mobilization. The fight against corruption and promotion of integrity, ethics and good governance will also be key in the realization of this Strategy.

The MTRS therefore targets to raise the ratio of the tax revenue to GDP collection gradually to 20 percent throughout the strategy period. This will be achieved through: putting in place tax policies and administrative measures that support economic growth; improving efficiency in tax administration; reducing the cost of compliance to tax payers; expanding the tax base; and promoting equity and fairness in the tax regime.

Effective implementation of this Strategy requires the support of all stakeholders in the public and private sector, as well as non-state actors. I therefore call upon all the stakeholders to support this reform strategy which will lead to a better Kenya for all of us.

PROF. NJUGUNA NDUNG'U, CBS

CABINET SECRETARY

Preface

This is the first Medium-Term Revenue Strategy (Strategy) covering the period FY 2024/25 to FY 2026/27. The Strategy provides a framework for undertaking tax systems reforms to enhance revenue collection over the medium term and improve the fiscal space as the Government focuses on the Bottom-Up Economic Transformation Agenda. The agenda aims at bringing down the cost of living; eradicating hunger; creating jobs; expanding the tax base; improving foreign exchange balances; and fostering inclusive growth

This Strategy will mobilize funds to finance Government programs for the remaining period of the Kenya vision 2030. The Government will develop the Second Medium-Term Revenue Strategy to cover the period FY 2027/28 to FY 2029/30, building on the lessons learnt from implementation this Strategy.

In compliance with the Constitution, the Strategy has been developed through a participatory process with the aim of balancing the need for revenue to finance socio-economic development while supporting businesses and individuals to thrive during these challenging times. The Strategy has been prepared in an uncertain global economic context as the protracted effects of the COVID-19 pandemic and the Russia-Ukraine conflict continue to strain economies globally. These shocks have negative impacts to our macroeconomic environment thus creating a dilemma for tax policy between raising revenues to meet development objectives and avoiding tax increases on adversely affected households and businesses.

The preparation of the Strategy is a collaborative effort of various Government agencies led by the National Treasury and Kenya Revenue Authority (KRA). We also acknowledge and are grateful to the International Monetary Fund for support, particularly in building capacity and providing technical assistance to the team that developed the Strategy. We equally thank all stakeholders for the useful inputs that enriched the Strategy. As we embark on the implementation of the Strategy, we commit to sustain collaboration with all stakeholders which is key to success and realization of the objectives of the strategy.

DR. CHRIS KIPTOO, CBS

<u>PRINCIPAL SECRETARY/THE NATIONAL TREASURY</u>

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List of Abbreviations

A-i-A	Appropriation in Aid
BETA	Bottom-Up Economic Transformation Agenda
BMS	Block Management System
CET	Common External Tariff
CIT	Corporate Income Tax
CRM	Compliance Risk Management
DST	Digital Service Tax
EAC	East African Community
EOI	Exchange Of Information
E-TIMS	Electronic Tax Invoice Management System
GDP	Gross Domestic Product
GIS	Geographic Information System
ICT	Information Communication Technology
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPRS	Integrated Population Registration System
KRA	Kenya Revenue Authority
MDAs	Ministries, Departments and Agencies
MOUs	Memorandum of Understandings
MSME	Micro, Small and Medium Enterprises
MTEF	Medium Term Revenue Strategy
MTP	Medium Term Plan
MTRS	Medium Term Expenditure Framework
NHIF	National Hospital Insurance Fund
NITA	National Industrial Training Authority
NSSF	National Social Security Fund
PAYE	Pay-As-You-Earn
PIT	Personal Income Tax
PWD	Persons with Disability
SDG	Sustainable Development Goal
SOEs	State Owned Enterprises
USD	United States Dollar
VAT	Value Added Tax

Executive Summary

This Medium-Term Revenue Strategy (Strategy) covers the period FY 2024/25 to FY 2026/27 and aims at raising sufficient resources for the implementation of the Government's Bottom-Up Economic Transformation Agenda through the Fourth Medium Term Plan of the Kenya Vision 2030. The Strategy provides a comprehensive approach of undertaking effective tax system reforms to boost tax revenues and improving the tax system over the medium term.

The Strategy is developed against a backdrop of historical decline in ordinary revenue collection as share of GDP from 18.1 percent of GDP in the FY 2013/14 to 14.1 percent of GDP in the FY 2022/23. This has mainly been attributed to various challenges among them; adverse effects of COVID-19, increase in tax expenditure, low tax compliance as well as growth of the informal and digital sectors which are hard to tax. Furthermore, the country is operating under tight fiscal space occasioned by emerging expenditure pressures arising from drought related expenditures and external shocks.

In this regard, this Strategy provides tax policy and administrative reforms to be implemented gradually within the period FY 2024/25 to FY 2026/27. The reforms are aimed at: increasing revenue collection to 20 percent of GDP; increasing tax compliance rate by twenty percent; aligning the tax policy objectives with other government objectives such as ease of doing business and trade policies; and enhancing collaboration between Government and stakeholders in domestic revenue mobilization.

The strategies for boosting revenue collection focus on all the tax heads, income tax, VAT, excise duty and customs duty. The Strategy also outlines administrative measures aimed at improving the tax system. The strategic interventions for each of the tax heads are:

Income Tax

a) Corporate Income Tax

   i) Reduce the corporate rate of income tax from the current 30 percent to 25 percent;

   ii) Review residential rental income tax so as to ensure equity;

   iii) Re-introduce minimum tax;

   iv) Introduce withholding tax on payment on goods supplied to public entities; and

   v) Review and rationalize exemptions on entities to expand tax base.

b) Personal Income Tax

   i) Review the personal income tax band structure to improve progressivity;

   ii) Review taxation of pension;

   iii) Review tax reliefs; and

iv) Review and rationalize exemptions on individual's income to expand tax base.

Value Added Tax

i) Review the VAT threshold to enhance efficiency;

ii) Review and rationalize the exempt/zero rated supplies and align with international best practice;

iii) Review of the VAT rate downward;

iv) Explore the possibility introducing VAT on education services excluding basic education and early childhood education and provide a threshold to cushion the low segment of the society;

v) Introduce VAT on insurance services; and

vi) Removal of the threshold for applying VAT input tax apportionment formula.

Excise Duty

i) Review of excise duty on petroleum products;

ii) Introduce excise duty on coal;

iii) Review excise tax regime for alcoholic beverages to base taxation on alcoholic content Harmonize excise duty on cigarettes and other tobacco products;

iv) Review excise tax regime for products that contain sugar as well as introduction of excise duty on other goods with harmful health effects; and

v) Review excise duty on betting and gaming.

Customs Duty

Taking cognizance that the EAC Common External Tariff (EAC CET) that provides common duty rates across the region, Kenya will engage the EAC Partner States to with a view to review the CET to have one rate for all imported goods while primary raw materials/inputs and capital goods will attract no duty.

Other Tax Measures

i) Develop a framework to introduce carbon tax and granting of green fiscal incentives; and

ii) Introduce motor vehicle circulation tax.

Hard to Tax Sector

i) Review and explore means on suitable taxation of informal sector;

ii) Review the taxation of digital sector; and

iii) Review and explore means on suitable taxation of agriculture sector, such as introducing withholding on produce delivered to cooperatives or other organized groups, with a threshold to cushion low-income earners.

Fees, Levies and Non-tax Revenues

i) Digitalize collection of fees, levies and non-tax revenues and review to remove any applicable exemptions where appropriate.

Administrative measures

i) Tax base expansion by recruiting new taxpayers into the tax net;

ii) Reform and modernization of the tax systems;

iii) Simplification of tax processes;

iv) Effective management of tax debt;

v) Compliance improvement;

vi) Improved efficiency in the management of tax refunds;

vii) Enhancing integrity;

viii) Building an effective staffing for tax administration; and

ix) Improving taxpayer audits.

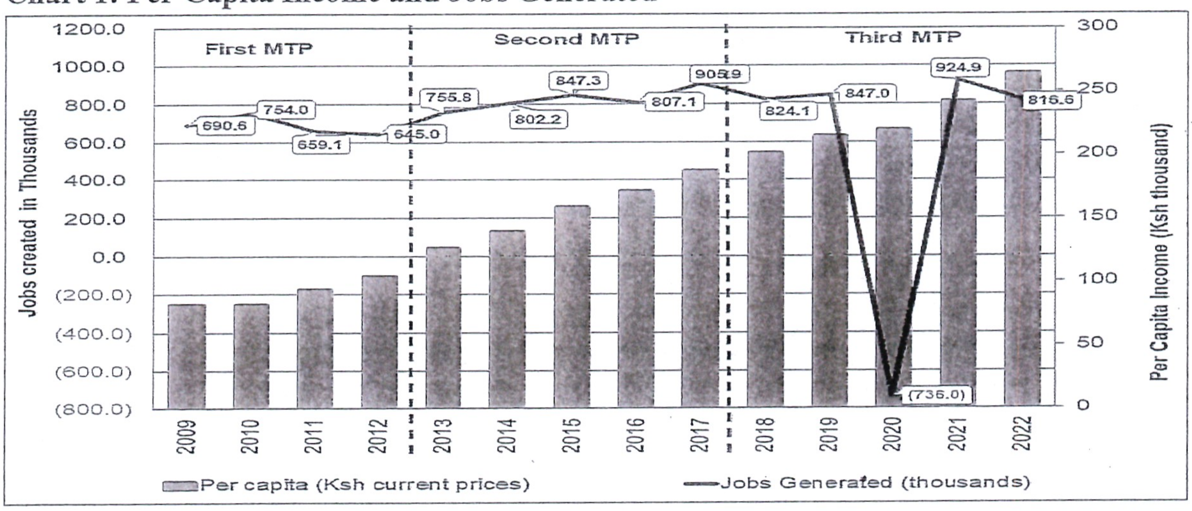
NOTE: The review and rationalization of the tax exemptions under the various tax laws will not affect the privileged persons under the Privileges and Immunities Act.

1 INTRODUCTION

1.1 Economic Context

1. The size of the economy has grown by a remarkable 152.8 percent from Ksh 5.3 trillion in 2013 to Ksh 13.4 trillion in 2022 and cumulatively generated approximately 6.8 million new jobs in both formal and informal sectors over the same period. Kenya transitioned from a low-income economy to a lower middle-income economy with an estimated GDP per capita of Ksh. 139,624.1 (equivalent to USD 1,588.1) in 2014. The per capita income in 2022 is estimated at Ksh. 264,076.9 (equivalent to USD 2,240.4). This is a significant growth of 107.8 percent from the level of Ksh. 127,065.1 (equivalent to USD 1,475.4) in 2013 (**Chart 1**). This has been realized through the implementation of various infrastructural projects, socio-economic policies and structural reforms under Kenya's development agenda which is anchored on the Kenya Vision 2030 alongside other global and regional development frameworks such as the United Nations 2030 Agenda for Sustainable Development and African Union Agenda 2063.

Chart 1: Per Capita Income and Jobs Generated



Source of Data: Kenya National Bureau of Statistics

2. The Kenyan economic growth slowed down to 4.8 percent in 2022 from a growth of 7.6 percent in 2021. This is due to the impact of climate change on agricultural productivity which affected growth in agro-based manufacturing as well as wholesale and retail trade. Additionally, the depreciation of the Kenyan shilling impacted negatively on business activities through high import prices.

3. This notwithstanding, Kenya's economy continues on a strong and resilient trajectory due to its diversified nature; and despite the recent domestic and external shocks. Growth is expected to rebound to 5.5 percent in 2023 and 7.2 percent in 2027 supported by broad based private sector growth, resilient services sector and the rebound in agricultural sector. The growth outlook in the medium term will be reinforced by the implementation of the Government's development agenda and the pursuit of a growth friendly fiscal consolidation plan that fosters debt sustainability.

