Citizens’ on the Finance Bill, 2023

Tuesday, June 13, 2023

#FinanceBill2023 | #SautiZaWananchi
Where are we? | The Context
The Context – Where are we? Perceptions on tax

Twaweza and National Taxpayer association NTA (Sep,2021) - Sauti za Wananchi survey

• 85% say tax is **important for the country’s success and economy**.
• 66% of Kenyans pay tax to ensure **delivery of public services**
• 39% pay tax because it **compulsory**.
• 48% of citizens believe the level of the **tax evasion** is high.
• The three top cited reasons for evading tax in country were:
  • high **tax rates on income** (41%)
  • **underpaid/no enough income** (40%)
  • **taxes are not spent efficiently** by the government (22%).
• 75% said that their daily income was insufficient to meet their daily needs.
• At household level, inflation and cost of living was named as a top concern by 60% of citizens.
• Half of the business owners (49%) who were polled said that their businesses were declining due to
  • low demand for products (19%)
  • high cost of inputs (14%)
  • a lack of sufficient working capital (8%)
  • low profit margins (8%)
The Context – Where are we? Current country finances

- Challenging financial situation.
- Growing debt stock: KES 9.1T, 67% of GDP
- Continues to eat into govt revenue, affecting its ability to deliver quality public services.
- Budget estimates for 2023/24, KES 63 out of KES 100 collected in tax will go towards debt repayment.
The Context – Where are we? Current country finances

• KES 2.89T targeted revenue collection, budget KES 3.6T, deficit KES 76B
• High debt burden, unmet revenue collection, large budget deficit necessitate robust domestic revenue mobilization.
• Finance Bill 2023 aims to address the need for tax revenue
• Several tax changes including:
  • higher income tax rate for high earners
  • contribution to affordable housing projects
  • withholding tax on digital content creators
  • increase in the VAT rate on petroleum products
The Finance Bill, 2023 aims to raise revenue through tax
But, Kenyans are being crushed by high cost of living, stagnant and limited income
Finance Bill amendments affects Kenyans’ disposable income

So, Centre for Fiscal Affairs (CFA) and Twaweza conducted a quick online survey on:
- awareness of the proposed bill
- support for the amendments
- proposed alternatives means for raising revenue
Finance Bill, 2023 | The Survey

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Research Design + Profile of the respondents

• Self-administered online survey
• Data Collection dates: Friday, May 19 -June 6, 2023
• Number of respondents: 25,966
• Daily average respondents: 1367
• Gender: Male:60.9%, Female:37%, prefer not to say: 2.1%
• Age group: 18-24(2.2%), 25-34 (22.1%), 35-44 (32.1%), 45 -54 (27.2%), 55 -64 (13.4%), 65+ (3%).
• Level of education: Tertiary level (23.5%), Graduate (43.2%), Master (22.7%), Doctorate (4.2%)
• Occupation: majorly those who earn a regular salary (59.2%).
What is your occupation?

N = 25,966

- Earning wages or salary from regular job: 59.2%
- Running own business by providing services (non-agriculture related): 11.8%
- Getting money/remittance from family or friends: 1.0%
- Earning wages from occasional/casual job(s): 6.1%
- Rearing livestock, poultry, pig, fish, or bees and selling it or its by-products: 1.6%
- Growing something and selling it, such as crops, fruits, or vegetables or...: 2.6%
- Do not have a source of income: 5.2%
- Still in school: 1.3%
- HELB/CDF/School bursary: 0.2%
- Cook and sell food/run grocer: 0.6%
- Other (please specify): 6.9%
Which County do you come from?

N = 25,872
Finance Bill, 2023 | Awareness and support

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Are you aware of the Finance Bill 2023?

N = 25,966

Yes: 90.9%
No: 9.1%
If yes, do you support the Finance Bill 2023?

