REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

2024 TAX EXPENDITURE REPORT

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FOREWORD

The 2024 Tax Expenditure Report identifies and quantifies the tax expenditures in 2023 which is an important information for fiscal management. It also increases transparency by providing accessibility of data on national tax expenditure. The Report has been prepared at a time when the economy is unwinding from the effects of negative and persistent global and domestic shocks that have pushed the economy to its lowest activity level. These shocks escalated the cost of essential household commodities including fuel prices and led to a rapid depreciation of the Kenya Shilling against major international currencies, piling pressure on public debt.

The Government has implemented policy measures to mitigate the negative shocks and embarked on structural reforms under the Bottom-Up Economic Transformation Agenda (BETA) as articulated in the Fourth Medium Term Plan. The priority programmes under BETA are implemented through a growth friendly fiscal consolidation policy with the overall aim of reducing fiscal deficit and debt accumulation. The strategy focuses on enhancing domestic revenue mobilization, rationalization and reprioritization of expenditures while safeguarding priority Government programmes and social spending.

Despite these efforts, there are challenges facing the economy which continue to exert pressure on limited resources. These include less than ideal revenue performance, escalation in public debt and debt service, expenditure carryovers and accumulation of pending bills as well as increased requirement for funding priority interventions. In view of this, the Government continues to implement the National Tax Policy and Medium-Term Revenue Strategy (MTRS). One of the policy measures in the MTRS is aimed at protecting our tax base by rationalizing tax expenditure through the elimination of unproductive tax incentives.

Tax expenditures are revenue forgone attributable to special provisions in the law, such as exemptions, deductions, credits, and preferential tax rates, that are used as tools to promote economic activities, support social policies, and address market failures. Effective Reporting and monitoring of tax expenditures is essential to ensure they do not undermine fiscal sustainability.

The 2024 Tax Expenditure Report indicates that in 2023, total tax expenditure increased to Ksh 510.56 billion (3.38 percent of GDP) from the revised Ksh 393.13 billion (2.91 percent of GDP) in 2022. Total VAT contributed the highest to the tax expenditures by 65.22 percent followed by Income Tax at 18.63 percent of which Corporate Income Tax contributed 17.10 percent. Import Duty and Excise Duty contributed 12.55 percent and 2.41 percent, respectively.

The Government will rationalize the tax expenditures with the aim of ensuring sustainability and value for money from the resources forgone. This will be done whilst protecting those tax expenditures intended to promote investments, support social policies, and address market failures. Further, the National Treasury is in the process of automating tax exemption processes to create transparency and efficiency in terms of time taken to process the exemptions.

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CABINET SECRETARY

PREFACE

Tax expenditures are used instead of direct spending to deliver government support to encourage a desired goal in the economy. They can take many forms, including tax exemptions; tax deductions; tax offsets (or credits); and concessional tax rates or timing rules, such as accelerated depreciation of capital assets, that either reduce or defer a taxpayer's tax liability. In Kenya, Tax Expenditures are used to achieve specific public policy objectives as stipulated under Bottom-Up Economic Transformation Agenda (BETA). This is done through targeted preferential tax measures aimed at benefiting specific sectors or categories of taxpayers for a given policy goal.

The 2024 Tax Expenditure Report is prepared at a time when the Government is operating under tight resource constraints amidst significant expenditure demands. As such, this Report analyses and quantifies the tax expenditures in 2023 and examines their distribution across key tax categories. These categories include: Value Added Tax (VAT); Income Tax; Excise Duty; Import Duty; Import Declaration Fee (IDF) and Railway Development Levy (RDL). This information is useful in assisting the Government to assess the effectiveness and efficiency of the tax incentives provided and use such information to make more informed policy choices.

The Report has been prepared in accordance with Articles 201 and 210 of the Constitution that require maintenance of a public record of tax waivers and adherence to the principles of public finance in Public Finance Management Act, 2012. Additionally, the Report has been done in conformity to international best practice where expenditure Reporting is a key indicator of openness in budgeting.

Preparation of the 2024 Tax Expenditure Report was a collaborative effort among key stakeholders from the public sector. We recognize and appreciate the technical committee comprising of officers from the National Treasury and Kenya Revenue Authority (KRA) who worked tirelessly to ensure that the Report was prepared within the stipulated timeframe. We also acknowledge the support received from the Public Financial Management Reforms Secretariat who facilitated a workshop for the technical committee to develop and finalize the Report.

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Table of Contents

FOREWORD i
PREFACE iii
LIST OF TABLES AND FIGURES vi
ABBREVIATION vii
DEFINITION OF TERMS viii
EXECUTIVE SUMMARY ix
CHAPTER ONE 1
INTRODUCTION 1
1.1 Background 1
1.2 Benchmark Tax System 1
1.3 Objectives of the Report 2
1.4 Scope of the Report 3
CHAPTER TWO 4
INCOME TAX 4
2.1 Overview 4
2.2 Personal Income Tax (PIT) 5
2.1.1 PIT Benchmarks 6
2.2.2 PIT Expenditure 6
2.3 Corporate Income Tax 7
2.3.1 CIT Benchmark 7
2.3.2 CIT Expenditure 7
CHAPTER THREE 10
DOMESTIC VALUE ADDED TAX 10
3.1 Overview 10
3.2 VAT Benchmark 10
3.3 Tax Expenditure on Domestic VAT 10
3.3.1 Tax Expenditure on VAT Exempt Supplies 11
3.3.2 Tax Expenditure on VAT Zero Rated Supplies 12
3.3.3 Overall Domestic VAT Base Analysis 13
CHAPTER FOUR 14
EXCISE DUTY (DOMESTIC) 14

4.1 Overview 14
4.2 Benchmark 14
4.3 Tax Expenditure on Excise Duty (Domestic)......................... 14
4.4 Estimation of Tax Expenditure 14
CHAPTER FIVE 16
TAXES ON IMPORTS 16
5.1 Overview 16
5.2 Tax Expenditures/Benchmarks for Taxes on Imports 16
5.3 Tax Expenditure on Imports 17
5.4 Fees and Levies on Imports 19
5.5 Tax Expenditure on IDF and RDL 19
CHAPTER SIX 21
KEY FINDINGS AND CONCLUSION 21
6.1: Key findings 21
6.1 Contribution to the Total Tax Expenditure by Tax Category . 22
6.2 Comparison of Kenya's Tax Expenditure with other Jurisdictions 23
6.3 Conclusion 23
APPENDICES 24

LIST OF TABLES AND FIGURES

Table 1: PIT Bands and Rates 5
Table 2: Pension Tax Bands 6
Table 3: PIT Tax Expenditure 6
Table 4: Rates of Investment Allowances 8
Table 5: Corporate Income Tax Expenditure 9
Table 6: Domestic VAT Expenditure, Ksh Million 11
Table 7: Sectoral VAT Expenditure Contribution (Exempt Supplies) 12
Table 8: Sectoral VAT Expenditure Contribution (Zero-Rated Supplies) 12
Table 9: Domestic VAT Base Analysis 13
Table 10: Tax Expenditure on Excise Duty (Domestic) 15
Table 11: Tax Expenditure on Imports 18
Table 12: Tax Expenditure on Various Categories of Imports in 2023 19
Table 13: Tax Expenditure on IDF and RDL 20
Table 14: Summary of Tax Expenditure per Tax Category 22
Table 15: Tax Expenditure to GDP Ratio 22
Table 16: Tax Expenditure by Tax Category 22

Figure 1: PIT Expenditure Trend 7
Figure 2: CIT Expenditure 9
Figure 3: Trend on VAT Expenditure 11
Figure 4: Trend on Excise Duty (Domestic) Tax Expenditure 15
Figure 5: A Graphical Presentation of Tax Expenditure on Imports 19
Figure 6: Tax Expenditure on IDF and RDL 20
Figure 7: Tax Expenditure as Percent of GDP 21

ABBREVIATION

BTS	Benchmark Tax System
CET	Common External Tariff
CIF	Cost Insurance and Freight
CIT	Corporate Income Tax
COMESA	Common Market for Eastern and Southern Africa
DEFCO	Defence Forces Canteen Organization
EAC	East African Community
EACCMA	East African Community Customs Management Act
EAC CET	East Africa Community Common External Tariffs
GDP	Gross Domestic Product
HOSP	Home Ownership Savings Plan
IDF	Import Declaration Fee
PAYE	Pay As You Earn
PIT	Personal Income Tax
PWD	Persons With Disability
RDL	Railway Development Levy
SEZ	Special Economic Zone
VAT	Value Added Tax

DEFINITION OF TERMS

Benchmark tax system: Means a baseline against which a tax expenditure is recognized as a standard tax treatment at international standard or in Kenya and not conferring preferential treatment to particular group of taxpayers. However, preferential treatment could be conferred to taxpayers or goods and services due to regional or international commitments or tax design.

Destination principle: This is a concept which provides that value added taxes should be charged by the country where the taxable supplies is consumed.

Digital marketplace: Means an online or electronic platform which enables users to sell or provide services, goods, or other property to other users.

Investment allowance: Means expenditure in respect of investments for the business that taxpayer is allowed to deduct against his taxable income

Natural resource income: An amount including a premium or such other like amount paid as consideration for the right to take minerals or a living or nonliving resource from land or sea; or an amount calculated in whole or in part by reference to the quantity or value of minerals or a living or non-living resource taken from land or sea.

Stay of Application: Is an approval granted to a Partner State to apply a lower rate that deviates from the regionally agreed CET duty rate. It is considered a tax expenditure if it does not apply regionally.

Tax Expenditure: Means tax forgone due to explicit concession that departs from what is considered as a generally applicable tax provision under the existing tax law and is meant to achieve a specific socio-economic outcome.

EXECUTIVE SUMMARY

The 2024 Tax Expenditure Report has taken the approach of "Revenue Forgone" in determining the tax expenditure. The revenue forgone approach involves estimating the direct revenue loss associated with the provision of various tax measures under consideration, relative to the benchmark system. The approach does not consider any behavioral changes by businesses and taxpayers due to the presence or removal of tax incentives. Revenue forgone is therefore not equivalent to revenue gain that may be achieved from removing tax incentives.

