



HANSEN ADVOCATES

ONE VISION. ONE FIRM

# “OUR TAKE”

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“DEATH AND TAXES”

*A Journey into Taxation in Kenya*

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## Introduction

Benjamin Franklin famously quipped that "in this world, nothing is certain except death and taxes." Indeed, taxes are an inescapable reality of life, crucial for the functioning of governments and the provision of public goods and services. In Kenya, the Kenya Revenue Authority (KRA) stands as the body responsible for ensuring that citizens and businesses alike meet their tax obligations. However, a question lingers in the minds of many taxpayers: why, despite KRA's claims of advanced systems, are individuals still required to declare their taxes?

## Understanding the Certainty of Taxes

Taxes are the lifeblood of any nation. They fund everything from infrastructure development and healthcare to education and security. Without taxes, the wheels of government would grind to a halt, and the social contract between the state and its citizens would break down. In Kenya, tax revenue is particularly vital given the country's ambitious development goals, encapsulated in Vision 2030.

### The Role of the Kenya Revenue Authority

Established in 1995, the KRA is mandated to assess, collect, and account for all revenues in accordance with the laws of Kenya. Over the years, the authority has made significant strides in modernizing tax administration. Systems such as iTax, an online tax filing platform, have been introduced to streamline the tax process, making it easier for individuals and businesses to comply with tax obligations.



## The Paradox of Tax Declarations

Despite the advancements in technology and the establishment of these systems, KRA still requires individuals to declare their taxes. This raises the question: If KRA has such sophisticated systems, why is it necessary for taxpayers to actively declare their income?

The answer lies in the nature of tax systems and the challenges of tax administration.

- **Verification and Compliance:** The declaration process acts as a crucial check to ensure that the information held by KRA is accurate. While KRA's systems can automatically gather data from various sources, they are not foolproof. Errors can occur, and not all income sources are easily traceable. By requiring declarations, KRA can cross-check the information provided by taxpayers against what their systems have captured, ensuring compliance and reducing instances of tax evasion.
- **Complexity of Income Sources:** Many Kenyans have multiple income streams—salaries, business income, rental income, investments, and more. These income streams may not always be fully captured by KRA's systems, especially in cases where cash transactions are involved, or the income is generated informally. Declarations ensure that all income is accounted for, enabling KRA to assess the correct amount of tax owed.



- **Global Income:** For Kenyans who earn income abroad, declaring their global income is a legal requirement under the Kenyan tax laws. While KRA has systems in place to track domestic income, tracking international income can be more challenging. Taxpayers are thus required to declare such income to ensure they meet their full tax obligations.
- **Tax Deductions and Reliefs:** Taxpayers are entitled to various deductions and reliefs, such as mortgage interest, insurance premiums, and contributions to pension schemes. The declaration process allows taxpayers to claim these deductions, ensuring they do not pay more tax than necessary.
- **Evolving Technology:** While KRA's systems are advanced, technology is constantly evolving, and so are the ways people earn income. The declaration process allows for a human element to fill in the gaps where technology may fall short. This ensures that KRA's data remains up-to-date and comprehensive.

## Can Kenya Raise Revenue Without Over-Taxing Its Citizens?

While taxation is a key method of raising government revenue, it's not the only one. Over-reliance on taxes can stifle economic growth, particularly if it places undue burden on the population. Fortunately, there are alternative methods that Kenya can explore to diversify its revenue streams and reduce the pressure on taxpayers:



- **Public-Private Partnerships (PPPs):** By partnering with the private sector on infrastructure projects and other public goods, the government can reduce its expenditure and share the financial risk. Successful PPPs can also attract foreign investment, contributing to economic growth and, subsequently, higher tax revenues in the long run.
- **Natural Resource Management:** Kenya is rich in natural resources, including minerals, oil, and geothermal energy. Effective management and sustainable exploitation of these resources can generate significant revenue. The government can also invest in value addition industries to increase the profitability of these resources.
- **Tourism and Culture:** Kenya's tourism industry is a significant contributor to the economy. By investing in and promoting tourism, the country can increase foreign exchange earnings. Cultural exports, such as music, film, and art, can also be developed to bring in additional revenue.
- **Debt Restructuring and Management:** Prudent management of national debt can free up resources that would otherwise go to servicing debt. This involves negotiating better terms for existing loans and prioritizing low-interest or concessional loans. By reducing the debt burden, more funds can be allocated to development projects rather than being drained by interest payments.



- **Diaspora Bonds:** Many countries, including Kenya, have a significant diaspora population. By issuing diaspora bonds, the government can tap into the wealth of its citizens living abroad. These bonds can be used to fund specific projects, such as infrastructure development, which will ultimately benefit the nation as a whole.
- **Improving Efficiency in Public Spending:** Ensuring that public funds are used efficiently and effectively can reduce the need for excessive taxation. This involves fighting corruption, reducing waste, and prioritizing spending on projects that yield the highest returns for the economy.

## The Road Ahead

Kenya's journey to fiscal sustainability requires a balanced approach to taxation and revenue generation. While taxes are essential, they must be levied in a way that supports economic growth rather than hinders it. By exploring alternative revenue streams and managing public funds wisely, Kenya can achieve its development goals without overburdening its citizens.

In the long run, this will not only lead to a more prosperous nation but also ensure that the social contract between the government and its people remains strong. After all, while death and taxes may be certain, how a country chooses to raise its revenue is not set in stone—it can evolve with creativity, innovation, and good governance.





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