N = 19,188

- Strongly don't support it: 75.1%
- Don't support it: 17.8%
- Neither: 2.4%
- Support: 2.8%
- Strongly support: 1.9%
Do you support the Finance Bill, 2023 proposals? 1

N = 19,336

- Exempting Liquefied Petroleum Gas (LPG) from VAT: 67.0%
  - Completely support: 10.9%
  - Slightly support: 3.9%
  - Slightly don't support: 18.2%
  - Completely don't support: 67.0%

- 35% tax rate PAYE above Ksh. 500,000 per month from 30%: 63.6%
  - Completely support: 11.3%
  - Slightly support: 8.4%
  - Slightly don't support: 16.7%
  - Completely don't support: 63.6%

- Introduction of 10% P.A.Y.E tax on the first Ksh. 24,000 earned without relief: 88.1%
  - Completely support: 3.4%
  - Slightly support: 3.6%
  - Slightly don't support: 4.9%
  - Completely don't support: 88.1%

- House levy (3% by employees and employers respectively): 92.4%
  - Completely support: 3.0%
  - Slightly support: 2.5%
  - Slightly don't support: 2.2%
  - Completely don't support: 92.4%

- Increase in the VAT rate on petroleum products from 8% to 16%: 94.0%
  - Completely support: 1.7%
  - Slightly support: 1.8%
  - Slightly don't support: 2.5%
  - Completely don't support: 94.0%
Do you support the Finance Bill, 2023 proposals? 2

N = 19,336

Claims of expenditure which is not supported by invoices generated from an electronic tax invoice system will not be allowed

- Completely support: 31.3%
- Slightly support: 17.4%
- Slightly don't support: 12.0%
- Completely don't support: 39.3%

Introduction of an export and investment promotion levy on specified imports

- Completely support: 53.6%
- Slightly support: 18.4%
- Slightly don't support: 13.1%
- Completely don't support: 15.0%

Introduce investment deduction claims on capital expenditure on the construction of docks at rate 10% per annum

- Completely support: 61.2%
- Slightly support: 15.8%
- Slightly don't support: 14.2%
- Completely don't support: 8.7%

Introduce investment deduction claims on capital expenditure incurred industrial buildings at the rate of 10% per annum

- Completely support: 62.4%
- Slightly support: 14.4%
- Slightly don't support: 13.6%
- Completely don't support: 9.6%

Reintroduced VAT on exported services

- Completely support: 70.7%
- Slightly support: 11.1%
- Slightly don't support: 11.1%
- Completely don't support: 7.0%
Do you support the Finance Bill, 2023 proposals? 3

N = 19,336

- **Reduce excise on bank money transfer and agencies, financial services from 20% to 15%**
  - Completely support: 68.4%
  - Slightly support: 13.0%
  - Slightly don't support: 2.8%
  - Completely don't support: 15.8%

- **Lower the excise duty on internet/telephone data services (bundles) 15% from 20% of the excisable value**
  - Completely support: 68.3%
  - Slightly support: 13.1%
  - Slightly don't support: 3.3%
  - Completely don't support: 15.4%

- **15% withholding tax on income earned by digital content creators**
  - Completely support: 58.9%
  - Slightly support: 12.3%
  - Slightly don't support: 3.0%
  - Completely don't support: 15.7%

- **Increase excise duty on mobile money transfer services from 12% to 15% of the excisable value**
  - Completely support: 90.0%
  - Slightly support: 2.5%
  - Slightly don't support: 0.0%
  - Completely don't support: 4.5%
Do you support the Finance Bill, 2023 proposals? 4
N = 19,336

- Change taxable band from the current Ksh. 1 million to Ksh. 50 million to KES 500,000 to Ksh. 15 million for business entity
  - Completely support: 19.3%
  - Slightly support: 14.4%
  - Slightly don’t support: 19.2%
  - Completely don’t support: 47.1%