The Report presents analysis of the tax expenditure under Income Tax (Personal Income Tax and Corporate Income Tax), Value Added Tax (VAT), Import Duty, Excise Duty, Import Declaration Fee and Railway Development Levy. For each tax category, the Report provides a description of the benchmark tax system, list of tax expenditures and estimates on the value of tax expenditure.

Tax expenditure to GDP ratio increased to 3.38 percent in 2023 from the revised 2.91 percent in 2022. VAT expenditure as a percentage of GDP reduced from 2.23 percent in 2022 to 2.20 percent in 2023. Income Tax, Excise Duty and Import Duty expenditures increased in 2023 compared to 2022.

In 2023, total tax expenditure increased by Ksh.117.43 billion to Ksh. 510.56 billion from Ksh. 393.13 billion in 2022. Tax expenditure on domestic VAT increased to Ksh 306.23 billion from Ksh 248.29 billion in 2022 while that of VAT Imports decreased to Ksh 26.73 billion from Ksh 53.17 billion over the same period. The increase in the tax expenditure on domestic VAT relates to the increase in consumption. Corporate Income Tax increased by Ksh. 40.99 billion to Ksh 87.30 billion in 2023 from Ksh. 46.32 billion in 2022, contributing 34.90 percent of the total increase in the 2023 tax expenditure. Tax expenditure on Import Duty increased from Ksh 13.59 billion in 2022 to Ksh 63.31 billion in 2023 while that of Excise Duty tax expenditure increased from Ksh 9.87 billion to Ksh 12.28 billion over the same period, Tax expenditure on fees and levies decreased from Ksh 14.73 billion in 2022 to Ksh 7.13 billion in 2023.

In 2023, Value Added Tax accounted for 65.22 percent, followed by Income Tax and Import Duty tax expenditure at 18.63 percent and 12.35 percent, respectively. Despite being the highest contributor to tax expenditure, VAT tax expenditure has been on a downward trend declining from 76.68 percent in 2022 to 65.22 percent in 2023.

The analysis of tax expenditure highlights the revenue forgone through various tax incentives. The high increase in tax expenditure on VAT exemptions, Import Duty and Corporate Income Tax suggests a need for rationalization for these tax expenditures.

CHAPTER ONE

INTRODUCTION

1.1 Background

The primary purpose of taxation is to collect revenue to finance Government operations and provide public goods and services. A tax system provides the funding needed for the development of public infrastructure and socio-economic projects, while also fostering a favorable business environment to encourage economic growth in the country. Unlike direct government spending, tax expenditures such as deductions, exemptions, credits, and rate reductions are embedded within the tax system itself, offering financial incentives to individuals, businesses, or industries to promote desirable behaviors and activities.

While tax expenditures effectively support specific policy goals geared to encourage investment and ease the cost of living for the vulnerable in society, they come with trade-offs. Tax expenditures erode the tax base and therefore increasing tax expenditure may reduce tax collection. It is therefore important to manage the levels of tax expenditure to ensure revenue mobilization and prevent erosion of the tax base.

The key objective of tax expenditure Reporting is to provide transparency and accountability regarding the revenue forgone. It aims to quantify the revenue forgone due to these preferential tax measures and assess their alignment with public policy goals. This Report quantifies these expenditures and examines their distribution across key tax categories, namely: Value Added Tax (VAT); Income Tax; Excise Duty; Import Duty; Import Declaration Fee (IDF); and Railway Development Levy (RDL).

Kenya's approach to tax expenditure Reporting aligns with international best practices for transparency and budgetary accountability. The publication of these Reports supports Kenya's constitutional commitment to public finance accountability and informed policy decisions in line with the Public Finance Management Act, 2012.

The Report's methodology follows international best practice that uses the "Revenue Forgone" approach focusing on the revenue forgone from existing reliefs, without considering potential behavioral changes by taxpayers. This approach estimates the immediate revenue forgone due to tax reliefs in comparison to a standard tax system or benchmark. Consequently, the estimated revenue forgone doesn't represent the actual revenue that would be gained if the tax reliefs were not considered.

1.2 Benchmark Tax System

A benchmark tax system serves as the reference point against which tax expenditures are measured. The benchmark represents the standard or baseline structure of a tax system, detailing what tax provisions are considered "normal" and which are identified as deviations. These deviations or tax expenditures indicate instances where the tax system offers favorable treatment to specific activities and sectors or tax payer groups to support policy goals.

This Report uses legal framework to define the benchmark tax system, with existing tax laws to establish the benchmark and identify any differential or preferential treatment. The tax categories addressed in this Report are: Income tax under the Income Tax Act; VAT under the Value Added Tax Act, 2013; excise duty under the Excise Duty Act, 2015; Import Declaration Fees and the Railway Development Levy under the Miscellaneous Fees and Levies Act, 2016; and import duties under the East African Community Common External Tariff (EAC CET) and the East African Community Customs Management Act, 2004 (EACCMA).

Only the major structural elements of each tax category are considered as part of the benchmark tax system. Therefore, the benchmark tax system is defined on the basis of the following criteria:

i. The general tax regime as outlined in the various tax laws, but with an emphasis on the scope, the definition of the taxable base, tax unit, the tax rate(s) and tax period;

ii. The national tax policy choices that consider some relief measures as normal, for example, a particular sector of the economy such as health, basic agriculture or education;

iii. Regional agreements and directives that require the evaluation of tax expenditures not only against a national norm but also against East African Community norm. This is the case in EAC customs union, where the Common External Tariff (EAC CET) is the norm for customs duties; and

iv. International agreements which have been considered as exemptions can be determined at the international level. According to the hierarchy of norms, international law takes precedence over regional and national law.

These measures have therefore been considered in the tax norms and included in the benchmark tax system.

1.3 Objectives of the Report

The primary goal of this Report is to estimate the national tax expenditure for the year 2023. The specific objectives of the Report are:

i. Estimate tax expenditure across different tax categories;

ii. Present statistics related to tax expenditure; and

iii. Enhance transparency and access to information regarding National tax expenditures.

1.4 Scope of the Report

The Report analyzes tax expenditures related to domestic Value Added Tax (VAT), Income Tax (both Personal and Corporate), Import Duty, Excise Duty, Import VAT, and various Fees and Levies for the year 2023. For each tax category, it outlines the benchmark tax system, lists the identified tax expenditures, and provides estimates of their values. For tax categories where no expenditures are identified, the Report includes only a description of the benchmark tax system.

This introductory chapter offers background information for the Report, while the following chapters are structured as follows: Chapters II, III, IV, and V provide analysis of tax expenditures related to Income Tax, Domestic Value Added Tax, Domestic Excise Duty, and Taxes on Imports, respectively. Finally, Chapter VI summarizes the findings.

CHAPTER TWO

INCOME TAX

2.1 Overview

Income tax in Kenya is charged on different sources of income. It is charged upon all the income of a person whether resident or non-resident, which is accrued in or derived from Kenya.

Income subject to tax is as follows:

i. Gains or profits from a business, employment or services rendered and a right granted to another person for use or occupation of property;

ii. Dividends;

iii. Interest;

iv. Royalties;

v. capital gains

vi. Income accruing through a digital marketplace;

vii. An amount deemed to be the income of a person under the Act or by rules made under the Act;

viii. A natural resource income.

The benchmark for income tax is based on the tax paid by legal persons and individuals (natural persons) who are subject to taxation regardless of their economic activity. A person's taxable income is the difference between the person's total income and the total allowable deductions.

Individuals and corporate bodies are the primary units of income taxation, which is a direct tax. Individuals are taxed on their income through graduated rates ranging from 10% to 35% while companies are taxed at a general rate of 30.0 percent. In addition, certain streams of income are subject to withholding tax.

Withholding income tax rates are as follows:

Residents

(a) Individuals or Companies incorporated in Kenya and Foreign Companies with Branches or Permanent Establishments in Kenya:

i) 3% withholding income tax on contractual fees;

ii) 5% withholding income tax on management or professional fees other than contractual fees.

iii) 10 % for non-qualifying dividends and 5 % for dividends from financial institutions and Savings and Credit Cooperative Societies (SACCOS).

iv) 5% in respect of royalties.

v) 15% in respect to interest.

Non-Residents

(b) Individuals and Foreign Companies without Branches/Permanent Establishment in Kenya:

i) 20% withholding income tax on payments made on contractual, professional or management fee, where there is no Double Taxation Agreement (DTA);

ii) the rate specified in the DTA on payments made for the contractual, management or professional fee, where there is a DTA.

iii) 15% in respect of dividends.

iv) 20% in respect of royalties.

v) 15 % in respect to interest.

2.2 Personal Income Tax (PIT)

Personal Income Tax (PIT) is charged on all the income of a person, whether resident or non-resident, which accrues or is derived from Kenya. Tax on personal income is on a graduated scale known as Pay As You Earn (PAYE) and is applicable to all persons at the time of employment and to non-resident persons employed by an employer who is resident in Kenya. Further, certain streams of income earned by individuals are subject to withholding tax.

The base of taxation of personal income tax includes wages, salary, leave pay, sick pay, payment in lieu of leave, fees, commission, bonus, gratuity, and allowances such as subsistence, travelling, and entertainment which are received in respect of employment or services rendered.

Taxation of PIT is graduated based on the income of an individual's pay. The personal income tax comprises of a tax band and the respective rate as shown in **Table 1.**

Table 1: PIT Bands and Rates

PIT Band p.a	Rate
On the first Ksh. 288,000	10%
On the next Ksh. 100,000	25%
On the next Ksh. 5,612,000	30%
On the next Ksh. 3,600,000	32.50%
On all income over Ksh. 9,600,000	35%

*The last two bands become effective from 1st July 2023 following the enactment of the Finance Act, 2023.

Pension income is subject to PIT but features different tax bands as depicted in **Table 2.**

Table 2: Pension Tax Bands

Pension Tax Band	Rate
On the first Ksh 24,000 per month or Ksh 288,000 p.a	10%
On the next Ksh 8,333 per month or Ksh 100,000 p.a	25%
On all income amount in excess of Ksh 32,333 per month or Ksh 388,000 p.a	30%

Each taxpayer is entitled to a tax relief of Ksh 2,400 per month translating to Ksh 28,800 per annum.