4. In 2008, the Government launched the Kenya Vision 2030 (2008 - 2030) as a long-term development blueprint with the aim of transforming the Country into an industrialized, middle-income country providing high quality of life to all its citizens by the year 2030. The Vision is anchored on three key pillars: economic; social; and political. The economic pillar aims to achieve an average Gross Domestic Product (GDP) growth rate of 10 percent per annum over the vision horizon and in turn transition to an upper middle-income economy. The social pillar seeks to build a just and cohesive society with social equity in a clean and secure environment. The political pillar aims to realize a democratic political system founded on issue-based politics that respects the rule of law and protects the rights and freedoms of every individual.

5. The Vision 2030 is implemented through a series of five-year Medium-Term Plans (MTPs). The MTP programmes and projects are delivered through the Medium-Term Expenditure Framework (MTEF), an annual three-year rolling budget and planning process. Great progress has been made through the implementation of programs and projects under previous MTPs covering the periods 2008 – 2012, 2013 – 2017, and 2018 - 2022. Despite this, real GDP growth has averaged 4.5 percent between the period 2008 to 2022, which is below the targeted growth of 10 percent per annum by 2012 under Vision 2030. The targeted growth rate is essential in generating sufficient resources for the full realization of the development targets contained in the MTPs. Additionally, the achievement of the country's development aspirations requires a significant increase in spending which needs to be supported by corresponding sustained increase in tax revenues. Kenya has however witnessed a decline in revenue as a share of GDP since FY 2013/14.

6. In an effort to boost revenue collection amidst domestic and global shocks, the Government developed the first Medium-Term Revenue Strategy (MTRS) covering the period FY 2024/25 to FY 2026/27. The Medium-Term Revenue Strategy is expected to facilitate implementation of the Fourth Medium Term Plan (MTP IV) 2023 -2027 of the Kenya Vision 2030. The MTP IV is aligned to the Bottom-Up Economic Transformation Agenda (BETA), and will transition the Country to the next long-term development plan. BETA is geared towards economic turnaround through a value chain approach and emphasizes on increasing investments in the five core pillars Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Economy. The core pillars are expected to drive economic recovery by bringing down the cost of living; eradicating hunger (zero hunger); creating 1.2 million jobs annually; expanding the tax base to increase revenue collection to 20.0 percent of the GDP by FY 2027/28; improving foreign exchange balances; and inclusive growth (leaving no one behind).

7. The MTP IV has adopted a value chain approach with the BETA core pillars and key enablers clustered under five Sectors: Finance and Production; Infrastructure; Social; Environment and Natural Resources; and Governance and Public Administration. The MTP IV has further identified nine priority value chains namely: Leather and Leather Products; Dairy; Tea; Rice; Edible Oils; Textile and Apparel; Blue Economy; Minerals and Forestry; and Construction/Building Materials.

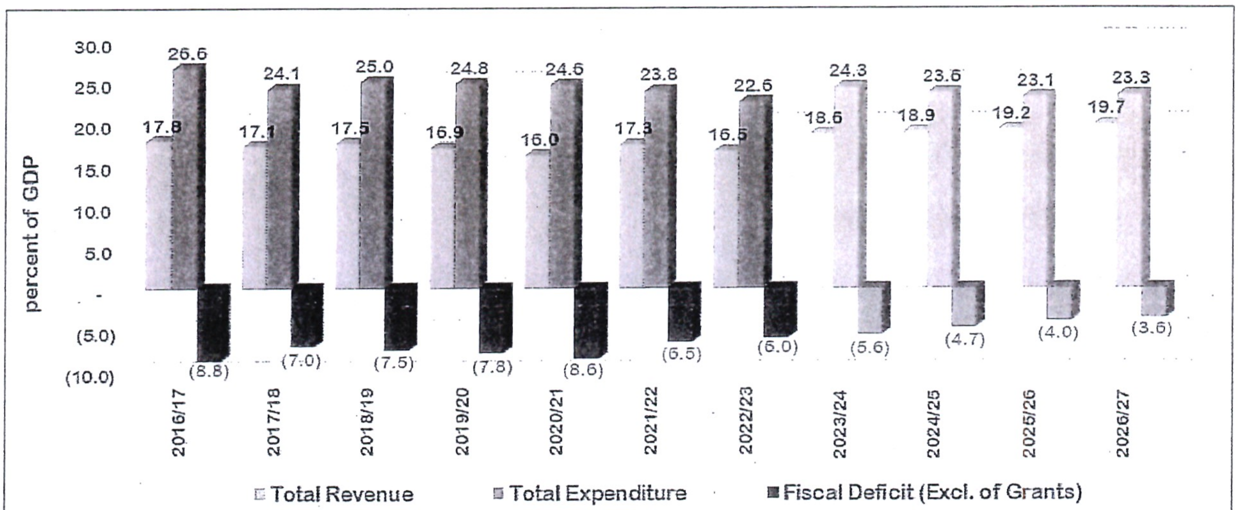
1.2 Government Fiscal Performance

1.2.1 Revenue Performance

8. Government Revenue is the primary resource used to finance Government operations and provide public goods and services. Revenues are used to finance development of public infrastructure and socio-economic projects, as well as facilitating a conducive business environment to support economic growth. In Kenya, revenues are categorized into ordinary revenue and ministerial Appropriation in Aid (A-i-A). Ordinary revenue is composed of all taxes and non-tax revenues that are paid into the Consolidated Fund (Exchequer Account). Tax revenues include: personal income tax corporate income tax, value added tax, excise duty, import duty, stamp duty and capital gain tax. Non-tax revenues include: immigration revenues, mining royalties, fines and forfeitures, traffic revenue, land revenue and investment income. Ministerial A-i-A are revenues collected by various Government Ministries, Departments and Agencies (MDAs) and spent at source after appropriation. These include: Railway Development Levy, Road Maintenance Levy, Petroleum Development Levy, Housing Levy and University Fees among others.

9. Kenya's total revenue collection has tripled from Ksh. 974.4 billion in the FY 2013/14 to Ksh. 2.4 trillion in the FY 2022/23. Ordinary revenue accounts for an average of 89.5 percent of the total Government revenue with taxes on income constituting the largest share of 46.1 percent in FY 2022/23. However, this revenue collection has been consistently below the Medium-Term Plan targets.

Chart 2: Government Fiscal Performance and Medium-Term Projections



Source of Data: The National Treasury

10. Kenya has witnessed a declining trend in ordinary revenue collection as a share of GDP since FY 2013/14. The ordinary revenues declined from 18.1 percent of GDP in the FY 2013/14 to 15.4 percent of GDP in the FY 2018/19. This is attributed to various challenges including; growth of

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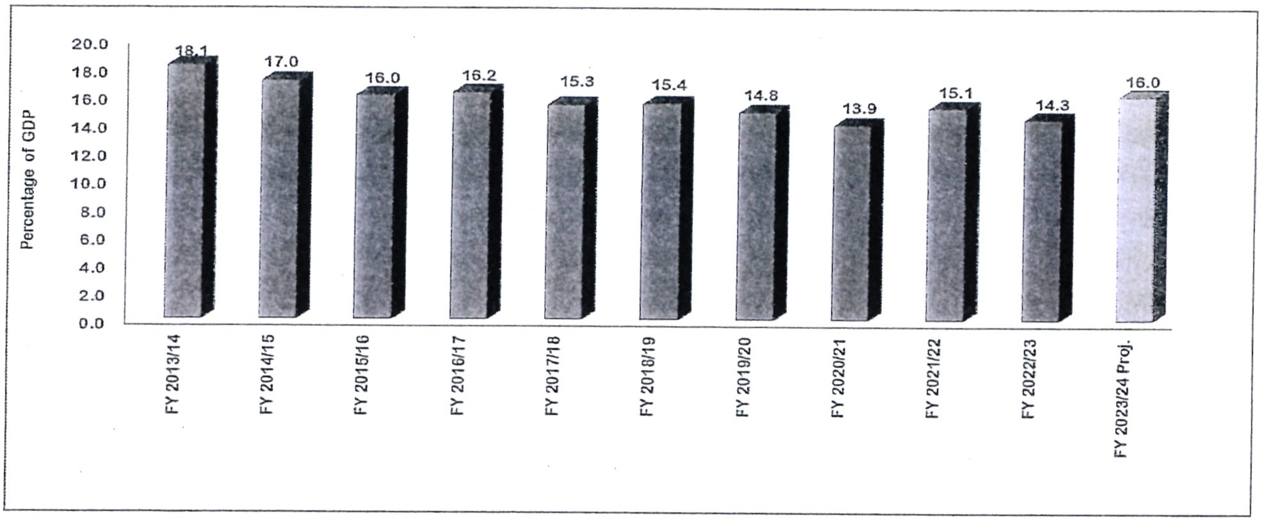
the hard to tax sectors such as the informal sector; and the digital economy that adopts virtual business models. In addition, there has been a proliferation of tax expenditure over the years.

11. The emergence and the spread of COVID-19 pandemic worsened the revenue performance for the FY 2019/20 and FY 2020/21. Ordinary revenue as a percentage of GDP declined from 15.4 percent in FY 2018/19 to 14.8 percent in FY 2019/20 and 13.9 percent in FY 2020/21 (**Charts 2 and 3**). Ordinary revenue collection improved to 15.1 percent of GDP in the FY 2021/22 as economic activities picked up following the easing of the COVID-19 restrictions measures. However, ordinary revenue collection for the FY 2022/23 declined to 14.3 percent of GDP due to the negative impact of the Russia-Ukraine conflict and the resultant geo-politics that led to global economic slowdown and supply chain disruptions. The ordinary revenue collection is projected to improve to 16.0 percent of GDP in FY 2023/24 reflecting Government efforts in revenue mobilization.

Chart 3: Ordinary Revenue as a Percentage of GDP



Source of Data: The National Treasury

1.2.2 Resource Requirements

12. Low revenue collection was identified as the main challenge in the implementation of the MTP III priority projects and programmes. To avert this challenge and ensure successful implementation of MTP IV, the MTRS has outlined revenue strategies that will enhance revenue collection. The strategies will enhance self-reliance in financing economic development and in turn reduce borrowing from the international capital markets and support from development partners. The financial requirement for the implementation of MTP IV programmes and projects during the Strategy period is shown in Table 1.

Table 1: Financial Requirements for MTP IV during MTRS Period, Ksh Million

Sector	2024/25	2025/26	2026/27
Finance and Production	218,749.30	217,460.60	170,155.10
Infrastructure	1,643,291.14	1,396,747.99	1,606,895.35
Social	1,162,402.00	1,194,089.00	1,159,015.00
Environment and Natural Resources	126,345.50	138,898.00	154,712.30
Governance and Public Administration	359,920.36	353,211.54	353,915.52
TOTAL	**3,510,708.30**	**3,300,407.13**	**3,444,693.27**

Source of Data: MTP IV

13. The funding gap for implementation of programmes and projects during the Strategy period is shown in table 2. Implementation of MTRS will enhance revenue collection to minimize the funding gap.