- Lowers the businesses that pay corporate tax at 30% from Ksh 50 million turnover to Ksh 15 million turnover
  - Completely support: 16.9%
  - Slightly support: 13.2%
  - Slightly don’t support: 17.6%
  - Completely don’t support: 52.3%

- Deposit 20% of the disputed tax amount before lodging an appeal at the High Court
  - Completely support: 8.5%
  - Slightly support: 6.8%
  - Slightly don’t support: 6.1%
  - Completely don’t support: 78.6%

- Increase of turnover tax from 1% to 3%
  - Completely support: 8.2%
  - Slightly support: 6.5%
  - Slightly don’t support: 3.9%
  - Completely don’t support: 81.4%
Do you support the Finance Bill, 2023 proposals? 5

N = 19,336

Introduce 5% excise tax on human hair, false beards, eyebrows, lashes, artificial nails
- Completely support: 27.8%
- Slightly support: 13.7%
- Slightly don’t support: 8.9%
- Completely don’t support: 49.6%

Payment of excise duty within 24 hours from closure of transactions of the day betting and gaming
- Completely support: 50.7%
- Slightly support: 23.9%
- Slightly don’t support: 14.1%
- Completely don’t support: 11.4%

Introduce VAT on insurance compensation in relation to assets on which input VAT had been claimed
- Completely support: 78.3%
- Slightly support: 5.1%
- Slightly don’t support: 7.3%
- Completely don’t support: 9.4%
Do you support the mandatory NHIF contribution of a standard rate of 2.75% of the gross monthly salary?

N = 21,347
Finance Bill, 2023: rate public participation in its development?

N = 19,122

- Completely insufficient: 83.8%
- Slightly insufficient: 7.9%
- Slightly sufficient: 5.0%
- Completely sufficient: 3.3%
Finance Bill, 2023: describe public/citizen inputs on the development of the bill

N = 18,987

- The process allowed citizens/public to have a say, be listed to and to influence key decisions/items on the bill: 13.4%
- The process allowed citizens/public to have a say, but not actually to have an influence on decisions/items on the bill: 11.1%
- The process is only really about informing the public/citizens about what has already been decided: 44.0%
- I never saw/heard of any consultations about the proposed finance bill 2023: 41.5%
Finance Bill, 2023 | Alternatives for Revenue

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New ideas for raising revenue
Alternatives to raising taxes

Curb corruption
Reduce waste
Broaden the tax base
Promote transparency
Finance Bill, 2023 | Summary of Public Views

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• 91% are aware of the Finance Bill 2023
• 93% of those who are aware of the bill do not support it, 75% express strong opposition
• Majority oppose tax increases and support reductions and removals
• Supported proposals:
  o Exempting the LPG gas from VAT - 67%
  o Reducing excise on bank money transfers and agencies, financial services from 20% to 15% - 68%
  o Lowering the excise duty on internet/telephone data services (bundles) 15% from 20% of the excisable value - 68%
• Majority of respondents say consultation around the bill was insufficient – 84%
  o 44% said that the process was to inform citizens
  o 42% say they had never seen or heard any consultations about the proposed bill
  o 13% say the process was to allow citizens to be heard and influence items on the bill
Proposals for raising revenue from respondents:

• Seal loopholes in the system to prevent corruption and tax evasion
• Broaden the tax base - simplify tax laws and regulations to improve compliance, target untapped sources of revenue
• Strengthen anti-corruption agencies and improve their capacity to detect and prosecute corrupt individuals
• Implement strict measures to reduce wastage in government spending, cuts and streamlining processes
• Increase transparency in government expenditure for efficiency and effectiveness
• Encourage public participation in monitoring government projects to enhance accountability
Conclusions...

• More citizen engagement in the future
• Greater sensitivity to citizens and business owners’ situations
• Overtaxing can lead to avoidance and evasion, business closures thus resulting in less tax revenue
• Citizens are suffering, the taxes are punitive, in contradiction with the new government’s promises to the wananchi at the bottom of the economic pyramid.
Let’s discuss...