2.1.1 PIT Benchmarks

The PIT base is the remuneration of an employee or an individual. The items that are considered as benchmark in this Report in respect to PIT are contained in **Annex I.**

2.2.2 PIT Expenditure

The PIT tax expenditure comprises of reliefs to taxpayers to encourage savings, home ownership and reduce tax burden, among other reasons. These reliefs include; insurance relief, exemptions relating to income earned by persons with disability (PWD), and mortgage relief among others.

Tax expenditure related to personal income tax stood at Ksh 7.83 billion (0.052 percent of GDP) in 2023, an increase from Ksh 7.16 billion (0.053 percent of GDP) in 2022 **(Table 3).**

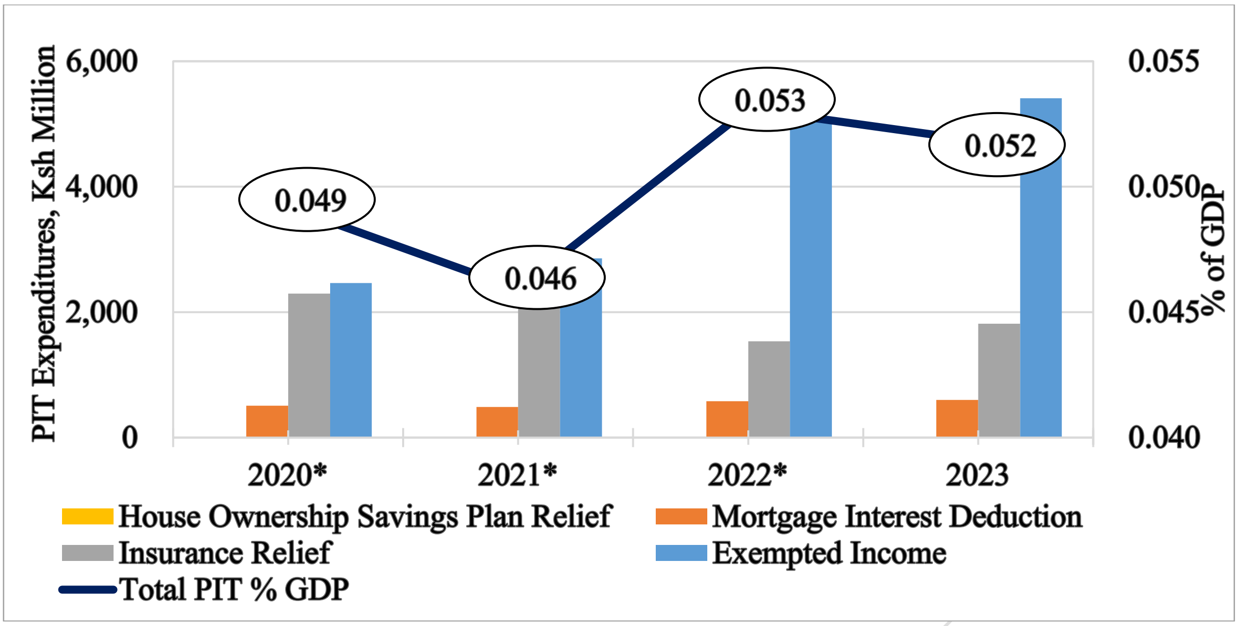
Table 3: PIT Tax Expenditure

	Ksh, million			
	***2020**	***2021**	***2022**	**2023**
Mortgage interest deduction	507.65	488.47	579.66	601.44
Insurance Relief	2,296.67	2,175.83	1,537.05	1,816.29
House Ownership Savings Plan Relief	3.85	-	-	-
Exempted Income	2,463.33	2,858.00	5,046.47	5,411.93
Total PIT Expenditure	5,271.50	5,522.30	7,163.18	7,829.66
Nominal GDP	10,715,070.00	12,027,662.00	13,489,642.00	15,108,806.00
Total PIT % GDP	0.049	0.046	0.053	0.052

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

Figures for the previous years have been revised. The figures were revised in line with updated data and consistency with best practices in computing PIT expenditures.

Figure 1: PIT Expenditure Trend



2.3 Corporate Income Tax

Corporate Income Tax (CIT) is a tax charged on corporate entities such as limited liability companies and Cooperative societies among others on their annual income that is derived in Kenya.

2.3.1 CIT Benchmark

The benchmark for corporate income tax is the statutory standard or general corporate income tax rate in effect at any given time (currently at 30 percent). Preferential rates applicable to Export Promotion Zones (EPZs) and Special Economic Zones (SEZs) have been considered as part of benchmark in this Report. These regimes are contained in **Annex II.** However, reduced CIT rates for targeted sectors such as; housing, motor vehicle assembly, among others are not considered as benchmarks.

For this Report, a 10 percent investment deduction is considered a benchmark while any deduction above 10 percent is regarded as a tax expenditure. This is on the grounds that investment deductions are endemic to all tax systems as international best practice and a standard accounting principle.

2.3.2 CIT Expenditure

Given the benchmark tax regime described in section 2.3.1, Corporate Income Tax expenditure takes the form of deductions such as farm work deductions, plant and machinery investment deductions, building investment deductions and wear and tear. These deductions are designed to encourage companies to invest in productive fixed assets. The rate of these deductions varies depending on the type of asset **(Table 4).**

Table 4: Rates of Investment Allowances

Capital expenditure incurred	Rate of Investment Allowance
(a) Buildings	
(i) Hotel building	50% in the first year of use
(ii) Building used for manufacture	50% in the first year of use
(iii) Hospital buildings	50% in the first year of use
(iv) Petroleum or gas storage facilities	50% in the first year of use
(v) Residual value to item (a)(i) to (a)(iv)	25% per year, in equal instalments
(vi) Educational buildings including student hostels	10% per year, in equal instalments
(vii) Commercial building	10% per year, in equal instalments
(b) Machinery	
(i) Machinery used for manufacture	50% in the first year of use
(ii) Hospital equipment	50% in the first year of use
(iii) Ships or aircrafts	50% in the first year of use
(iv) Residual value items (b)(i) to (b)(iii)	25% per year, in equal instalments
(v) Motor vehicles and heavy earth moving equipment	25% per year, in equal instalments
(vi) Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25% per year, in equal instalments
(vii) Furniture and fittings	10% per year, in equal instalments
(viii) Telecommunications equipment	10% per year, in equal instalments
(ix) Filming equipment by a local film producer licensed by the Cabinet Secretary responsible for filming	25% per year, in equal instalments
(x) Machinery used to undertake operations under a prospecting right	50% in the first year of use and 25% per year, in equal instalments
(xi) Machinery used to undertake exploration operations	50% in the first year of use and 25% per year, in equal instalments
(xii) Other machinery	10% per year, in equal instalments
(c) Purchase or an acquisition of an indefeasible right to use fibre optic cable by a telecommunication operator	10% per year, in equal instalments
(d) Farmworks	50% in the first year of use and 25% per year, in equal instalments

Table 5: Corporate Income Tax Expenditure

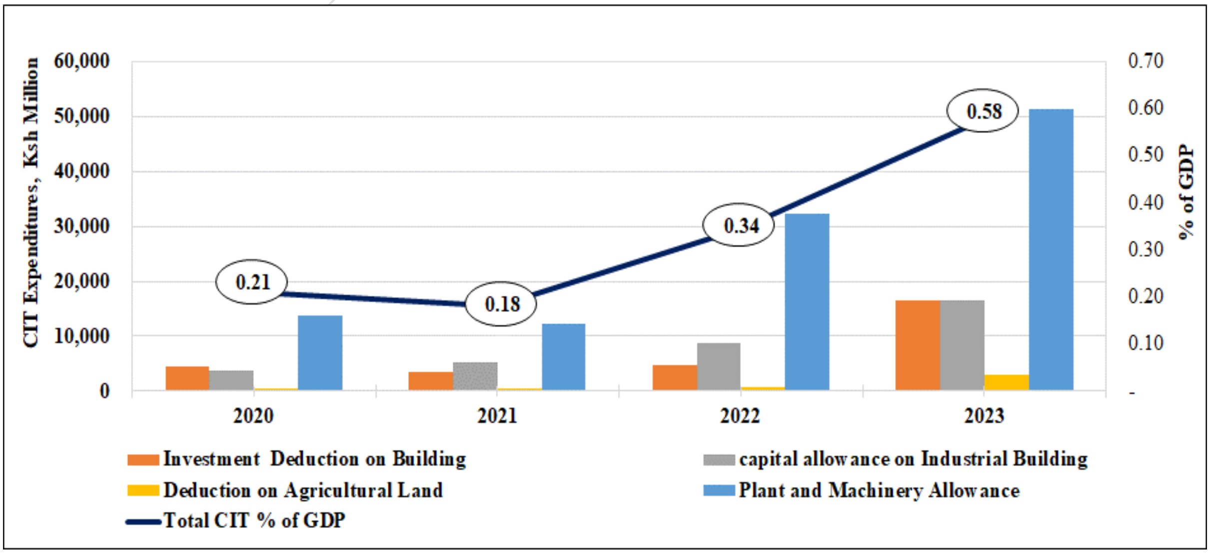
	Ksh. Million			
	2020	2021	2022	2023
Plant and Machinery Allowance	13,820.49	12,284.68	32,179.55	51,360.50
Investment Deduction on Building	4,559.22	3,489.20	4,745.70	16,532.60
capital allowance on Industrial Building	3,839.97	5,346.56	8,708.86	16,502.80
Deduction on Agricultural Land	345.09	516.38	681.70	2,905.10
Total	**22,564.77**	**21,636.81**	**46,315.81**	**87,301.00**
Nominal GDP	10,715,070.00	12,027,662.00	13,489,642.00	15,108,806.00
Total CIT % of GDP	**0.21**	**0.18**	**0.34**	**0.58**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

Note: In this Tax Expenditure Report, a 10 percent rate of deduction was considered as the benchmark and since most of the investment deductions have a deduction rate of 25 percent after the first year of use, the difference between 25 percent and 10 percent; that is, 15 percent was considered as tax expenditure.

Corporate Income tax expenditure stood at Kshs. 22.56 billion in 2020 (0.21% of GDP) and declined slightly in 2021 to Kshs. 21.64 billion (0.18% of GDP). However, in 2022 it more than doubled to Ksh. 46.32 billion (0.34 % of GDP) and further increased in 2023 to Kshs. 87.30 billion (0.58 % of GDP) **(Figure 2).** The increase in CIT tax expenditure in 2023 is attributed to increased investments in; Information and Communication Technology (ICT), Electricity, Gas, Steam and Air Conditioning supplies, Transportation and Storage, and Manufacturing.