Table 2: Medium Term Funding Gap, Ksh Million

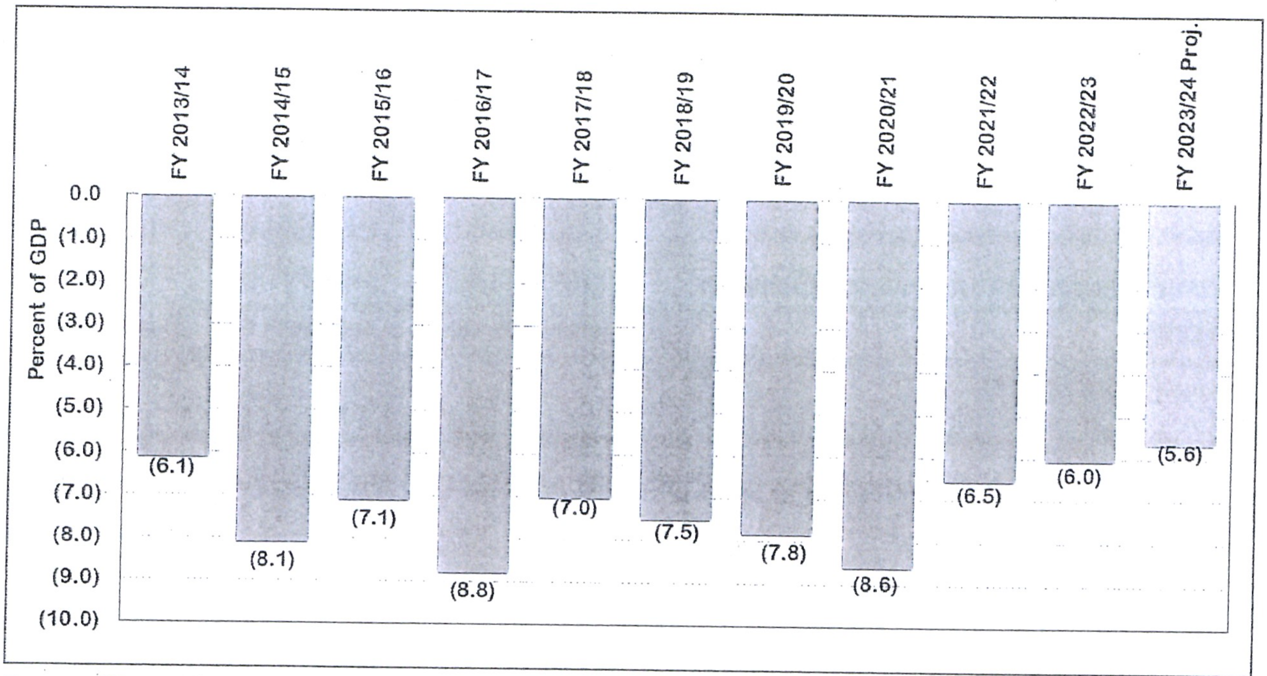
MTP FUNDING	2024/25	2025/26	2026/27
Total Revenue	3,407,794.82	3,835,542.64	4,379,207.78
Non-discretionary Expenditure*	(2,122,510.03)	(2,308,871.51)	(2,570,885.45)
Residual Revenue	**1,285,284.79**	**1,526,671.13**	**1,808,322.33**
MTP IV financing Requirement	3,510,708.30	3,300,407.13	3,444,693.27
Financing Gap	**(2,225,423.51)**	**(1,773,736.00)**	**(1,636,370.94)**

* *Includes interest payments, debt service, pension, and other payment from consolidated fund services (CFS) and wages*

1.2.3 Fiscal Deficit

14. The declining trends in revenue as a share of GDP coupled with rising expenditure pressures has seen the fiscal deficit increase from 6.1 percent of GDP in FY 2013/14 to 7.8 percent of GDP in FY 2019/20 (**Charts 2 and 4**). The fiscal deficit widened to 8.6 percent of GDP in FY 2020/21 mainly due to increased spending pressures for containing the spread of COVID-19 pandemic, implementation of tax reduction measures used to cushion Kenyans and businesses from the adverse effects of the pandemic and the implementation of containment measures that impacted negatively on economic activities. The fiscal deficit improved to 6.5 percent of GDP in FY 2021/22 and further to 6.0 percent of GDP in FY 2022/23 due to the Government's fiscal consolidation effort. The fiscal deficit is projected to decrease to 5.6 percent of GDP in FY 2023/24.

Chart 4: Trends of the Fiscal Deficit



Source of Data: The National Treasury

15. The country has been borrowing locally and internationally to bridge the resource gap resulting in accumulation of debt which has increased from 48.5 percent of GDP in FY 2013/14 to 70.8 percent of GDP in FY 2022/23. Kenya's public debt is at sustainable levels as a medium performer in terms of debt carrying capacity, but remains at high risk of debt distress in event of global shocks. To reduce the risk of debt distress vulnerabilities and ensure the implementation of the development agenda, domestic revenue mobilization is critical.

1.3 Tax Gap

16. In 2022, the International Monetary Fund (IMF) estimated Kenya's potential of tax revenue to GDP to be 25.0 percent which is consistent with the EAC region's macroeconomic convergence benchmark for achievement of the EAC Monetary Union. In FY 2022/23, Kenya's tax gap was estimated at 11.5 percent of GDP.

17. Gaspar et al, 2016, estimated tax to GDP of 12.75 percent as the minimum ratio required for a government to perform essential functions while 17.0 percent tax to GDP is the minimum ratio required to achieve the Sustainable Development Goals. From these figures, it is clear that Kenya requires to put in place measures to increase tax to GDP ratio to enable effective provision of public goods and services to citizens as well as to achieve the aspirations of Kenya's Vision 2030 and SDGs. In this regard, the Government has implemented various tax administration and policy measures in the past to raise additional revenue to close this gap. The tax policy measures include: tax base expansion, modernization of tax legislations, consolidation of tax procedures in one-tax legislation and establishment of Tax Appeals Tribunal to expedite tax disputes resolution. The tax

administration measures include: intensifying debt collection, increased use of data to enhance compliance, scaling up intelligence gathering on tax evasion, enhanced electronic monitoring of transit cargo and use of scanning technology to enforce compliance.

18. Despite the reform efforts, Kenya's revenue yield is still below the desired East African Community target of 25.0 percent of GDP. To achieve the ratio of 25.0 percent by 2030, a holistic reform of the tax system, coordinated across the government agencies, is therefore needed to reverse the declining trend of the tax to GDP ratio. Isolated tax reforms on one tax head cannot achieve the desired level of revenue growth, and reduce the fiscal deficit over the medium term to the EAC regional target of 3.0 percent of the GDP. Therefore, this Strategy outlines comprehensive reforms across all tax heads for greater and equitable revenue mobilization.

1.4 Rationale for the Strategy

19. Effective implementation of the Government's development agenda requires adequate and predictable funding. Therefore, this Strategy provides a comprehensive approach to reform the tax system in order to:

a) accord the Government greater clarity of the expected revenues over the medium term;
b) create certainty on the tax policy and administration reforms to the taxpayers;
c) prioritize areas for tax reforms and administration;
d) support taxation of evolving business models; and
e) build commitment and trust among all stakeholders.

20. Since 2016, over twenty-five countries globally have formulated and are implementing MTRS geared towards boosting tax revenues, and improving efficiency of tax systems and tax administration.

21. Raising enough resources is critical for the implementation of the Government development Agenda as espoused in the MTP IV. As such, the Government will scale up revenue collection to Ksh. 3.0 trillion (18.6 percent of GDP) in the FY 2023/24 and Ksh. 4.4 trillion (19.7 percent of GDP) over the medium term. To achieve this, the Government will undertake a combination of tax policy and administration reform measures consistent with the National Tax Policy. The interventions in this Strategy are also aligned to the Resource Mobilization Reforms and Tax Reforms in the Fourth Medium Term Plan of the Vision 2030.

22. The MTRS is aligned to the National Tax Policy, 2023 which provides policy guidelines to enhance efficiency of the tax system, provide consistency and entrench predictability in tax legislations and management of tax expenditure. MTRS and the National Tax Policy complement each other to enhance revenue collection that will facilitate achievements of the Government's aspiration to improve and sustain economic growth for improved welfare of all Kenyans. To support implementation of the tax administration reforms, the 9th Corporate Plan of the Kenya Revenue Authority will be aligned to this MTRS.

23. The rest of the document is organized as follows: Section 2 provides the objective and scope of the Medium-Term strategy; Section 3 presents the revenue policy measures; section 4 presents the administrative measures; and sections 5 presents the Governance and institutional arrangements as well as the implementation matrix of the MTRS.

2 APPROACH TO THE MEDIUM-TERM REVENUE STRATEGY

2.1 Overview

24. The Strategy seeks to realize effective reforms for improving the tax system over the medium term through a wide approach to mobilize additional revenues. It is a three-year road map that enables stakeholders to have foresight of the planned tax measures towards raising of domestic revenues.

25. The Strategy treats the policy, administrative and legal components of the tax system in a holistic and interactive way to ensure coordination within the system. This approach is critical in building an adaptive tax system that responds to changing economic situations, evolving business models and eliminates tax evasion. The approach creates a tax environment that has clear policies and administrative practices.

26. The Government will develop two Strategies to cover the remaining period of the Vision 2030 with the overall target of raising tax revenue as a share of GDP by an additional 11.5 percent. This is the first Strategy and will cover the FY 2024/25 - 2026/27, while the second MTRS will cover the FY 2027/28 to FY 2029/30.

2.2 Objectives

27. The overall objective of this Strategy is to provide a comprehensive framework for guiding reforms to the tax system and mobilize additional revenues over the medium term to support implementation of the Government priorities identified under MTP IV.

28. The specific objectives are to:

a) improve efficiency in revenue administration;

b) ensure equity and fairness in the tax regime;

c) enhance taxpayer compliance with tax obligations;

d) expand the tax base;

e) create certainty in the tax regime to attract investment; and

f) promote investment across various sectors by removing market distortions.

29. The implementation of MTRS is expected to:

a) raise revenue to GDP ratio from 14.3 percent in FY 2022/23 to 20.0 percent by end of the FY 2026/27.

b) increase tax compliance rate from 70 percent in FY 2022/23 to 90 percent by FY 2026/27; and

c) increase investment to GDP ratio from 19.3 percent in FY 2022/23 to 25.7 percent in FY 2026/27.

2.3 Scope

30. The Strategy aims to balance the need for revenue to finance socio-economic development while supporting businesses and individuals to thrive and surmount economic challenges. The Strategy covers all tax heads and tax administrations aspect. Special focus is on improving efficiency in tax administration by closing tax evasion loopholes and facilitating taxpayers to meet their tax obligations.

3 POLICY MEASURES

3.1 Overview

31. The policy interventions in this Strategy will focus on measures to be implemented under income tax, VAT, excise duty, miscellaneous fees and levies, customs duty and non-tax sources of revenue:

3.2 Income Tax

32. The policy measures under the Income Tax have been categorized into Personal Income Tax (PIT) and Corporate Income Tax (CIT).

