

TAX POLICY AND TAX ADMINISTRATION: IS THERE A DISCONNECT

PRESENTATION MADE BY M.G. WAWERU,
COMMISSIONER GENERAL KENYA REVENUE AUTHORITY
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Kenya Revenue Authority

Role of the Ministry of Finance (MoF)

- Core function is to make tax policy and set revenue targets,
- Policy driven by growth, economic stability requirements as well as other development imperatives,
- Over the medium term Kenya has not received substantial donor funds and thus the MoF is dependent on domestically raised revenues for roughly 94% of its resources.



Role of the Ministry of Finance (MoF) (Contd.)

- Ministry is constrained by international and regional agreements (e.g., EAC CET) and will thus be constrained in the extent to which it can use tax policy to raise revenue.
- On the other hand MoF faces growing demands for resources and thus has an incentive to emphasise revenue administrative measures as the source of additional tax revenues,
- Resource constraint also means the MoF wants to raise requisite tax revenue at least possible cost.



Role of the Kenya Revenue Authority (KRA)

- The Kenya Revenue Authority is a semi autonomous revenue authority,
- The MoF will set the revenue targets. The KRA Act also gives the Minister the power to set the level of funding for the Authority (i.e., 'not more than 2% of the revenues to be collected by the Authority')
- Within the resource constraints KRA will be required to collect the revenues forecast in the Printed Estimates,
- The Authority will thus use its autonomy to recruit the requisite staff, procure the required materials and run its operations with the aim of meeting the revenue targets within its budget which in any case has to be approved by the MoF.



Kenya Revenue Authority

POTENTIAL AREAS OF DISCONNECT

- The Ministry's constraints – increasing demands and restricted policy space- gives the MoF bureaucracy an incentive to set ambitious revenue targets and place the emphasis on revenue collection on the revenue Authority (administrative measures) as opposed to new taxation measures (for example the revenues this year are expected to grow by 19.6%. We at KRA cannot see the justification for this figure. We are achieving 17% growth and are very pleased with it),
- Similar considerations lead to an incentive to restrict the funding available to the Authority thus compromising its ability to raise the required revenues,



POTENTIAL AREAS OF DISCONNECT (CONTD)

- Issues of operational control: the Ministry still retains operational control in areas that affect the ability of the Authority to carry out its mandate – e.g., the Ministry still determines the level of VAT refunds yet the demand for refunds will change with economic circumstances,
- Ministry may provide incentives, waivers, etc without factoring in these in the revenue targets undermining the ability of the Authority to meet these targets,
- Varying policy objectives- the need to facilitate trade for example- may run counter to the need to meet Customs revenue targets,
- Role of other parties not adequately taken into account. e.g, the operations of the Kenya Bureau of Standards (KEBS) and other institutions that operate at the port of entry have a significant impact on the ability of the Customs Department to process imported goods and thus collect customs revenue.



SUGGESTED MEASURES TO REDUCE DISCONNECT

- Greater involvement of revenue Authorities in discussions on target setting. In particular, agreement on economic variables that influence revenue and the magnitude of revenues that can be raised by administrative measures,
- Greater collaboration between the Mof and the Revenue Authority when decisions that have adverse revenue implications are to be made,
- Clear prioritization of functions –e.g, revenue collection vs. trade facilitation,
- Better understanding and collaboration between Government agencies to ensure their activities do not undermine revenue collection.



CONCLUSIONS

- African countries will have to focus on local resources to cater for their development needs,
- This places greater emphasis on having a good understanding between revenue authorities and their parent ministries,
- The conflicting objectives inherent in the development process will thus need to be continuously ironed out to ensure the resource base is not undermined,
- Greater emphasis on a collaborative approach can reduce the conflicts that emerge when Governments require revenue authorities to implement policies that may conflict with their core mandate; and
- Building up institutional trust (e.g., case of VAT refunds) can substantially reduce the constraints faced by revenues authorities in carrying out their core mandates.

THANK YOU



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