Figure 2: CIT Expenditure



CHAPTER THREE

DOMESTIC VALUE ADDED TAX

3.1 Overview

Value Added Tax (VAT) is a consumption tax charged on taxable goods and services made or provided in Kenya and supplied or imported into Kenya. The tax is charged at all stages in the supply chain where value is added. Any individual, company or partnership supplying or who expects to supply taxable supplies worth Ksh 5.0 million or more in a year is required to register for VAT. Nonetheless, a trader whose annual turnover is less than Ksh 5.0 million is allowed to register for VAT on voluntary basis. This Chapter analyses the Tax expenditure relating to VAT on domestic supplies.

The structure of VAT is as follows:

i) Taxable supplies at a general rate of 16.0 percent;

ii) Taxable supplies at the rate of 0.0 percent; and

iii) Exempt supplies.

The Finance Act, 2023 repealed the 8.0 percent VAT that was applicable to petroleum fuels and zero-rated the liquefied petroleum gas.

3.2 VAT Benchmark

The First Schedule and the Second Schedule to the VAT Act, 2013 specify the goods and services that are exempt and zero-rated respectively. The VAT benchmark tax system for domestic VAT is the treatment for taxable supplies according to international best practice. VAT treatment on taxable supplies that are considered as benchmark in this Report are contained in **Annex III.**

3.3 Tax Expenditure on Domestic VAT

The VAT tax expenditure constitute goods and services that are either exempt or zero-rated excluding those considered as benchmarks. This is the revenue foregone due to exemption of finished goods and services or zero-rated goods and services for domestic consumption. VAT on exported goods and taxable services are treated as benchmarks since they conform to international best practice. VAT exemption on unprocessed goods are also considered as benchmark.

In 2023, the overall tax expenditure in relation to domestic VAT increased to Ksh 306.23 billion from Ksh 248.29 billion in 2022 **(Table 6)**. Tax expenditure on exempt items increased to Ksh 172.08 billion in 2023 from Ksh 128.31 billion in 2022. Similarly, tax expenditure on zero-rated goods and services increased to Ksh 134.16 billion in 2023 from Ksh 119.98 billion in 2022. The increase in the overall tax expenditure on VAT relates to the overall growth of consumption as reflected in the nominal GDP growth, expansion in the VAT base and introduction of tax measures through Finance Acts of 2022 and 2023. These measures are contained in **Annex IV.**

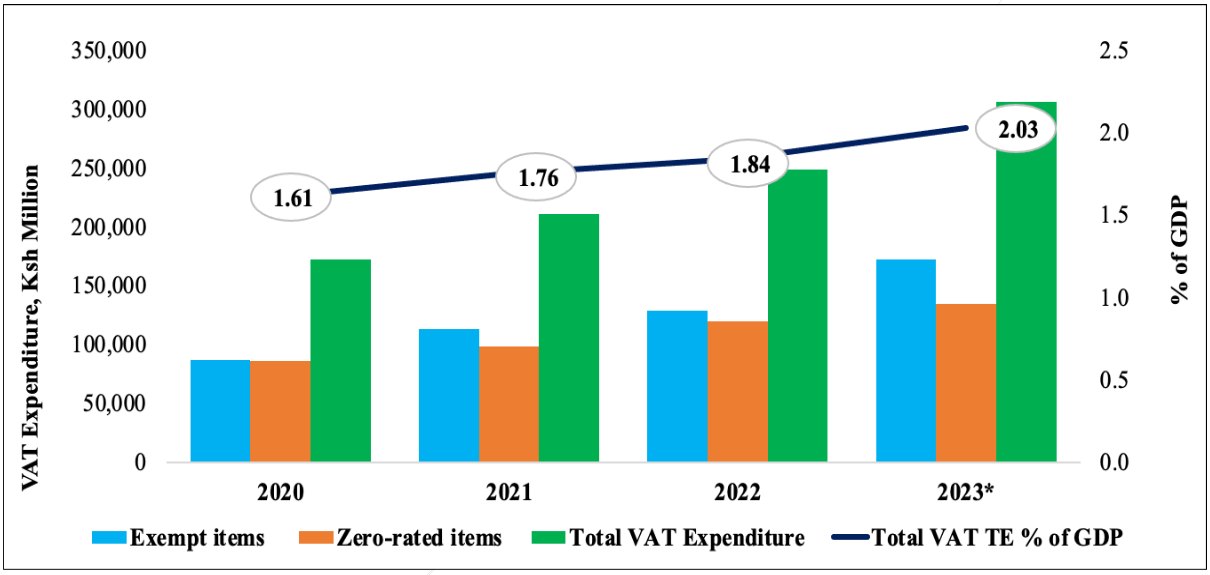
Table 6: Domestic VAT Expenditure, Ksh Million

	Ksh. Million			
	2020	**2021**	**2022**	**2023***
Exempt items	86,820.54	112,677.38	128,317.00	172,075.65
Zero-rated items	85,724.43	98,412.82	119,975.27	134,158.00
Total VAT Expenditure	172,544.97	211,090.20	248,292.27	306,233.65
Nominal GDP	10,715,070.00	12,027,662.00	13,489,642.00	15,108,806.00
Total VAT TE % of GDP	1.61	1.76	1.84	2.03

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

The total domestic VAT expenditure as a percentage of GDP increased from 1.84 percent in 2022 to 2.03 percent 2023 **(Figure 3).**

Figure 3: Trend on VAT Expenditure



Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

3.3.1 Tax Expenditure on VAT Exempt Supplies

In 2023, tax expenditure in relation to exempt supplies registered a significant increase to Ksh 172.08 billion from the Ksh 128.32 billion registered in 2022. This represented a growth of 34.0 percent. Comparison of the 2022 and 2023 performance of main sectors that contributed to the total domestic VAT exemption expenditure shows that: Financial and Insurance Activities sector increased by 83.0 percent; while Electricity, Oil, Gas, Steam and Air Conditioning Supply sector shrunk by 74.0 percent, largely due to removal of the VAT rate of 8.0 percent that was applicable to petroleum products.

The other sectors like Information and Communication, Transportation and Storage Agriculture, Forestry and Fishing, Human Health and Social Work Activities, Administrative and Support Service Activities also registered increase in VAT exempt expenditure as shown in **(Table 7)**. Transport and storage registered the highest increase at 98.0 percent largely attributed to the growth of the VAT base that was mainly in the volume of freight transported as well as passenger traffic, further increase in fuel prices resulted to inflationary increase in the VAT base affecting the VAT tax expenditure. The construction sector dropped marginally by 8.0 percent.

Table 7: Sectoral VAT Expenditure Contribution (Exempt Supplies)

Main Sectors Exempt from Domestic VAT	2021 Exempt TE (Ksh Million)	2022 Exempt TE (Ksh Million)	2023 Exempt TE (Ksh Million)	2021 Percent Contribution (%)	2022 Percent Contribution (%)	2023 Percent Contribution (%)	Change	2022-2023 Change (%)
Financial and Insurance Activities	38,072	35,507	64,986	33.79	27.67	37.77	29,479.00	83.02
Electricity, Oil, Gas, Steam and Air Conditioning Supply	-	32,534	8,438	-	25.35	4.90	-24,096.35	-74.07
Information and Communication	17,423	21,488	21,958	15.46	16.75	12.76	470.00	2.19
Transportation and Storage	6,146	10,210	20,261	5.45	7.96	11.77	10,051.00	98.44
Agriculture, Forestry and Fishing	7,013	6,615	8,285.00	6.22	5.16	4.81	1,670.00	25.25
Human Health and Social Work Activities	3,355	6,491	10,005.00	2.98	5.06	5.81	3,514.00	54.14
Administrative and Support Service Activities	3,080	5,940	7,328.00	2.73	4.63	4.26	1,388.00	23.37
Construction	5,614	5,195	4,750	4.98	4.05	2.76	-445.00	-8.57
Other Sectors	28,823	4,337	26,065	25.58	3.38	15.15	21,728.00	500.99
Total	**109,526**	**128,317**	**172,076**	**97.20**	**100.00**	**100.00**	**43,759**	**34.10**

Source of Data: Kenya Revenue Authority

3.3.2 Tax Expenditure on VAT Zero Rated Supplies

VAT expenditure for zero rated supplies rose to Ksh 134.16 billion in 2023 compared to Ksh 119.98 billion in 2022, representing an 11.8 percent increase over the review period. **Table 8** presents comparative view of key sectors that contributed to the VAT zero-rate tax expenditure over the review period.

The growth in the zero-rate expenditure may also be partly attributed to policy changes such as shifting VAT of LPG from the rate of 8.0 percent to zero-rate as well as increase in items which are zero-rated during the period.

Table 8: Sectoral VAT Expenditure Contribution (Zero-Rated Supplies)

Main Sectors Zero rated from Domestic VAT	2021 Zero Rate TE (Ksh Million)	2022 Zero Rate TE (Ksh Million)	2023 Zero Rate TE (Ksh Million)	2021 Percent Contribution (%)	2022 Percent Contribution (%)	2023 Percent Contribution (%)	2022-2023 Change (%)
Manufacturing	26,871	46,330	56,635	27.30	38.62	42.22	22.24
Transportation and Storage	35,160	44,804	5,153	35.73	37.34	3.84	-88.50
Electricity, Oil, Gas, Steam and Air Conditioning Supply	18,953	12,384	24,919	19.26	10.32	18.57	101.23
Agriculture, Forestry And Fishing	1,709	-	47,451	1.74	0.00	35.37	0.00
Administrative And Support Service Activities		6,568	-		5.47	0.00	-100.00
Human Health And Social Work Activities		1,400	-		1.17	0.00	-100.00
Wholesale And Retail Trade		2,827	-		2.36	0.00	-100.00
Other		5,663	-		4.72	0.00	-100.00
Total	**82,693.00**	**119,976**	**134,158**	**84.03**	**100**	**100**	**11.8**

Source of Data: Kenya Revenue Authority

Growth of tax expenditure in the transport and storage sector is attributed to the expansion in economic activities by 6.2 percent in 2023, mainly due to improved land transport, air travel including support services, as well as other transport including courier activities. There was also significant shift in international oil prices as well as exchange rate that might have contributed to this growth. Growth in the manufacturing sector reflects increase in the gross value addition in the sector caused by the increase in manufacture of food and non-food products (motor vehicles, trailers, semi-trailers, and basic and structural metal products). In addition, there were policy changes introduced by Finance Act, 2023 to promote manufacturing such as zero-rating of locally assembled or manufactured mobile phones, electric motorcycles and bicycles, electric buses, and inputs for manufacture of animal feeds that contributed to the zero-rating Tax expenditure.