3.2.1 Corporate Income Tax

33. A study by KRA in 2022 revealed that CIT gap is high and on an upward trend rising from 25.5 percent in 2018, to 26.7 percent in 2019 and 32.2 percent in 2020. This gap is attributed to low compliance and tax expenditures, among other factors. To narrow the gap, the Government will undertake the following policy measures:

a) Review of Corporate Tax Rate

34. Kenya's CIT rate is 30 percent compared to the world average of 23 percent and the African average of 29 percent. Studies have shown that high rates of corporate income tax discourage foreign direct investments and encourage investors to lobby for lower rates or tax exemptions. Further, high rates contribute to increased tax planning and reduced compliance by taxpayers, which in the case of Kenya, has contributed to a decline in income tax as a share of GDP. To address the issue, the Government will reduce the corporate rate of tax from the current 30 percent to 25 percent over the Strategy period.

b) Non-resident Withholding Rate

35. To bring equity and fairness in the taxation of income, the withholding rate of tax applicable to income earned by non-residents will be reviewed to align with the corporate tax rate. This will ensure that non-residents who are taxed on gross earnings are not unfairly taxed in comparison to residents who are taxed on a net basis.

c) Multiple Corporate Rates

36. Taxation of companies in Kenya is currently characterized by multiple tax rates; standard and preferential rates. The income of resident and non-resident companies is subject to the standard corporate tax rate of 30 percent. The preferential rates apply to specific sectors to promote investments. However, these preferential rates have contributed to the erosion of the tax base and encouraged business persons to lobby the Government to grant similar incentives to other sectors. To address the situation, the Government will gradually phase out the preferential corporate tax rates while focusing on other investment promotion measures over the strategy period.

d) Repatriated Profits

37. Non-resident companies that operate in Kenya through branches or any form of permanent establishment do not necessarily distribute dividends. However, the profit of such nexus is often credited to head office account; the head office uses such credit to distribute dividends at head office levels, thus escaping taxation of such dividends in Kenya. To create fairness and equity with resident companies that are subject to taxation on dividends distributed, the Government will align taxation on repatriated profits to the rate of tax on dividend paid to non-resident. This will ensure a level playing field between resident and non-resident companies.

e) Rental Income

38. Residential rental income within a threshold of Ksh. 288,000 to Ksh. 15.0 million is currently taxed under a simplified tax regime at a rate of 7.5 percent of the gross with an option of payment at the corporate rate. The simplification was introduced to enhance compliance though it has increased the number of taxpayers, it has not achieved the envisaged compliance with an estimated gap of Ksh. 27.0 billion in the year 2022. To address compliance challenges in rental income taxation, the Government will enhance registration of property agents, mapping of properties and leveraging on technology. In this regard, and to ensure fairness and equity, the Government will review taxation of residential rental income and implement either or both of the following options:

- i) Tax the residential rental income at the corporate rate and allow for expenses; or
- ii) Retain the simplified tax regime but progressively increase the rate to the corporate rate and allow deduction of at least 40 percent of the revenue as expenses.

f) Corporate Income Tax Exemption

39. The corporate tax regime is characterized by a narrow base on account of a plethora of "profit-based" tax incentives provided to encourage investment. These incentives undermine efficiency, equity, simplicity and productivity of the income tax system. More importantly, these incentives do not necessarily encourage investments. The Government will review the exemption regime during the Strategy period to a more efficient and pro-investment "cost-based" incentives. The review will take into consideration the need for stability to allow the affected beneficiaries to adjust. Exemptions that are granted on a reciprocal basis and as per international conventions to which Kenya is a party will be taken into account.

g) Minimum Tax

40. The Government recognizes the need for an entity to pay a minimum tax to facilitate the Government to achieve its objectives. This is due to the fact that some entities prepare their accounts to depict perpetual loss position thus evading taxation. To ensure fairness in taxation of income, the government will redesign the minimum tax taking into account the issues raised by the Court on the previous minimum tax.

h) Withholding Tax on Payments on Goods supplied to Public Entities

41. The government is a major consumer of goods and services. Currently, withholding tax is applied on services provided to public entities. To expand the tax base, the Government will introduce withholding tax on payment on goods supplied to Ministries, Departments and Agencies (MDAs).

3.2.2 Personal Income Tax

a) Tax Bands

42. Income Tax Act provides five tax bands on personal income. These are Ksh. 0 to Ksh. 288,000 per year at the rate of 10 percent, the next Ksh. 100,000 per year, at the rate of 25 percent, the next Ksh. 5,612,000 per year, at the rate of 30 percent, the next Ksh. 3,600,000 per year, at the rate of 32.5 percent and above Ksh. 9,600,000 per year, at the rate of 35 percent. The structure is not progressive since tax bands are not wide enough to cushion low-income earners. Further, the structure increases opportunities for tax avoidance and evasion. The Government will review the structure to improve its progressivity based on recommendations of a study to be undertaken jointly by the National Treasury and the Kenya Revenue Authority.

43. The current tax structure for pension is exempt-exempt-tax, implying that contributions are exempt, investment incomes are exempt while withdrawals are subjected to a graduated tax structure different from that of PIT. This structure is discriminatory since pension withdrawals after attaining the age of sixty-five years are exempt while those below the age of sixty-five years are taxable. But withdrawals before the age of fifty will attract taxes. The age differentials also encourage tax planning where withdrawals are done after attaining the age of sixty-five years. During the Strategy period, pension tax structure will be reviewed from exempt-exempt-tax to exempt-exempt-exempt to make withdrawals exempt irrespective of the taxpayer's age. However, exempt contributions to the pension scheme shall be restricted to a threshold to cushion tax planning. The tax-deductible amount for pension will be reviewed to take care of inflation.

44. To address the financial challenges that people who have retired find in accessing medical care, contributions to and withdrawals made from post-retirement medical funds will be exempt.

b) Tax Exemptions

45. There are several incomes earned by individuals that are exempt from tax. These exemptions erode the tax base. During the Strategy period the Government will review and rationalize the exemptions on personal income. The review will take into consideration exemptions that are granted on reciprocal basis and in accordance with international conventions which Kenya is a party.

c) Tax Reliefs

46. Tax reliefs such as personal relief, insurance relief, relief related to persons with disability (PWD) and mortgage relief are given to taxpayers to encourage savings, buying insurance policies, home ownership and reduce tax burden, among other reasons. Though the tax incentives provide

governments with a policy tool to influence taxpayers' behaviour, they come at a cost in terms of foregone tax revenue. In addition, tax incentives increase the complexity of the tax system and reduces its effectiveness as an instrument to promote equity. Studies have shown that incentives may not necessary be effective in influencing the taxpayer's behaviour.

47. During the Strategy period, the Government will review the tax reliefs with a view to eliminate the reliefs that are counterproductive. The current reliefs include: personal, insurance, medical and housing. However, during the review, the low-income tax earners will be cushioned in line with the adjusted tax bands.

3.3 Value Added Tax

48. The Value Added Tax (VAT) revenue has been performing below its potential with a gap of 39.8 percent in FY 2021/22. This is mainly attributed to both policy and compliance gaps in the VAT system. To reduce these gaps, the Government will implement the following measures:

a) Review of the VAT Threshold

49. VAT is a consumption tax collected through registered agents. For a person to be registered for VAT, there is a set turnover threshold that has to be met. However, having the threshold too low increases the cost of administration as well as compliance cost for the taxpayers. The Government needs to balance between the cost of collection and revenue optimization. The last adjustment of the VAT registration threshold was done in 2007 when it was increased from Ksh. 3 million to the current Ksh. 5 million. The VAT threshold has significantly been eroded over time due to inflation hence the need for review. During the Strategy period, the Government will review the registration threshold for VAT based on recommendations of a study to be undertaken by KRA.

50. Considering that the costs of complying are disproportionately higher on small businesses compared to larger businesses, reviewing upward the VAT threshold will enhance efficiency in the VAT system and relieve small taxpayers from the burden of complying with VAT. However, voluntary registration for smaller traders will continue to be allowed.

b) Review of VAT Exemption and Zero Rating

51. The VAT revenue as a percentage of GDP declined from 4.6 percent in FY 2013/14 to 3.9 percent in FY 2022/23. This is largely attributed to tax exemption and zero rating of some goods that do not conform to the international best practices. In this respect, the First Schedule and the Second Schedule to the VAT Act will be reviewed to rationalize the exempt and zero-rated supplies and align the VAT system to the destination principle as well as other international best practices. However, the Government will develop an appropriate strategy to address the tax burden on essential goods and services. The review will also take into consideration exemptions and zero rating that are granted on a reciprocal basis and as per international conventions to which Kenya is a party.

c) **VAT Preferential rates**

52. Preferential rates contribute to the dismal performance of VAT and create discrimination against other taxable supplies leading to market distortions. In addition, differentiated rates create a justification for taxpayers to lobby the Government to extend preferential rates to other goods and services. To address these issues, the Government will adopt a standard rate for all taxable supplies during the Strategy period.

d) **Review of the VAT rate**

53. Studies have shown that low VAT rates accompanied with rationalized exemptions promote compliance and improve revenue collections. In this respect, the Government will review the VAT rate downward, VAT exemptions and zero rating of goods and services. A study is being undertake jointly by the National Treasury and the Kenyan Revenue Authority to guide the review.

e) **Expansion of the Tax Base**

i. **Introduce VAT on Education Services**

Education services in Kenya are exempt from VAT to make education accessible to all learners. However, the benefit of the exemption is not uniform across all learners due to differences in fees charged and services provided. The exemption from VAT on education services create unfairness in inequity. In this respect, the Government will explore the possibility of introducing VAT on education services excluding basic education and early childhood education. Appropriate threshold will be provided to cushion the low segment of the society.

ii. **VAT on Insurance Services**

54. Currently, all insurance services are exempt from VAT. Taxation of insurance services at the general rate will expand the tax bases and hence raise VAT revenue. Therefore, the Government will introduce VAT on insurance services.

iii. **VAT Input Tax Apportionment Formula**

55. The VAT Act provides for apportionment of input tax deductible where a taxpayer supplies both taxable and exempt supplies. The formula enables the taxpayer to determine the amount of deductible input tax. Currently, where the taxable supplies are more than 90 percent of the total supplies, all the input tax is deductible. The provision for a threshold has been subject to abuse leading to loss of revenue. During the strategy period, the Government will remove the threshold for applying the formula for apportionment.

iv. **Withholding VAT**

56. Withholding VAT is an advance payment of VAT on taxable supplies. It is an important tool for managing low compliance sectors of the economy which make supplies to registered withholding agents. The benefits of withholding VAT from taxable supplies outweigh the perceived negative effects by taxpayers. In this respect withholding VAT will be retained over the Strategy period.

3.4 Excise Duty

57. Excise duty is a tax imposed by the Government on certain products with negative externalities to discourage their consumption. In addition, excise duty is also charged on other goods and services to generate revenue. To fully address the negative externalities of certain excisable products and services, the Government will implement the following measures during the strategy period:

a) Excise Duty on Petroleum Products

58. Excise duty on petroleum products will be reviewed to address the negative externalities on the environment associated with petroleum products. The review will also take into consideration the ongoing harmonization of excise duty structure within the EAC region.

b) Excise Duty on Coal

59. Emissions from usage of coal contribute to negative externality associated with local air pollution and global warming. The Government will therefore introduce excise duty on coal.

c) Excise Duty on Alcoholic Products

60. Currently, taxation of alcoholic products is based on various criteria including, consumer behavior, the value of the product, the volume of consumption and alcohol content. In order to streamline the taxation of alcoholic products, over the strategy period, the Government will review the basis of taxation to the alcohol content of the product taking into consideration the harmonization within EAC region. Further, the Government will charge excise duty based on alcohol content of the products to discourage their consumption as they pose higher health risks. This will be informed by quantitative analysis to determine the optimal tax rate that will be applicable to each alcoholic product.

d) Excise Duty on Cigarettes and other Tobacco Products

61. The taxation of tobacco products is currently categorized into; filtered cigarettes, non-filtered cigarettes and other tobacco products. The Government will harmonize excise duty rates across filtered cigarettes, non-filtered cigarettes and other tobacco products taking into account international best practices and to promote fairness. Given the negative health externalities of these products, the rates will be based on the extent of the externalities as well as recommendations of the ongoing study by the EAC partner states.

e) Excise Duty on Non-Alcoholic Beverages and other Goods

62. In order to discourage consumption of sugar-based non-alcoholic beverages and other goods to prevent negative health externalities, the Government will review excise tax regime for products that contain sugar based on recommendations of the ongoing study by the EAC partner states. In addition, the Government will levy excise taxes on other categories of goods which may have harmful health implications.

f) Excise Duty on Betting and Gaming

63. Betting and gaming activities have negative social impacts to the society particularly among the youth thus the need to discourage participation in the activities. The Government will review the Excise duty on betting and gaming to fully address the negative externalities.

3.5 Customs

64. Currently, the rates of import duty applicable to the EAC region are 0 percent, 10 percent, 25 percent and 35 percent. These multiple rates provide differential protection to industries, especially in the manufacturing sector thereby, providing higher incentives for downstream industries relative to upstream industries. Multiple rates also create classification disputes resulting in delays in cargo clearance. To address these challenges, Kenya will engage the EAC Partner States to review the CET rates for primary raw materials/inputs and capital goods and consider adopting one common duty rate for all other imported goods. Further, consideration will be made to provide support for infant industries.

3.6 Other Tax Measures

a) Carbon Tax and Green Fiscal Incentives

65. During the Strategy period, the Government will explore the possibility of introducing a carbon tax on industries and other greenhouse gas emitters. The carbon tax will be based on the carbon content of fossil fuels. The Government will also review the tax incentives that promote use of green energy including promoting electric vehicles that are environmentally friendly and support the transition to a green economy. A legal framework for imposition of carbon tax and granting of the green fiscal incentives will be developed.

b) Motor Vehicle Circulation Tax

66. The Government will introduce Motor Vehicle Circulation Tax, in the medium term, on all motor vehicles based on a flat rate or on the engine capacity of the vehicle to improve progressivity. In the design of the tax, exemptions will be provided for certain categories of motor vehicles. The tax will be paid annually by motor vehicle owners.

c) Tax Expenditure Governance Framework

67. A review carried out by the World Bank in 2015 on the tax incentives concluded that many had not delivered the expected impact such as lower prices for consumers or increased supply of specific products. Moreover, increase in tax incentives makes tax system less efficient and difficult to administer, further augmenting the challenges encountered in revenue collection. The Government will therefore develop a tax expenditure framework to guide granting, monitoring and evaluation of tax incentives to prevent revenue leakages and improve transparency.

3.7 Hard to Tax Sectors

68. The hard to tax sectors are characterized by informality, limited record keeping, lack of visibility of transactions by taxpayers in these sectors and inadequate regulation. Further, most players in these sectors believe that they are not obligated to pay taxes on self-generated incomes

leading to high levels of non-compliance. In Kenya, major sectors under this category include the informal sector, agriculture sector and the digital sector. Due to the changing business dynamics in the Kenyan economy, the hard-to-tax sectors continue to grow. To ensure that taxpayers in these sectors pay their fair share of taxes, the Government will seek to address the above challenges and progressively bring them into the tax net.

3.7.1 Informal Sector

69. Informal sector can be described as all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements. It is characterized by simple labour intensive technology and may not have license from authorities. In Kenya the sector includes self-owned enterprises not registered under the Business Registration Services (BRS). These sectors include jua kali, matatu, hawkers, small traders among others. As a subset of hard to tax sector, the greatest challenge in taxation of the informal sector is lack of visibility of taxpayers' transactions by the Revenue Administration.

70. For effective revenue collection, Kenya Revenue Authority requires information and transactions on economic activities of taxpayers. However, there has been a challenge with information sharing on players in this sector due to the existing laws on data protection. To address these challenges, the Government will:

71. Explore the use of information technology and sharing

i) of data with County Governments, other private third-party data sources and MDAs in order to bring the taxpayers in this sector into the tax net.

ii) Use of Customs data to trace micro and small enterprises (MSEs) who deal in imported merchandise through breaking bulk of consolidated consignments. This data can be used to ensure that all taxpayers in the supply chain meet all their tax obligations.

iii) Explore suitable presumptive tax regimes based on various factors that affect the taxation of the informal sector upon carrying out a comprehensive study and analysis. The regimes are to bring equity and fairness in the taxation of the informal sector.

iv) Review the existing legal framework to provide for integration of the Revenue Administration's and the BRS' systems. This will enhance registration, regulation and licensing of micro and medium enterprises, societies and unlimited partnerships to improve tax compliance.

v) Amend the Data Protection Act to exempt the processing of personal data for purposes of taxation, from the provisions of the Act for ease of access of information.

vi) Introduce a withholding tax which will not be final on all imports at a minimal rate of the imports value. This will be treated as an advance tax by importers and is meant to enhance their visibility and boost revenue collection. This measure will also help discourage tax evasion and filling of nil returns by taxpayers with taxable income. Certain transactions and persons may be exempt from the withholding tax.

vii) Re-engineer the Block Management System (BMS) by adopting Geographic Information System (GIS) technology to map out taxpayers and enhance operational efficiency.

3.7.2 Digital Sector

72. Digital sector refers to those parts of an economy whose value and profit creation are based on the application of digital information and communication technologies. The transactions in this sector are not easily identifiable and the mobile and intangible nature of the goods and services pose a challenge in taxation.

73. To effectively tax this sector, the Government will:

i) enhance the use of third-party information from banks and telcos to identify transactions in the digital sector;

ii) intensify taxpayer education to ensure that taxpayers understand their tax obligations and the importance of paying taxes;

iii) review the digital service tax by making it applicable to both residents and non-residents to enhance taxation of the digital economy and improve compliance among resident digital players. The government will also evaluate the DST taking into consideration the international best practice.

iv) put in place policy and administrative measures to bring to the tax net digital content creators and digital assets.

3.7.3 Agriculture Sector

74. The Kenyan economy remains highly dependent on the agriculture sector, which contributed an average of 21.2 percent of the GDP in 2022 and has the highest employment multiplier in the economy. Despite this, the sector's contribution to tax revenue is less than 3 percent indicating that the sector is undertaxed.

75. The agriculture sector has unique challenges, including being weather dependent, perishability of the produce, the subsistence nature of the sector and inadequate tax literacy by the players of the sector which makes the taxation of this sector difficult. In addition, the sector is highly informal, cash based and characterized by the notion that the incomes generated from the sector are meagre and should not be taxed.

76. To address these challenges, the Government will:

a) introduce a withholding tax on agricultural produce which will be a final tax:

i) at a rate not more than 5 percent of the value of the produce delivered to the cooperatives or other organized groups;

ii) the earnings subject to the WHT shall have a threshold to cushion low income earners.

b) intensify taxpayer education to ensure that taxpayers understand their role in nation building and the need to pay taxes.

3.8 Non-Tax Revenue

77. Non-tax revenue consists of Government revenue receivable from all other sources excluding taxes. These include investment income, traffic revenue, land revenue, fines and forfeitures, interest, social contributions and administrative fees charged on Government services. Non-tax revenue contributes on average 0.7 percent to GDP, with investment income contributing the highest amount at an average of 0.5 percent of GDP followed by administrative fees with 0.16 percent of GDP. In the last six years, non-tax revenue as a share of GDP has broadly remained constant indicating the need to boost them.

78. Some of the factors affecting the performance of non-tax revenue include lack of coherent policy, long period between reviews of fees/levies and semi-automated collection system. To address these challenges and boost collection of non-tax revenue, the Government will:

a) digitalise the collection of all non-tax revenues.

b) explore the possibility of removing the exemption of road toll on heavy goods vehicles bearing Kenyan registration.

3.8.1 Fees

79. Fees imposed on services provided by Government entities are either submitted to the Exchequer or retained to meet operational costs. For the retained fees, there are transparency and accountability concerns regarding whether they are used for planned and authorized purposes. Although imposition of fees is prescribed in various legislations, there is no standardized criteria for imposition and review of these fees. During the Strategy period, the Government will develop guidelines on the imposition and management of fees to ensure standardization.

3.8.2 Levies

80. In addition to taxes, the Government imposes levies including; Railway Development Levy, Export Levy, Petroleum Development Levy, Road Maintenance Levy, Affordable Housing Levy, Export and Investment Promotion Levy and Anti-adulteration Levy among others. Some of the levies are charged to discourage certain behaviour while others are earmarked to finance specific development initiatives. These levies affect other tax revenues, particularly income tax since they are deductible. In addition, there are multiple exemptions provided which have distortionary effect.

81. The Government will review and rationalize the imposition and management of levies to limit their adverse impact on other tax collections. The Government will also review the exemptions provided to some entities with a view to minimizing those exemptions.

3.8.3 Dividends and Surplus Funds from State Enterprises

82. Commercial State-Owned Enterprises (SOEs) are the major source of non-tax revenue mainly from dividends. Surplus funds from regulatory authorities also contribute to non-tax revenues. Over the years, the performance of some of SOEs has been below expectation, with some requiring bailout by the Government. This has had adverse effects on the fiscal space. In this regard, the Government will:

i) improve oversight of the SOEs and review the dividend policy to streamline payment of dividends and unutilized balances to the Government;

ii) initiate legal reforms necessary to anchor the new ownership arrangements and other measures outlined in the SOE Blueprint; and

iii) develop Regulations to provide more effective financial oversight of Government investment in SOEs.

4 REVENUE ADMINISTRATION MEASURES

4.1 Overview

83. This section outlines revenue administration measures that will be implemented over the Strategy period to enhance revenue performance. These measures aim at strengthening the collaborative approach to compliance risk management and improving tax and customs administration through simplification of the tax regime and reduction in the cost of compliance among others. To ensure consistency in implementation, inform KRA's 9th corporate plan will be aligned with the Strategy. To achieve the expected revenue gains, the tax administration will be adequately resourced and equipped.

84. The strategy will also focus on modernization and simplification of tax processes; expanding the tax base; enhancing voluntary compliance; efficient management of tax refunds and tax debt; enhancing integrity and tax administration capacity; strengthening tax audits and improving non-tax revenue collection. In this regard, the Government will boost its revenue collection efforts through the following administrative measures:

4.2 Tax Base Expansion

85. Tax base expansion aims at recruiting new taxpayers into the tax net, increasing the level of compliance of new and existing taxpayers and reducing tax expenditures to enhance fairness and equity in the tax system. The measures under tax base expansion include:

a) enhance rental income tax collection by:
   i) mapping rental properties;
   ii) appointment of rental tax collection agents;
   iii) integration of iTax with the National Lands Information Management System; and
   iv) use of a mobile App to simplify onboarding, filing and payment of tax.

b) enhance taxation of high net-worth individuals by establishing a dedicated unit for this category of taxpayers.

c) enhance taxation of the informal sector through:
   i) development of a simplified regime to facilitate the compliance of informal sector players, including exploring the possibility of taxing the players through their cooperative societies/associations; and
   ii) establishment of a dedicated unit for the informal sector to improve compliance of the sector taxpayers

d) combat counterfeit excisable products and stamps in the market through:
   i) strengthening the multi-agency team to investigate the source of counterfeits and take necessary action;

ii) data and intelligence driven field operations to reduce counterfeiting;

iii) robust and effective market surveillance; and

iv) regular reviews and upgrade of the security features of stamps.

e) develop a framework to guide granting, monitoring and evaluation of tax incentives to prevent revenue leakages and improve transparency.