3.3.3 Overall Domestic VAT Base Analysis

Total supplies captured in VAT returns (which includes sales at general rate of 16 percent exempt and zero-rated) grew by 33.0 percent in 2023 indicating growth in the VAT base in 2023 **(Table 9)**.

Domestic zero-rated supplies proportion to the total supplies remained unchanged in 2023 compared to 2022 at 18.0 percent. Of the 33.0 percent growth in VAT base, this category contributed to 6.0 percent. This is based on VAT tax returns data from Kenya Revenue Authority.

The exempt supplies as a proportion to the total supplies increased to 22.0 percent in 2023 from 19.0 percent in 2022. This was 7.0 percent out of the 33.0 percent total supplies as captured in VAT returns for 2023.

Table 9: Domestic VAT Base Analysis

Description	2022	2023	Proportion to Total Supplies		Contribution to growth
	Ksh Million		2022	2023	
Domestic Zero-rated supplies	1,831,385	2,482,335	18%	18%	6%
Exempt Supplies	1,883,993	2,979,145	19%	22%	7%
General Supplies AT 16%	6,799,010	8,083,915	67%	60%	20%
Total Supplies	10,167,038	13,545,395	100%	100%	33%

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

CHAPTER FOUR

EXCISE DUTY (DOMESTIC)

4.1 Overview

Excise Duty is a tax levied on locally produced goods and those imported, as well as on certain services. Key excisable products consist of: beer, wines and spirits, other alcoholic drinks, bottled water, fruit juices, cigarettes, fuels, motor vehicles, and additional manufactured tobacco and its substitutes. Excisable services encompass telephone and internet data services, fees for money transfer services, various charges from financial institutions, and gaming and lottery. The regulations that govern the application of excise duty are detailed in the Excise Duty Act, 2015. The Government imposes Excise Duty to generate revenue to support budget and to discourage consumption of products and services that have negative externalities.

4.2 Benchmark

Some of the exempt excisable goods and services, which are considered benchmarks, are contained in the Second Schedule of the Excise Duty Act, 2015. These goods and services are listed in **Annex V.**

4.3 Tax Expenditure on Excise Duty (Domestic)

Tax Expenditure in respect of Excise Duty (Domestic) is considered an exemption on goods supplied to Kenya Defence Forces Canteen Organization (DEFCO) listed under the Second Schedule of the Excise Duty Act, 2015.

In addition, exemption from Excise Duty granted to beer or wine made from sorghum, cassava, millet or any other agricultural products (excluding barley) grown in Kenya pursuant to Section 7 (2) of Excise Duty Act, 2015 is also considered as Tax Expenditure.

In view of the above, this Report has considered exemptions granted to the following items as Domestic Excise Duty Tax Expenditure:

i. Exemption of alcoholic and non-alcoholic beverages supplied to Kenya Defence Forces Canteen Organization (DEFCO), provided in Excise Duty, 2015, 2nd Schedule, part A, item 12; and
ii. Excise Duty remission in respect of beer or wine made from sorghum, millet or cassava or any other agricultural products, (excluding barley), grown in Kenya, provided in Excise Duty, 2015, part II, section 7 (2).

4.4 Estimation of Tax Expenditure

This section presents a comprehensive analysis of the Excise Duty Tax Expenditure regarding Domestic Excise Tax, focusing on the remission granted for Keg beer (produced from sorghum, millet, and cassava) and the excise duty exemption for both alcoholic and non-alcoholic beverages supplied to DEFCO.

The analysis in Table 10 reveals a significant increase in Tax Expenditure related to Domestic Excise Duty, which increased from Ksh 8.03 billion in 2022 to Ksh 10.18 billion in 2023. This upward trend was driven by a substantial rise in Keg beer consumption, which increased from Ksh 7.30 billion to Ksh 9.48 billion during the same period.

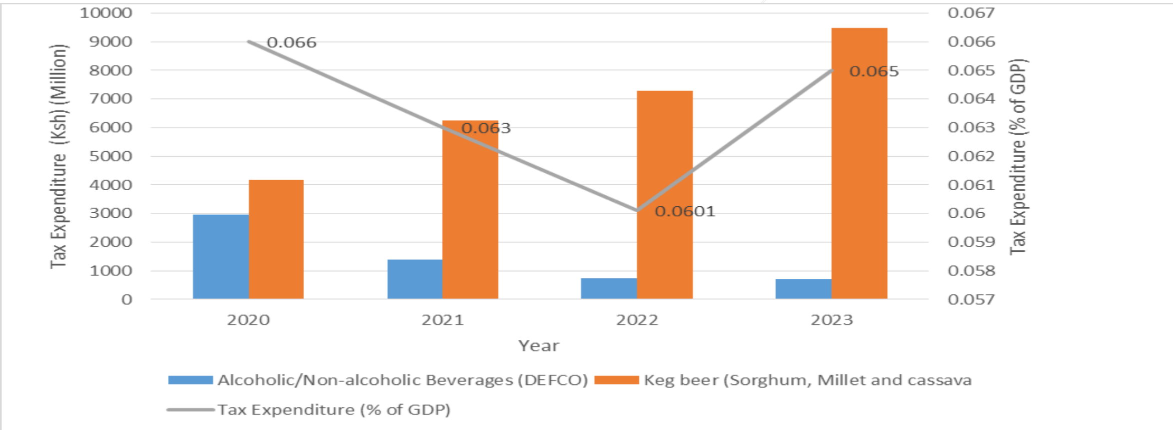
Overall, Excise Duty (Domestic) tax expenditure as a percentage of Nominal GDP increased from 0.060 percent in 2022 to 0.065 percent in 2023.

Table 10: Tax Expenditure on Excise Duty (Domestic)

Description / Year	(Kshs Million)			
	2020	**2021**	**2022**	**2023**
Alcoholic Beverages (DEFCO)	2951.29	1433.09	732.59	680.97
Non-alcoholic Beverages (DEFCO)	2.69	4.25	5.34	14.67
Keg beer (Sorghum, Millet and cassava	4,165.96	6,244.72	7,297.65	9,484.11
Total Expenditure	**7,119.94**	**7,635.94**	**8,035.58**	**10,179.74**
Nominal GDP	10,715,070	12,027,662	13,489,642	15,108,806
Total Expenditure (Domestic Excise Duty % of GDP)	**0.066**	**0.063**	**0.060**	**0.065**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

Figure 4: Trend on Excise Duty (Domestic) Tax Expenditure



Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

CHAPTER FIVE

TAXES ON IMPORTS

5.1 Overview

The East African Community has achieved full implementation of the Customs Union Protocol and currently operates as a single customs territory. The East Africa Community Customs Union Protocol, the East African Community Customs Management Act (EACCMA), 2004, and the East African Community Customs Management Regulations, 2010 govern charging of import duty in the East African Community (EAC). The primary basis of determination of the taxable customs value for purposes of levying ad valorem duty is the Cost, Insurance and Freight (CIF) value of imported goods.

Import Excise Duty is levied on excisable goods imported into the country. Laws and Regulations governing the imposition of Excise Duty are contained in the Excise Duty Act, 2015. The base for excisable taxable value for charging Excise Duty on imported products is the CIF value plus the applicable Import Duty.

Import VAT is charged on imported goods. The VAT Act, 2013, governs application and imposition of Value Added Tax (VAT). Imported goods are taxed at the same rates as domestic supplies. All imported goods are vatable unless exempted or zero rated under the VAT Act, 2013. The base for taxable value for charging import VAT on imported products incorporates the CIF, Import Duty and Excise Duty values.

Import Declaration Fee (IDF) and Railway Development Levy (RDL) are fees and levies charged on imported goods as provided for in the Miscellaneous Fees and Levies Act, 2016. The base for taxable value for charging IDF and RDL on imported goods is the Cost Insurance and Freight (CIF) value.

5.2 Tax Expenditures/Benchmarks for Taxes on Imports

a) Import Duties

Import duties are charged at the rates of zero (0) percent, ten (10) percent, twenty-five (25) percent and thirty-five percent (35) depending on the level of processing and regional policy. The rates applicable are specified in the East African Community (EAC) Common External Tariff (CET), 2022. Due to the need to protect local industries across the EAC Region, some goods are classified as sensitive and attract import duty at rates above 35 percent while goods emanating from the EAC region, COMESA countries and goods traded under other trade agreements that meet the criteria set out in the agreements and rules of origin are accorded preferential Import Duty rates.

Part A of the Fifth Schedule to the East African Community Customs Management Act (EACCMA), 2004, provides specific exemptions from Import Duty. This category includes goods imported for direct and exclusive use in Official Aid Funded Projects, privileged persons and institutions as specified under the Immunities and Privileges Act, 1970, Commonwealth Governments, Donor Agencies with bilateral and multilateral agreements, International and Regional Organizations, goods for use by Presidents of the Partner States and the Partner States Armed Forces and Police.

Part B of the same Schedule provides for general exemptions. Further, the EACCMA, 2004 provides for exemption of goods imported for Manufacturing Under Bond (MUB), Export Processing Zones or Free Zones.

Additionally, the Act provides for Duty Remission on inputs imported by approved manufacturers for production of goods for export and other essential goods, for example, exercise books.

The goods that are exempt under the Fifth Schedule of the EAC Customs Management Act, 2004 are considered part of the benchmark tax regime and have therefore been excluded in the calculation of the tax expenditure in this Report.

Kenya is a party to other international and regional agreements such as COMESA and AGOA among others that determine Import Duty of goods coming into the country. Therefore, expenditure emanating from these agreements do not constitute tax expenditure. However, any deviation from the regionally agreed rates of Import Duty in form of reduced rates which is not applied regionally is considered as tax expenditure.

b) Excise Duty on Imports

Excisable goods are contained in the First Schedule of the Excise Duty Act, 2015 while the exempt goods are in the Second Schedule of the Excise Duty Act, 2015. Some of the exempt excisable goods, which are considered benchmarks, are contained in the Second Schedule of the Excise Duty Act, 2015. These goods are listed in **Annex V**.

c) VAT on Imports

All goods imported into Kenya are subject to VAT unless exempt under the First Schedule or zero rated under the Second Schedule of the VAT Act, 2013. Therefore, unless listed under the First and Second Schedule, all vatable goods imported into the country at reduced rates are considered Tax Expenditures. The benchmarks in respect to import VAT include goods listed in **Annex VI.**

5.3 Tax Expenditure on Imports

In 2023, total tax expenditure relating to taxes on imports (Excise Duty, Import Duty, and VAT on imports) was Ksh 91.89 billion (0.61 percent of GDP) which is an increase of Ksh 23.30 billion from Ksh 68.59 billion Reported in 2022. An upward trend in tax expenditure as a percent of GDP was recorded from 2022 to 2023 whereby it increased by 0.10 (**Table 11).**

Table 11: Tax Expenditure on Imports

Tax Head / Year	Ksh. In Millions			
	2020	2021	2022	2023
Import Duty	4,705.32	4,825.30	13,589.36	63,049.35
Import Excise Duty*	3.62	92.84	1,837.73	2,104.82
Import VAT on Oils	16,788.96	28,008.93	44,501.00	18,914.97
Import VAT*	8,058.07	8,772.47	8,666.26	7,818.23
Total Tax Expenditure	29,555.97	41,699.54	68,594.35	91,887.37
Nominal GDP	10,715,070.00	12,027,662.00	13,489,642.00	15,108,806.00
Total Taxes on Imports as a % of GDP	0.28	0.35	0.51	0.61

Source: Kenya Revenue Authority and Kenya National Bureau of Statistics
** Revised values for 2022*

A review of tax expenditure on import duty indicates an increase from Ksh 13.59 billion in 2022 to Ksh 63.05 billion in 2023. This increase is attributed to importation of duty-free sugar, milled rice, maize, beans, vegetable oil, raw materials for the manufacture of animal feeds, and fertilizer following Gazette Notices to import the products on duty free status in 2022 and 2023 (**Annex VII**).

Tax expenditure on Import Excise Duty shows an increase in tax expenditure from Ksh 1.84 billion in 2022 to Ksh 2.10 billion in 2023. This increase is mainly attributed to a net increase in tax expenditure on Import Excise Duty between locally assembled motorcycles and motor vehicles of Ksh 373.31 million. Tax expenditure on locally assembled motorcycles increased from Ksh 251.77 million in 2022 to Ksh 900.62 million in 2023 while for locally assembled motor vehicles, it decreased from Ksh 1.16 billion in 2022 to Ksh 886.22 million in 2023. Additionally, depreciation of the Kenyan shilling against the US dollar further contributed to the increase (**Annex VIII**).

Import VAT indicates a decrease from Ksh 8.67 billion in 2022 to Ksh 7.82 billion in 2023 which is attributed to decrease in importation of goods which contribute to import VAT tax expenditure**.** Tax expenditure on Petroleum Oils recorded a decrease in import VAT in 2023 compared to 2022. This decrease is attributed to the review of VAT on petroleum products through the Finance Act, 2023.

A graphical presentation on tax expenditures on imports is illustrated in **Figure 5**. However, Treasury Undertakings[1] have not been factored as Tax Expenditure in this Report (**Annex IX).**

[1] A commitment by Government to pay taxes on behalf of select taxpayers.

Figure 5: A Graphical Presentation of Tax Expenditure on Imports

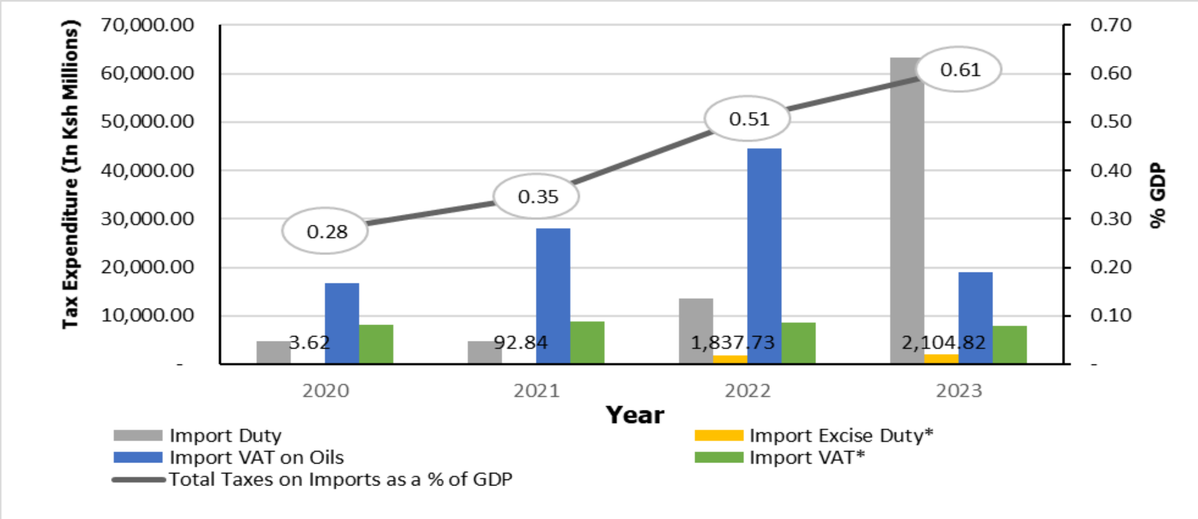


Table 12: Tax Expenditure on Various Categories of Imports in 2023

Tax Head / Category	Ksh, In Millions					
	Agriculture	Locally Assembled Motorcycles	Locally Assembled Motor vehicles	Others	SA*	Total
Import Duty	60,879.55	843.13	13.94	-	1,312.73	63,049.35
Import Excise Duty	-	900.62	886.22	317.98	-	2,104.82
Import VAT	20.69	-	405.69	7,181.82	210.04	7,818.23
IDF	463.39	-	-	253.66	-	717.05
RDL	268.10	-	-	166.08	-	434.18
Total	**61,631.74**	**1,743.75**	**1,305.84**	**7,919.53**	**1,522.77**	**74,123.64**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics
** Stay of Applications*

5.4 Fees and Levies on Imports

a) Import Declaration Fee (IDF) and Railway Development Levy (RDL)

The imposition of IDF and RDL is anchored in the Miscellaneous Fees and Levies Act, 2016. The standard rate for IDF and RDL for the period January to June 2023 was 3.50 percent and 2.0 percent of the Customs value respectively. The rates however, were amended through the Finance Act, 2023 to 2.5 percent and 1.50 percent respectively. They are charged on goods imported or purchased before clearance through Customs.

Part A and B of the Second Schedule to the Miscellaneous Fees and Levies Act, 2016 lists the goods that are exempt from IDF and RDL respectively. The benchmark tax system for IDF and RDL is contained in **Annex VI.**

5.5 Tax Expenditure on IDF and RDL

Tax expenditure on this category constitutes exemption of fees and levies to any sector or categories of taxpayer. Raw materials and intermediate products imported by approved manufacturers enjoyed a preferential rate of 1.50 percent of Customs Value on RDL and IDF respectively up to 30th June, 2023. The difference between the standard rate and the preferential rate for both IDF and RDL constitutes the tax expenditure.

Tax expenditure for both IDF and RDL decreased from Ksh 14.73 billion (0.11 percent of GDP) in 2022 to Ksh 7.13 billion (0.05 percent of GDP) in 2023. Tax Expenditure on IDF decreased from Ksh 11.83 billion in 2022 to Ksh 5.55 billion in 2023. Similarly, tax expenditure on RDL recorded a decrease from Ksh 2.90 billion to Ksh 1.59 billion in the same period **(Table 13).**

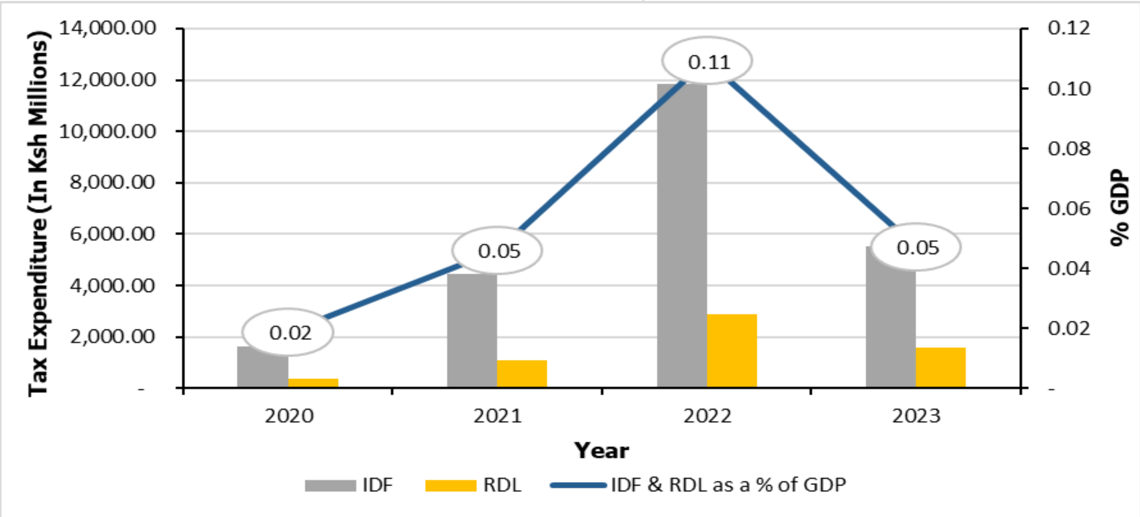
Harmonization of IDF and RDL rates through the Finance Act, 2023 which removed the preferential treatment of raw materials and intermediate products imported by approved manufacturers is attributed to the decrease in tax expenditure on IDF and RDL (**Figure 6**).