4.3 Modernization of Tax Processes

86. Continuous modernization of tax administration's business operations through the implementation of various tax management systems and integration of systems improves efficiency, transparency and customer service. Specific measures on modernization during the Strategy period include:

a) full roll out of electronic Tax Invoice Management System (e-TIMS) to restrict income tax and input VAT deductions to e-TIMS generated invoices and enable real time monitoring of transactions. This will prevent taxpayers from manipulating the information that is later uploaded into the system.

b) integration of tax administration systems internally and with other Government systems in line with the relevant data protection and privacy regulations. This will allow seamless exchange of information for a complete view of the taxpayers' economic transactions through big data analytics to drive compliance. Specifically, the Government will integrate the following:

i) all the systems within the tax administration;

ii) tax administration systems with the Integrated Population Registration System (IPRS);

iii) tax administration system with all betting and gaming systems to facilitate real time remittance of betting and gaming taxes; and

iv) integration of tax administration system with third party data producers such as Telcos and banks.

c) enhance monitoring of manufacturers of excisable goods to prevent under-declaration and tax evasion through:

i) use of metering and monitoring tools;

ii) close monitoring of payments to ensure correct taxes are declared and paid; and

iii) establishment of a Production Monitoring Command Centre to monitor production in real time.

4.4 Simplification of Tax and Statutory Deduction Processes

87. Complexities in both tax laws and tax administration increase the cost of compliance with adverse effects on ease of paying taxes and trading across borders. The tax administration will endeavor to simplify tax and statutory deduction processes to make compliance easier for individuals and businesses. Some of the measures during the Strategy period include:

a) harmonization of due dates for taxes and payroll deductions to reduce administrative burden for taxpayers as follows:

    i) all payroll deductions (NSSF contribution, NITA industrial training levy, NHIF contribution, PAYE and Housing Levy) to the 9th of every month;

    ii) withholding taxes to the 5th working day after the transaction except for betting and gaming taxes which are payable within 24hrs; and

    iii) all other taxes to the 10th except for the balance of tax which is payable on the last day of the 4th month following the end of year of income or the accounting period.

b) review of administrative procedures for customs duties and other taxes on imported goods. This is intended to reduce revenue risk on imported goods arising from concealment of goods, mis-declaration, undervaluation, smuggling, diversion of transit goods and dumping of goods meant for export. The specific measures will include:

    i) install additional scanners on exit points to ensure that the goods leave the country to address the diversion of transit and export goods into the domestic market;

    ii) increase synergy within the Customs Departments in the EAC region on utilisation of scanners to counter concealment and mis-declaration of imports, identify excisable goods and ensure accurate declarations;

    iii) enhance the capacity of transit monitoring through additional personnel, vehicles and tracking equipment to detect any malpractice by traders;

    iv) enhance staff capacity in tariff and valuation to address the revenue risk resulting from under-valuation and mis-declaration;

    v) enhance capacity of staff in application of rules of origin to enable ascertainment of origin of goods and qualification to preferential treatments; and

    vi) implement 24-hour operation through all stakeholders at cargo ports to decongest ports, facilitate trade, reduce the cost of compliance and improve ease of doing business.

4.5 Tax Debt Management

88. Effective management of tax debt is a critical element in strengthening revenue mobilization. Management of debts is vital to protecting revenues erosion and to ensure the collection of revenue legally due. The tax debt has been accumulating over the years and there is need to put in place measures to prevent and recover the debt. This will ensure protection of public revenues as well as building trust in the efficiency and fairness of the tax system. The measures include:

a) strengthening out of Court or Tribunal dispute resolution mechanisms (facilitated mediation) to expedite the resolution of tax disputes;

b) clean up and maintain credible data to improve the accuracy of debt records;

c) implementation of a complete view of taxpayer debt status through integration of Customs and Domestic taxes systems;

d) review of the debt portfolio and develop a legal framework on debt write-off considering international best practise;

e) review the legal framework for tax debt recovery process including for companies that apply for voluntary dissolution to ensure tax debts are paid before dissolution; and

f) establishment of a special tax court to improve the turnaround time of tax litigation.

4.6 Compliance Improvement

89. Various studies conducted by KRA, World Bank and IMF have pointed to the compliance gap as one of the key factors contributing to declining trends of tax revenue in Kenya. In this regard, measures to boost compliance will focus on compliance risk management, supporting voluntary compliance and improved taxpayer services. Specific measures will include:

a) adoption of a strategic and collaborative approach to Compliance Risk Management (CRM) by:

   i) enhancement of the capacity of the CRM to promote compliance improvement planning in line with international best practices including the use of data analysis and use of new and emerging techniques in big data analytics;

   ii) strengthening the CRM Committee to oversee all aspects of CRM by promoting collaboration across departments. The Committee will continue to be chaired by a Commissioner, with senior representation from all operational and support departments;

   iii) use of environmental scanning and research studies to support top-down identification and prioritization of strategic risks;

   iv) enhancing cooperation with stakeholders; such as accountants, auditors, legal experts, associations and tax agents, to promote compliance; and

v) strengthening the framework on the exchange of information (EOI) with other tax jurisdictions for both Domestic Taxes and Customs to ensure flow of information, for example, valuation of high-risk imports and Transfer pricing risks paused by Multinationals.

b) supporting voluntary compliance through:

i) conducting targeted taxpayer education with emphasis on the role of taxation in socio-economic development;

ii) enhancement of customer relationship management and development of cooperative compliance strategy; and

iii) enforcement of sanctions to deal with tax malpractices.

c) supporting voluntary compliance through improved taxpayer services by:

i) sending periodic electronic reminders for returns and payments to the taxpayers;

ii) enhance dissemination of tax information to the public through workshops, news, radio, television, websites, posters, brochures as well as introducing taxation in the school curriculum to promote a positive tax culture; and

iii) ensuring timely response to taxpayer complaints in compliance with the Taxpayer Charter.

4.7 Integrity Culture

90. Given that integrity challenges have negative implications on revenue mobilization and service delivery, measures will be put in place to enhance integrity and build public confidence in tax administration. Measures to be implemented over the strategy period include:

a) enhance integrity awareness for both internal and external stakeholders;

b) enhance collaboration and exchange of information with relevant agencies in the fight against corruption and malpractices;

c) corruption risk analysis and prevention;

d) corruption related audits; and

e) enhance tax administration's capacity to detect and address integrity issues.

4.8 Tax Refunds

91. Delayed payment of tax refunds affects the cash flow of taxpayers and impacts on trust and fairness of tax administration which affects taxpayer compliance. This also affects business operations and has a negative effect on the tax payable on income. However, over time it has been established that some refund requests get rejected because taxpayers lodge claims that are not permissible. This may be attributed to challenges in the interpretation of the law or outright fraud. Further, where refunds are genuine, there have been cases of delays in payment of the refunds due

to insufficient allocation of funds. To improve efficiency in the management of tax refunds over the strategy period, the Government will:

a) review the framework for processing refunds in consultation with stakeholders to ensure that tax refund requirements, procedures, and documentation are as simple as possible;

b) enhance the capacity for processing refunds including automated risk analysis procedures for assessing claims;

c) enhance the exchange of information between tax administration departments and ensure cooperation to establish the profiles of high-risk taxpayers;

d) review regularly the allocation for refunds taking into account the increase in claims; and

e) ensure prompt payment or offsetting of validated refunds.

4.9 Staffing of Tax Administration

92. Revenue collection requires adequate and well-trained staff. Currently, the tax administration is faced with challenges of inadequate staff and increased staff turnover in strategic areas of revenue collection. To enhance staffing, the following measures will be implemented:

a) comprehensive skills gap analysis will be undertaken to inform targeted employment to fill the identified gaps;

b) additional staffing to fill the identified gaps;

c) training of revenue administrators in specific skills in collaboration with technical assistance providers; and

d) development of interventions/ measures to facilitate staff retention.

4.10 Taxpayers Audit

93. Taxpayer's audit helps KRA to know whether taxpayers comply with tax laws and also acts as a deterrent for evasion and avoidance of taxes. In this respect, the following measures will be implemented:

a) strengthening taxpayers' audit function through training the staff, recruitment of additional staff and leveraging technology to respond to evolving business models;

b) prioritization of intelligence-based audits particularly on high-risk entities to positively influence taxpayer compliance behaviour;

c) progressively increase the number of audits significantly across all tax heads and all taxpayer segments; and

d) establish a designated post audit technical committee that monitors tax audit quality, adherence to documented audit procedures and ensures that findings are acted upon.

4.11 Non-Tax Revenues

94. To enhance the non-tax revenue collection, administration, accountability and reporting, the Government will:

a) strengthen the framework for reporting and monitoring of non-tax revenue collection, by among others enforcing the use of Integrated Financial Management Information System (IFMIS) in capturing and reporting revenue to improve transparency and accountability;

b) adopt a collaborative approach in the collection of non-tax revenue and leverage the use of ICT; and

c) review the fees charged for government services every five years to ensure that the amount paid takes into consideration inflation and is commensurate to services received.

95. The review and rationalization of the tax exemptions under the various tax laws will not affect the privileged persons under the Privileges and Immunities Act.

5 IMPLEMENTATION, GOVERNANCE, AND INSTITUTIONAL ARRANGEMENTS

5.1 Overview

96. Monitoring and evaluation will form an integral part of the Strategy, providing a framework to track progress towards expected results and assess the impact of the implementation throughout the three-year period. Strategies and activities towards the implementation of the Strategy will be aligned to the principles of the Constitution. To this end, a strong governance and institutional framework comprising of stakeholders from across Government will oversee implementation and evaluation of the strategy taking into consideration stakeholders' input and participation.

5.2 Role of Stakeholders

The roles and responsibilities of the key actors are outlined below:

5.2.1 The National Treasury

97. The National Treasury will:

a) coordinate all the key players involved in the implementation of the Strategy and take lead in the review of various tax laws to facilitate implementation;

b) work with the State Law Office to ensure the requisite changes to tax laws are drafted into Bills;

c) take lead in sensitization of stakeholders on the Strategy;

d) develop a monitoring tool and lead the Steering Committee to oversee implementation of the MTRS;

e) coordinate monitoring, evaluation, reporting and review of the Strategy; and

f) publicize half-year report on capital projects implemented through Government revenue.

5.2.2 State Law Office

98. The State Law Office will:

a) provide legislative drafting services to support the implementation of the Strategy;

b) provide legal opinion on provisions of various tax laws and court rulings; and

c) provide legal clearance on various MOUs and Agreements relating to tax matters.

5.2.3 Legislature

99. The legislature will enact tax laws and vetting of Regulations to support the implementation of the Strategy.

5.2.4 The Kenya Revenue Authority

100. The Kenya Revenue Authority will:

a) administration of tax laws in line with the Strategy to;

   i) enhance automation of tax administration processes to improve administration efficiency and compliance with the Strategy;

   ii) conduct taxpayer education and awareness on tax changes emanating from the implementation of the Strategy;

   iii) establish a robust system for prevention, detection, and deterrence of tax malpractices;

   iv) improve taxpayer service to reduce the cost of compliance and encourage voluntary compliance;

   v) ensure requisite staff capacity for effective tax administration; and

   vi) work with other Government agencies and private sector to ensure integration of tax administration systems with their systems.

5.2.5 Judiciary

101. Judiciary will:

a) ensure resolution of tax disputes between KRA and taxpayers;

b) establish special tax court to deal with tax matters; and

c) facilitate out of court dispute resolutions.

5.2.6 County Governments

102. Collaborate with KRA on collection of revenue by sharing data on licensed business for tax purposes.

5.2.7 Ministries, Departments and Agencies (MDAs)

103. The MDAs will:

i) collaborate with the National Treasury in providing information to the public on projects implemented through Government revenue;

ii) comply with the tax policies and laws proposed in the Strategy;

iii) collaborate with the National Treasury on review of tax laws;

iv) collaborate with KRA, to build capacity on collection of withholding tax payable by the Ministry; and

v) work with KRA to ensure integration of tax administration systems with their systems.