Table 13: Tax Expenditure on IDF and RDL

Tax Head / Year	Ksh. In Millions			
	2020	**2021**	**2022**	**2023**
IDF*	1,622.16	4,454.50	11,831.85	5,545.00
RDL	401.93	1,099.01	2,900.60	1,587.15
Total Tax Expenditure	**2,024.09**	**5,553.51**	**14,732.45**	**7,132.15**
Nominal GDP	10,715,070.00	12,027,662.00	13,489,642.00	15,108,806.00
IDF & RDL as a % of GDP	**0.02**	**0.05**	**0.11**	**0.05**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

Figure 6: Tax Expenditure on IDF and RDL



CHAPTER SIX

KEY FINDINGS AND CONCLUSION

6.1: Key findings

Tax expenditure to GDP ratio increased from 2.91 percent in 2022 to 3.38 percent in 2023 **(Figure 7)**.

Figure 7: Tax Expenditure as Percent of GDP

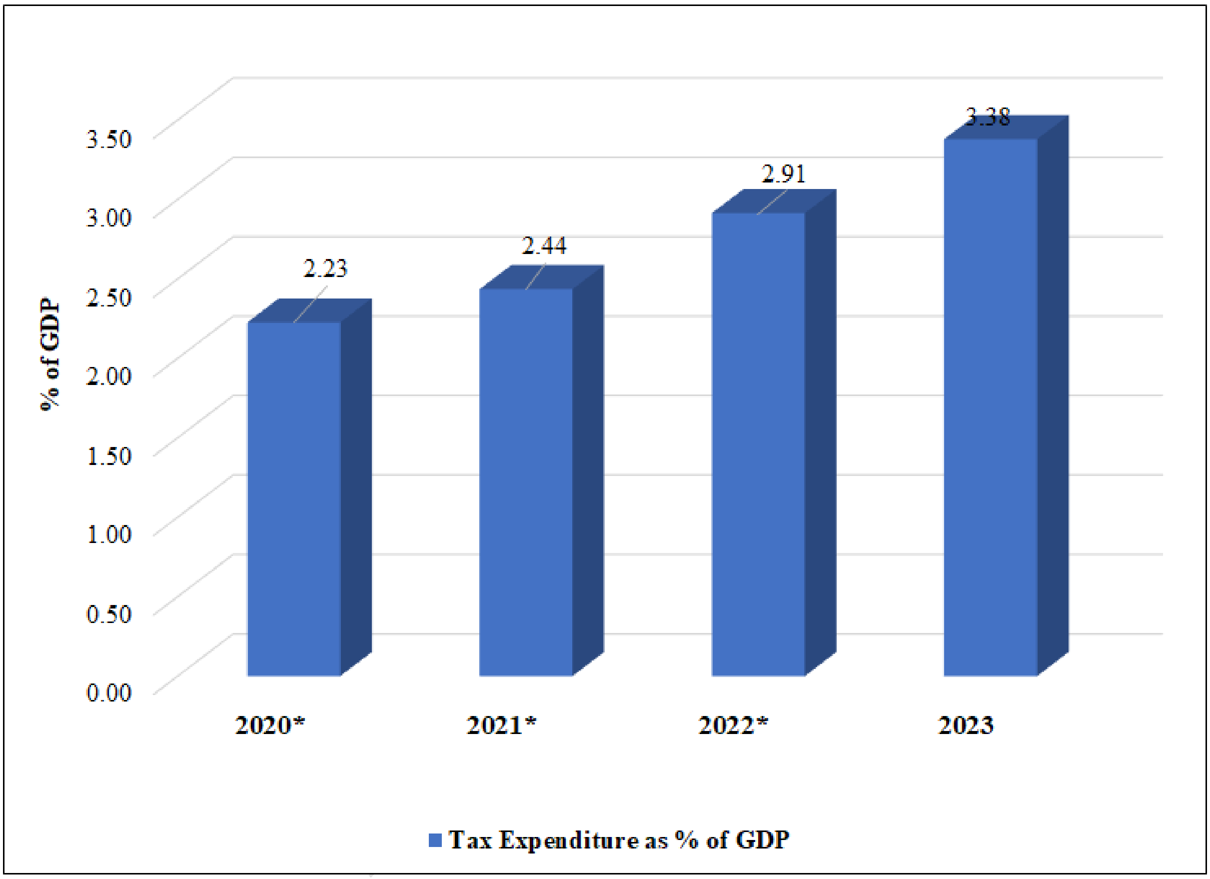


**Figure for the year 2022 has been revised. The revision has been due to revision of GDP figures from Ksh. 13,368.34 billion that was Reported in 2022 to Ksh. 13,489.64 billion that was Reported in 2023. In addition, PIT, CIT, Import VAT and Import Excise Duty figures for the year 2022 have been revised in line with updated data.*

In 2023, total tax expenditure increased by Ksh.117.43 billion to Ksh. 510.56 billion from Ksh. 393.13 billion in 2022. Corporate Income Tax increased by Ksh. 40.99 billion to Ksh 87.30 billion in 2023 from Ksh. 46.32 billion in 2022, contributing 34.90 percent of the total increase in the 2023 tax expenditure.

Tax expenditure on Import Duty increased from Ksh 13.59 billion in 2022 to Ksh 63.31 billion in 2023 due to importation of duty-free sugar, milled rice, maize, beans, vegetable oil, raw materials for the manufacture of animal feeds, and fertilizers. Tax expenditure on domestic VAT increased to Ksh 306.23 billion from Ksh 248.29 billion in 2022 **(Table 14)**. The increase in the tax expenditure on domestic VAT relates to the increase in consumption.

Table 14: Summary of Tax Expenditure per Tax Category

Tax Category	2020*	2021*	2022*	2023	Change (2022-2023)	Contibution to the Total Change (%)
	Ksh Million					
Personal income tax	5,271.50	5,522.30	7,163.18	7,829.66	666.48	0.57
Corporate Income Tax	22,564.77	21,636.81	46,315.81	87,301.00	40,985.19	34.90
VAT domestic	172,544.97	211,090.20	248,293.58	306,233.65	57,940.07	49.34
Excise Duty on imports	3.62	92.84	1,837.73	2,104.82	267.09	0.23
Excise Duty (Domestic)	7,119.94	7,635.94	8,035.58	10,179.74	2,144.16	1.83
VAT on Imports	8,058.07	8,772.47	8,666.26	7,818.23	-848.02	-8.77
VAT on Imports (Oils)	16,788.96	28,008.93	44,501.00	18,914.97	-25,586.03	-21.79
Import Duty	4,705.32	4,825.30	13,589.36	63,049.35	49,459.99	42.12
Fees and Levies	2,024.09	5,553.51	14,732.45	7,132.15	-7,600.30	-6.47
Total Tax Expenditure	238,579.25	292,922.49	393,134.94	510,563.57	117,428.63	92
Nominal GDP	10,715,070.00	12,027,661.50	13,489,642.00	15,108,806.00		
Tax Expenditure as % of GDP	2.23	2.44	2.91	3.38		

Source of data: Kenya Revenue Authority and Kenya National Bureau of Statistics
**Revised figures*

The total tax expenditure to GDP ratio increased to 3.38 percent in 2023 from 2.91 percent in 2022. This increase is attributed to the increase in CIT tax expenditure which is attributed to increased investments in; Information and Communication Technology (ICT), Electricity, Gas, Steam and Air Conditioning supplies, Transportation and Storage, and Manufacturing; increase in consumption; and importation of duty-free sugar, milled rice, maize, beans, vegetable oil, raw materials for the manufacture of animal feeds, and fertilizers **(Table 15).**

Table 15: Tax Expenditure to GDP Ratio

Tax Head	2020	2021*	2022*	2023	2020	2021	2022	2023
		Kshs Million			Expenditure to GDP ratio			
Income tax	27,836.27	27,159.11	53,478.99	95,130.66	0.26	0.23	0.40	0.63
VAT	197,392.00	247,871.60	301,460.83	332,966.85	1.84	2.06	2.23	2.20
Excise Duty	7,123.56	7,728.78	9,873.31	12,284.56	0.07	0.06	0.07	0.08
Import Duty	4,705.32	4,825.30	13,589.36	63,049.35	0.04	0.04	0.10	0.42
Fees and Levies	2,024.09	5,553.51	14,732.45	7,132.15	0.02	0.05	0.11	0.05
Total Tax Expenditure	238,579.25	292,922.49	393,134.94	510,563.57	2.23	2.44	2.91	3.38
Nominal GDP	10,715,070.00	12,027,661.50	13,489,642.00	15,108,806.00				

Source of data: Kenya Revenue Authority and Kenya National Bureau of Statistics
**Revised figures*

6.1 Contribution to the Total Tax Expenditure by Tax Category

In 2023, Value Added Tax accounted for 65.22 percent, followed by Income Tax and Import Duty 18.63 percent and 12.35 percent, respectively. Despite being the highest contributor to tax expenditure, VAT domestic contribution has been on a downward trend declining from 76.68 percent in 2022 to 65.22 percent in 2023. **(Table 16)**.

Table 16: Tax Expenditure by Tax Category

Tax Head	2020	2021*	2022*	2023	2020	2021	2022	2023
		Kshs Million			Share of Total Tax Expenditure			
Income tax	27,836.27	27,159.11	53,478.99	95,130.66	11.67	9.27	13.60	18.63
VAT	197,392.00	247,871.60	301,460.83	332,966.85	82.74	84.62	76.68	65.22
Excise Duty	7,123.56	7,728.78	9,873.31	12,284.56	2.99	2.64	2.51	2.41
Import Duty	4,705.32	4,825.30	13,589.36	63,049.35	1.97	1.65	3.46	12.35
Fees and Levies	2,024.09	5,553.51	14,732.45	7,132.15	0.85	1.90	3.75	1.40
Total Tax Expenditure	238,579.25	292,922.49	393,134.94	510,563.57				
Nominal GDP	10,715,070.00	12,027,661.50	13,489,642.00	15,108,806.00				

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

6.2 Comparison of Kenya's Tax Expenditure with other Jurisdictions

The trend of total tax expenditure for Kenya is comparable to those of countries that Report on the same. The tax expenditure for Tanzania for the year 2021 was 0.99 percent of GDP while Rwanda was 3.21 percent of GDP in 2021. Uganda's tax expenditure increased from 1.42 percent of GDP in 2021 to 1.44 percent of GDP in 2022.