5.2.8 Professional Bodies

104. Professional Bodies will:

i) provide tax advice to taxpayers to facilitate compliance with tax laws;

ii) sensitize their members and clients on the Strategy and legislative changes;

iii) provide inputs in the review of Strategy; and

iv) educate their members on importance of paying taxes.

5.2.9 Media

105. The media will facilitate tax education and awareness.

5.2.10 Non-State Actors

106. Non-State Actors will:

i) promote tax education and awareness; and

ii) provide inputs on the review of Strategy.

5.2.11 Private Sector

107. Private Sectors will:

i) promote taxpayer education;

ii) provide inputs on the review of Strategy; and

iii) work with KRA to ensure integration of tax administration systems with their systems.

5.2.12 Taxpayers

108. Taxpayers will:

i) provide inputs in the review of tax strategy and its implementation; and

ii) comply with tax laws and pay due taxes.

5.2.13 Development Partners

109. Development partners will:

i) provide technical advice and assistance in the review and implementation of the Strategy.

ii) provide financial assistance in the implementation of the Strategy.

In order to ensure there is no duplication of efforts in supporting the implementation of the Strategy, the National Treasury will leverage on the existing arrangement for supporting Public Financial Management Reforms.

5.3 Governance and Institutional Framework

110. To improve transparency and build a culture of accountability, principles of good governance and integrity will be upheld in the implementation and review of the Strategy. The Steering Committee, Technical Committee and Secretariat are responsible for implementation and review to ensure objectives of the Strategy are met.

5.3.1 Steering Committee

111. The Steering Committee will give strategic direction in the implementation and review of the Strategy. The Committee will also ensure submissions on legislative proposals that support the Strategy are aligned to existing legislative framework.

The Committee will be headed by the Cabinet Secretary responsible for National Treasury.

The members of the Committee will be drawn from the State Law Office, the National Treasury and Economic Planning and Kenya Revenue Authority, and shall include:

i) Attorney General

ii) Principal Secretary responsible for The National Treasury

iii) Principal Secretary, responsible for Economic Planning

iv) Commissioner General, Kenya Revenue Authority

The Committee will be supported by a Technical Committee.

5.3.2 Technical Committee

112. The Technical Committee will comprise of senior officials from the National Treasury and Economic Planning and KRA.

The members of the Technical Committee shall comprise of:

i) Director General Budget, Fiscal and Economic Affairs

ii) Director General Public Investment and Portfolio Management

iii) Director Macro and Fiscal Affairs,

iv) Commissioner Domestic Taxes,

v) Commissioner of Customs and Border control,

vi) Commissioner Strategy Innovation and Risk Management,

vii) Planning Secretary

The Technical Committee will provide technical expertise and advice to the Steering Committee on the implementation and review of the Strategy. The Committee will also review reports from the Secretariat and prepare briefs to the Steering Committee.

The Technical Committee will coordinate the implementation of the stakeholder engagement plan and sensitizations on the Strategy.

The Technical Committee will vet the legislative proposals submitted by the Secretariat and report to the Steering Committee which ensures that the proposals are aligned to the existing legal framework.

5.3.3 Secretariat

113. The implementation of this Strategy will require monitoring and evaluation which will be conducted by the Secretariat.

The Secretariat will develop an elaborate stakeholder engagement plan to ensure continuous involvement of stakeholders through sensitization and stakeholder feedback on the Strategy.

The Secretariat will identify and submit to the Technical Committee legislative proposals that support implementation of the Strategy.

The Secretariat will comprise of technical officials from the National Treasury, State Department of Economic Planning, State Law Office and KRA.

5.4 Monitoring, Evaluation and Reporting

114. Monitoring, Evaluation and Reporting shall be spearheaded by the Secretariat under the guidance of the Technical Committee.

The Secretariat will prepare half year reports on the implementation of the Strategy and submit to the Technical Committee for consideration.

The Secretariat will also prepare mid-term review after 18 months from the implementation date of the Strategy. The mid-term review will be conducted to analyze the Strategy implementation progress, challenges encountered and corrective action required.

5.5 Implementation of the Strategy

115. Implementation of the Strategy will be done in accordance with the implementation matrix in the Annex to this Strategy. The Matrix will track the activities on the timeframe, responsibilities, and costing.

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6 ANNEX I: IMPLEMENTATION MATRIX

Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
Income Tax: Corporate Income Tax	Review of Corporate Income Tax Rate	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly		Reduce the corporate rate of tax from 30% to 28%.	Address the identified gaps and further review the corporate income tax rate.
	Review of the Non-resident Withholding Rates	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly		Proportionate review of non-resident withholding tax rates in line with the review of corporate tax rate	Further proportionate review of non-resident withholding tax rates in line with the review of corporate tax rate
	Multiple Corporate Rates	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Progressively phase out preferential corporate tax rates	Progressively phase out preferential corporate tax rate	Address the identified gaps Progressively phase out preferential corporate tax rate
	Taxation on repatriated profits	The National Treasury Kenya Revenue Authority		Proportionately review tax on repatriated profits	Proportionately review Tax on repatriated profits

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		Office of the Attorney General The National Assembly		to the rate of tax on dividend paid to non-resident.	to the rate of tax on dividend paid to non-resident.
	Review of tax on residential rental income	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Review the implementation of the current regime	Review the implementation of the current regime	Develop a regime taking into account the reviews done in 1st and 2nd year
	Corporate Income Tax Exemption	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Review and rationalize exemptions	Monitor implementation and identify gaps	review and rationalize tax exemption based on identified gaps.
	Minimum Tax	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Develop a legislative framework for implementation of minimum tax	Implement the Legislative framework	Monitor implementation of the framework
	Withholding tax on payments on goods supplied to public entities	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Introduce withholding tax on payments on goods supplied to public entities	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
Income Tax: Personal Income Tax	Tax Bands	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review Personal Income Tax (PIT) band in line with the findings of the study.	Monitor implementation	Monitor implementation
		National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly		Implement the exempt-exempt-exempt tax regime for pension..	Monitor implementation.
	Tax Exemptions	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review and rationalize PIT exemptions	Provide legislative framework for the rationalized exemptions	Monitor implementation
	Tax reliefs	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review and eliminate counterproductive tax reliefs	Monitor implementation	Monitor implementation
Value Added Tax	Review the VAT registration threshold	National Treasury Kenya Revenue Authority Office of the Attorney General	Adjust registration threshold for VAT to Ksh 8 million.	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		National Assembly			
	VAT Exemption and Zero Rating	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Limiting zero rating to exports	Monitor implementation	Monitor implementation
			Rationalize VAT exemptions and zero rating	Monitor implementation	Monitor implementation
	VAT rate		Reduce the VAT rate by 1%.	Monitor implementation	Reduce further the VAT rate by 1% subject to the outcome of the study.
	Expansion of VAT tax base	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Explore the possibility of introducing VAT on education services excluding basic education and early childhoods education		
			Introduction of VAT on insurance services	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
			Removal of the threshold for application of VAT input tax apportionment formula	Monitor implementation	Monitor implementation
Excise Duty	Excise Duty on petroleum products	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Study to establish optimal taxation of petroleum products	Review of excise duty on petroleum products subject to findings of the study	Monitor implementation
	Excise duty on coal	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Introduction of excise duty on coal.	Monitor implementation	Monitor implementation
	Review of excise duty on alcoholic products	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Review of tax structure of alcoholic products	Monitor implementation	Monitor implementation
	Review of taxation of tobacco products	The National Treasury Kenya Revenue Authority Office of the Attorney General	Review of taxation tobacco products	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		The National Assembly			
	Harmonization of tax structure of cigarettes	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Harmonize excise duty on cigarettes	Monitor implementation	Monitor implementation
	Excise Duty on non-alcoholic beverages and other goods	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	EAC study to inform excise duty on non-alcoholic products and other goods	Review excise duty on products containing sugar	Monitor implementation
				Introduce excise duty on other goods with harmful health implications	Monitor implementation
	Excise duty on Betting and Gaming	The National Treasury Kenya Revenue Authority Office of the Attorney General The National Assembly	Monitor implementation of current regime	Review of excise duty	Monitor implementation
Customs duty	Review of Customs duty rates	National Treasury Kenya Revenue Authority	Make proposal to the EAC to review the CET rates for inputs/raw materials and one common duty rate for all	-	-

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
			other imported goods		
Other taxes	Carbon tax	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review carbon tax regime in other jurisdictions and proposals from stakeholders Develop a legal framework for imposition of carbon tax	Introduce carbon tax on industries	Introduce carbon tax on other greenhouse gas emitters
	Green Fiscal Incentives	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review tax incentives that promote use of green energy Develop a legal framework for granting of green fiscal incentives	Review tax incentives that promote use of green energy	Review tax incentives that promote use of green energy
	Motor vehicle circulation tax	National Treasury Kenya Revenue Authority Office of the Attorney General	Introduce motor vehicle circulation tax	Review motor vehicle circulation tax regime	Review motor vehicle circulation tax regime

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		National Assembly			
	Tax Expenditure Governance Framework	National Treasury Kenya Revenue Authority	Develop a tax expenditure framework to guide granting, monitoring and evaluation of tax incentives	Monitor implementation	Monitor implementation
Hard to tax	Informal sector	National Treasury Kenya Revenue Authority MDAs	Integration or sharing of data with County Governments, other private third-party data sources and MDAs	Monitor implementation	Monitor implementation
		Kenya Revenue Authority	Development of a Framework to guide cargo deconsolidation in consultation with stakeholders	Use of Customs data to trace micro and small enterprises	Monitor implementation
		Kenya Revenue Authority	Re-engineering the Block Management System (BMS) by adopting Geographic	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
			Information System (GIS) technology		
		National Treasury Kenya Revenue Authority	Carry out a study to inform the possibility of introduction of a sector-based presumptive tax	Design/pilot the presumptive tax regimes	Implementation
		Kenya Revenue Authority	Use of Mobile Applications of USSD codes to simplify tax payment and filing of returns.	Expand the application of USSD codes to other sectors	Expand the application of USSD codes to other sectors
		National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly Office of the Data Protection Commissioner	Amendment of the Data Protection Act to exempt revenue administration from the provision of the Act	Monitor Implementation	Monitor Implementation
		National Treasury	Introduction of a withholding tax	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		Kenya Revenue Authority Office of the Attorney General National Assembly	which is not final on imports at a minimal rate		
	Digital sector	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review the digital service tax to on board residents.	Implementation and Monitoring	Implementation and Monitoring
	Agriculture Sector	National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Study on withholding tax on agricultural produce	Introduction of a final withholding tax on agricultural produce.	Implementation and Monitoring
Non-Tax Revenue	Fees and Levies	National Treasury MDAs	Review the current guidelines on imposition of fees	Develop guidelines to standardize the imposition and management of fees.	Monitoring and Implementation
		National Treasury State Department for Transport	Review exemption of road toll on heavy goods vehicles	Monitoring and Implementation	Monitoring and Implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
			bearing Kenyan Registration		
		National Treasury Kenya Revenue Authority	Review the current guidelines on imposition of levies	Review and rationalize the imposition and management of levies.	Review and rationalize the imposition and management of levies.
		National Treasury Kenya Revenue Authority Office of the Attorney General National Assembly	Review exemption regime	Continue review of exemption regime	Continue review of exemption regime
		National Treasury MDAs	Digitalize the collection of non-tax revenues	Continue digitalize the collection of non-tax revenues	Continue digitalize the collection of all non-tax revenues
	Dividends and Surplus Funds from State Enterprises	National Treasury Office of the Attorney General National Assembly	Initiate legal reforms necessary to anchor the new ownership arrangements and other measures outlined in the SOE Blueprint	Initiate legal reforms necessary to anchor the new ownership arrangements and other measures outlined in the SOE Blueprint	Review the dividend policy

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		National Treasury Office of the Attorney General National Assembly		Develop Regulations on financial oversight of Government investment in SOEs.	Implementation of the guidelines
Tax Administration Measures	Enhance rental income tax collection	Kenya Revenue Authority	Mapping of rental properties	Mapping of rental properties	Mapping of rental properties
		Kenya Revenue Authority	Appoint rental tax collection agents	Appoint rental tax collection agents	Appoint rental tax collection agents
		Kenya Revenue Authority MDAs		Integration of iTax with National Lands Information Management System	Monitor implementation
		Kenya Revenue Authority	Use of a mobile App	Monitor implementation	Monitor implementation
	Enhance taxation of high net-worth individuals	Kenya Revenue Authority	Establish a dedicated unit for high net worth individuals	Establish a dedicated unit for high net worth individuals	Monitor implementation
	Enhance taxation of the informal sector	Kenya Revenue Authority	develop a simplified regime	develop of a simplified regime	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
	Enhance taxation of the informal sector	Kenya Revenue Authority	Establish a dedicated unit for informal sector	Establish a dedicated unit for informal sector	Monitor implementation
	Combat counterfeit excisable products and Stamps in the market	Kenya Revenue Authority MDAs		Strengthening of the multi-Agency Team to investigate source of counterfeits and take necessary action	Monitor implementation
		Kenya Revenue Authority	Implement data and intelligence driven field operations	Implement data and intelligence driven field operations	Monitor implementation
		Kenya Revenue Authority	Conduct market surveillance	Conduct market surveillance	Conduct market surveillance
		Kenya Revenue Authority National Treasury	Regular reviews and upgrades of the security features of stamps	Regular reviews and upgrades of the security features of stamps	Regular reviews and upgrades of the security features of stamps
	Tax expenditures	Kenya Revenue Authority National Treasury	Develop a framework to guide granting,	Develop a framework to guide granting,	Develop a framework to guide granting,

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
			monitoring and evaluation of tax incentives	monitoring and evaluation of tax incentives	monitoring and evaluation of tax incentives
Modernization of Tax Processes	Systems upgrade	Kenya Revenue Authority	Full roll out of electronic Tax Invoice Management System (e-TIMS)	Continuous modernization of KRA's business operations	Continuous modernization of KRA's business operations
Modernization of Tax Processes	Systems integration	Kenya Revenue Authority	Integrate the systems within the tax administration	Integrate all the systems within the tax administration	Monitor implementation
		Kenya Revenue Authority MDAs		Integrate tax administration systems with the Integrated Population Registration System (IPRS);	Monitor implementation
		Kenya Revenue Authority Private Sector (betting and gaming firms)	Integrate tax administration system with all betting and gaming systems	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		Kenya Revenue Authority Private sector (Telcos, banks, among others)	Integrate KRA tax system with third party data producers such as Telcos and banks	Continue integration of KRA tax system with third party data producers such as Telcos and banks	Continue integration of KRA tax system with third party data producers such as Telcos and banks
		Kenya Revenue Authority	Enhance the use of third-party information from banks and telcos	Continuous use of third-party information from banks and telcos	Continuous use of third-party information from banks and telcos
	Enhance monitoring of excisable goods manufacturers	Kenya Revenue Authority National Treasury	Use of metering and monitoring tools	Continuous use of metering and monitoring tools	Continuous use of metering and monitoring tools
		Kenya Revenue Authority	Close monitoring of payments	Continue close monitoring of payments	Continue close monitoring of payments
		Kenya Revenue Authority National Treasury		Establishment of a Production Monitoring Command Centre	Monitor implementation
Simplification of tax processes		Kenya Revenue Authority National Treasury	All payroll deductions (NSSF contribution, NITA	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
	Harmonization of due dates for taxes and payroll deductions		industrial training levy, NHIF contribution, PAYE and Housing Levy) to the 9th of every month		
		Kenya Revenue Authority National Treasury	Withholding taxes to the 5th working day after the transaction except for betting and gaming taxes which are payable within 24hrs	Monitor implementation	Monitor implementation
		Kenya Revenue Authority The National Treasury	all other taxes to the 10th except for the balance of tax	Monitor implementation	Monitor implementation
	Review of administrative procedures for customs duties and other taxes on imported goods	Kenya Revenue Authority National Treasury	Installation of additional scanners on exit points	Continue installation of additional scanners on exit points	Continue installation of additional scanners on exit points
		Kenya Revenue Authority National Treasury	Increase synergy within the Customs Departments in the EAC Region	Increase synergy within the Customs	Increase synergy within the Customs

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
				Departments in the EAC Region	Departments in the EAC Region
		Kenya Revenue Authority National Treasury	Enhance capacity of transit monitoring through additional personnel, vehicles and tracking equipment	Continue enhancing capacity of transit monitoring through additional personnel, vehicles and tracking equipment	Continue enhancing capacity of transit monitoring through additional personnel, vehicles and tracking equipment
		Kenya Revenue Authority National Treasury	Enhance staff capacity in tariff and valuation	Continue enhancing staff capacity in tariff and valuation	Continue enhancing staff capacity in tariff and valuation
		Kenya Revenue Authority	Enhance capacity of staff in application of rules of origin	Continue enhancing capacity of staff in application of rules of origin	Continue enhancing capacity of staff in application of rules of origin
		Kenya Revenue Authority MDAs	Implement the 24hr operation through all stakeholders at cargo ports	Continue implementation of the 24hr operation through all stakeholders at cargo ports	Continue implementation of the 24hr operation through all stakeholders at cargo ports

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
Tax debt management	Informed debt policy	Kenya Revenue Authority	Clean up and maintain credible data on debt	Maintain credible data on debt	Maintain credible data on debt
		Kenya Revenue Authority	Complete view of taxpayer debt status through integration of Customs and Domestic taxes systems	Monitor Implementation	Monitor Implementation
		Kenya Revenue Authority National Treasury Attorney General's office	-	Develop a legal framework on debt write-off	Monitor Implementation
	Expedite tax dispute resolution	Kenya Revenue Authority National Treasury Judiciary Attorney General's office	Sensitize stakeholders on out of court dispute resolution Establish a special tax court	Continue Sensitization	Assess the impact of out of court dispute resolution
Compliance Improvement	Strategic and collaborative approach to	Kenya Revenue Authority.	Enhance capacity of CRM function	Continue enhancing capacity	Continue enhancing capacity

Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
	Compliance Risk Management (CRM)	Kenya Revenue Authority	Strengthen the CRM Committee to oversee all aspects of CRM	Monitor performance of the committee	Monitor performance of the committee
		Kenya Revenue Authority National Treasury	Use environmental scanning and research studies to support top-down identification and prioritization of strategic risks	Use environmental scanning and research studies to support top-down identification and prioritization of strategic risks	Use environmental scanning and research studies to support top-down identification and prioritization of strategic risks
		Kenya Revenue Authority National Treasury	Strengthen framework on exchange of information with other tax jurisdictions	Continue strengthening the framework on exchange of information with other tax jurisdictions	Monitor implementation
	Supporting voluntary compliance	Kenya Revenue Authority	Targeted taxpayer education on tax obligations and the importance of paying taxes	Enhance customer relationship management	Enforce sanctions to deal with tax malpractices

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		Kenya Revenue Authority	Send periodic electronic reminders to taxpayers	Send periodic electronic reminders to taxpayers	Send periodic electronic reminders to taxpayers
		Kenya Revenue Authority	Enhance dissemination of tax information	Enhance dissemination of tax information	Enhance dissemination of tax information
		Kenya Revenue Authority	Timely response to taxpayer complaints/queries	Timely response to taxpayer complaints/queries	Timely response to taxpayer complaints/queries
Tax Refunds	Efficiency in the management of tax refunds	Kenya Revenue Authority National Treasury	Review the allocation for tax refunds	Review the allocation for tax refunds	Review the allocation for tax refunds
		Kenya Revenue Authority National Treasury	Review, in consultation with stakeholders, a framework processing refunds	Monitor implementation	Monitor implementation
		Kenya Revenue Authority National Treasury	Timely payment or offset validated refunds	Timely payment or offset validated refunds	Timely payment or offset validated refunds

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		Kenya Revenue Authority	Enhance the capacity of processing refunds	Continue enhancing the capacity of processing refunds	Continue enhancing the capacity of processing refunds
		Kenya Revenue Authority	Establish the profiles of high-risk taxpayers through exchange of information across KRA departments	Monitor implementation	Monitor implementation
Integrity Culture	Enhance integrity	Kenya Revenue Authority	Enhance integrity awareness for both internal and external stakeholders	Continue enhancing integrity awareness for both internal and external stakeholders	Continue enhancing integrity awareness for both internal and external stakeholders
		Kenya Revenue Authority Relevant Multi-Agencies	Enhance collaboration and exchange of information with relevant agencies in the fight against corruption and malpractices	Continuous collaboration and exchange of information with relevant agencies in the fight against corruption and malpractices	Continuous collaboration and exchange of information with relevant agencies in the fight against corruption and malpractices

Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
		Kenya Revenue Authority	Corruption risk analysis and prevention	Continuous corruption risk analysis and prevention	Continuous corruption risk analysis and prevention
		Kenya Revenue Authority	Corruption related audits	Continuous corruption related audits	Continuous corruption related audits
		Kenya Revenue Authority	Enhance tax administration's capacity to detect and address integrity issues	Continue enhancing tax administration's capacity to detect and address integrity issues	Continue enhancing tax administration's capacity to detect and address integrity issues
Staffing of Tax Administration	Comprehensive skills gap analysis	Kenya Revenue Authority	Undertake comprehensive skills gap analysis in the KRA	Additional staffing to fill the identified gaps additional equipment for staff	Implement measures to facilitate staff retention
	Enhance capacity of revenue administrators	Kenya Revenue Authority	Train revenue administrators on specific skills	Continuous training of revenue administrators on specific skills	Continuous training of revenue administrators on specific skills
Taxpayers Audit	Strengthen taxpayers audit function	Kenya Revenue Authority	Strengthening taxpayers audit function:	Strengthening taxpayers audit function:	Strengthening taxpayers audit function:

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
			- Training on special skills - Recruitment of additional staff - Procurement of additional equipment	- Training on special skills	- Training on special skills
	Intelligence and risk-based audits	Kenya Revenue Authority	Conduct Intelligence-based audits particularly on high-risk entities	Continue to conduct Intelligence-based audits particularly on high-risk entities	Continue to conduct Intelligence-based audits particularly on high-risk entities
	Tax audits expansion	Kenya Revenue Authority	Progressively increase the number of audits	Progressively increase the number of audits	Progressively increase the number of audits
	Post audit technical committee	Kenya Revenue Authority	Establish a post audit technical committee	Monitor performance of the audit committee	Monitor performance of the audit committee
Non-Tax Revenues	Review the framework for reporting non-tax revenue collection	National Treasury	Strengthen the framework for reporting and monitoring of non-tax revenue collection	Monitor implementation	Monitor implementation

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Thematic Area	Policy/Administrative Measures/Area	Responsible Institutions	FY 2024/25	FY 2025/26	FY 2026/27
	Enhance collection of non-tax revenues	National Treasury	Adopt a collaborative approach in collection of non-tax revenue	Monitor implementation	Monitor implementation
	Review of Government Services fees	National Treasury	Review the fees for government Services	Monitor implementation	Monitor implementation

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