Similarly, the tax expenditure for Ethiopia was 2.78 percent of the GDP in 2021, while Mauritania was 3.11 percent of GDP in 2021. Mauritius tax expenditure decreased from 3.56 percent in 2021 to 3.11 percent in 2022. The world average tax expenditure declined from 4.02 percent of GDP in 2021 to 3.51 percent of GDP in 2022. *(Source of the statistics: The Global Tax Expenditures Database (GTED), 2024).*

6.3 Conclusion

The analysis of tax expenditure highlights the revenue forgone through various tax incentives, which comprise approximately 3.38 percent of the GDP. The high tax expenditure on VAT exemptions suggests a need for rationalization for the tax incentives.

APPENDICES

Annex I: PIT Benchmarks

- Contributions to pension schemes and social security funds;
- Personal reliefs; and
- Income paid to diplomats and privileged persons.

Annex II: CIT Benchmarks

- The Export Processing Zones regimes whereby entities are exempt for the first ten years and taxed at the rate of 25% for the next ten years and 30% for the subsequent years.
- The Special Economic Zones (SEZ) regimes, for which the corporate income tax rate is 10% for the first 10 years of operation and 15% for the next 10 years after which a 30% rate applies.

Annex III: List of goods and services contained in tax exemption and zero-rating categories in the First and Second Schedules of the VAT Act, 2013 that are considered benchmark

Domestic supply of listed agricultural inputs, including fertilizers;

1. Domestic supply of unprocessed agricultural products;
2. Specified financial & insurance services;
3. Education services as defined;
4. Agricultural, animal husbandry and horticultural services.
5. Sale, renting, leasing, hiring, letting of land or residential premises as defined;
6. Medical, veterinary, dental, ambulance and nursing services;
7. Listed medical materials, articles and equipment, including articles of apparel, clothing accessories and equipment specially designed for safety or protective purposes for use in registered hospitals and clinics or by County government or local authorities in firefighting;
8. Personal protective equipment, including facemasks, for use by medical personnel in registered hospitals and clinics, or by members of the public in the case of a pandemic or a notifiable infectious disease;
9. Materials, articles, equipment and motor vehicles specially designed for the sole use by disabled and physically handicapped persons;
10. Materials, articles and equipment (excluding motor vehicles) intended for educational, scientific or cultural advancement of the disabled.
11. Medicaments.
12. Mosquito nets;
13. Burial and cremation services;

14. Community, social and welfare services provided by National Government, County Government or any political subdivision, charitable organizations;
15. Services rendered by educational, political, religious, welfare and other philanthropic associations to their members;
16. Entertainment services conducted by educational institutions as part of learning; sports, games or cultural performances conducted under the auspices of the responsible Ministry;
17. Accommodation and restaurant services operated by approved educational training institutions and medical institutions for the use of the staff, students and patients of that institution;
18. Canteens and cafeterias operated by an employer for the benefit of his employees;
19. Betting, gaming and lotteries services;
20. Hiring, leasing and chartering of aircrafts, aeroplanes, and space crafts, excluding helicopters;
21. Supply of domestic passenger transportation services by road, rail and water, except where the means of conveyance is hired or chartered;
22. Materials, waste, residues and by-products, whether or not in the form of pellets, and preparations of a kind used in animal feeding;
23. Postal services provided through the supply of postage stamps, including rental of post boxes or mailbags and any subsidiary services thereto.
24. Transfer of a business as a going concern by a registered person to another registered person.
25. Goods imported by passengers arriving from places outside Kenya, subject to specified limitations and conditions.
26. Taxable goods for emergency relief purposes for use in specific areas and within a specified period, supplied to or imported by the Government or its approved agent, a nongovernmental organization or a relief agency authorized by the Cabinet Secretary responsible for disaster management.
27. Hearing aids, excluding parts and accessories, of tariff No.9021.40.00.
28. Car park services provided by the National Government, County Government, any political subdivision by an employer to his employees on the premises of the employer.
29. The supply of airtime by any person other than by a provider of cellular
30. Mobile telephone services or wireless telephone services.

Further, the following zero-rated supplies are treated as part of the benchmark and therefore not part of tax expenditure. They include:

1. Goods consigned to officers or men on board a naval vessel belonging to another Commonwealth Government for their personal use or for consumption on board such Vessel; and Goods for the use of any of the

Armed Forces of any allied power;

2. Specified supplies to Diplomats or First Arrivals Persons;
3. Specified supplies to donor agencies with bilateral or multilateral agreements;
4. Goods and equipment imported by or supplied to donor agencies, international and regional organizations with Diplomatic accreditation or bilateral or multilateral agreements with Kenya for their official use;
5. Supply to the War Graves Commission;
6. Supply to National Red Cross Society and St. John Ambulance;
7. Supply of protective apparel, clothing accessories and equipment; specially designed for safety or protective purposes for use in registered hospitals and clinics or by county government or local authorities in firefighting
8. The supply of coffee and tea for export to coffee or tea auction centres;
9. The supply of taxable services to international sea or air carriers on international voyage or Flight;
10. The Supply of taxable services in respect of goods in transit;
11. The exportation of goods or taxable services;
12. Ship stores supplied to international sea or air carriers on international voyage or flight;
13. Transportation of passengers by air carriers on international flight; and
14. Goods purchased from duty free shops by passengers departing to places

Annex IV: New tax measures introduced in the First Schedule and Second Schedule of the VAT Act, 2013 through Finance Act, 2023:

Exempt Supplies

Section A

i Paragraph 20: Fish and crustaceans, molluscs and other aquatic invertebrates of Chapter 3 excluding those of tariff headings 0305, 0306 and 0307;

ii 3002.41.00 Vaccines for human medicine; 3002.42.00 Vaccines for veterinary medicine; 3003.39.00 Other medicaments, containing hormones or other products of heading no 9.37, not put up in measured doses or in forms or packings for retail sale; 3003.41.00, 3003.42.00, 3003.43.00, 3003.49.00 Other medicaments, containing alkaloids or derivatives thereof, put up in measured doses or in forms or packings for retail sale; 3003.90.00 Infusion solutions for ingestion other than by mouth not put up in measured doses or in forms or packings for retail sale and other medicaments consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses, not put up in measured doses or in forms or packings for retail sale; 3004.20.00 Other medicaments containing antibiotics, put up in measured doses or in forms or packings for retail sale; 3004.32.00 Other, medicaments containing hormones or other products of heading 29.37 containing corticosteroid hormones, their derivatives or structural analogue of tariff; 3005.90.11, 3005.90.12, 3005.90.19 White absorbent cotton wadding, impregnated or coated with pharmaceutical substances, or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes; 3006.60.00 Chemical contraceptive preparations based on hormones or on other products of heading 29.37 or spermicides; 3822.11.00 Malaria diagnostic test kits; 3822.13.00 Blood-grouping reagents; and 9021.50.00 Pacemakers for stimulating heart muscles, excluding parts and accessories.

iii Paragraph 49: All goods and parts thereof of chapter 88.

iv Paragraph 63: Taxable goods for the direct and exclusive use in the construction and equipping of specialized hospitals with a minimum bed capacity of fifty, approved by the Cabinet Secretary upon recommendation by the Cabinet Secretary responsible for health who may issue guidelines for determining eligibility for the exemption.

v Paragraph 71: Printed and unprinted Perforated PE film of other plastics 15-22 gsm of tariff numbers 3921.90.10, and 3921.90.90.

vi Paragraph 119: Diagnostic kits or laboratory reagents and their certified reference materials of heading 38.22 upon approval by the Cabinet Secretary responsible for matters relating to health.

vii Paragraph 120: Electro-diagnostic apparatus, of tariff numbers 9018.11.00, 9018.12.00, 9018.13.00, 9018.14.00, 9018.19.00, and other apparatus, Instruments and appliances of tariff numbers 9018.20.00, 9018.90.00 upon approval by the Cabinet Secretary responsible for matters relating to health.

viii Paragraph 122: Other instruments and appliances, used in dental sciences of tariff 9018.49.00, Other ophthalmic instruments and appliances of tariff 9018.50.00 and other instruments and appliances of tariff number 9018.90.00 upon approval by the Cabinet Secretary responsible for matters relating to health.

ix Paragraph 125: Artificial teeth of tariff number 9021.21.00, other dental fittings of tariff number 9021.29.00 and other artificial parts of the body of tariff numbers 9021.31.00 and 9021.39.00 and other appliances of tariff number 9021.90.00 upon approval by the Cabinet Secretary responsible for matters relating to health.

x Paragraph 128: Discs, tapes, solid-state non-volatile storage devices, "smartcards" and other media for the recording of sound or of other phenomena, whether or not recorded of tariff heading 85.23, including matrices and masters for the production of discs, but excluding products of Chapter 37 upon approval by the Cabinet Secretary responsible for matters relating to health.

xi Paragraph 129: Weighing machinery (excluding balances of a sensitivity of 5 cg or better), of tariff number 8423.10.00 purchased or imported by registered hospitals upon approval by the Cabinet Secretary responsible for matters relating to health.

xii Paragraph 140: Plant and machinery of chapter 84 and 85 imported or locally purchased by manufacturers of pharmaceutical products or investors in the manufacture of pharmaceutical products upon the recommendation of the Cabinet Secretary responsible for matters relating health.

xiii Paragraph 145: Taxable goods, inputs and raw materials imported or locally purchased by a company which is- (b) incorporated for purposes of undertaking the manufacture of human vaccines or other manufacturing activities including refining; and whose capital investment is at least ten billion shillings, subject to approval of the Cabinet Secretary for the National Treasury, on recommendation of the Cabinet Secretary for health.

xiv Paragraph 147: Taxable supplies made to or by a school feeding programme recognized by the Cabinet Secretary responsible for matters relating to education.

Section B, Part II - Services

i Paragraph 34: Taxable services imported or locally purchased by a company which-(a) is engaged in business under a special operating framework arrangement with the Government; and (b) is incorporated for purposes of undertaking the manufacture of human vaccines or other manufacturing activities including refining; and whose capital investment is at least ten billion shillings, Subject to approval of the Cabinet Secretary for the National Treasury, on recommendation of the Cabinet Secretary for health.

Zero-rated Supplies

i Paragraph 23: The exportation of taxable services.

ii Paragraph 26: Inbound international sea freight offered by a registered person.

iii Paragraph 27: Liquefied Petroleum Gas.

iv Paragraph 28: All tea and coffee locally purchased for the purpose of value addition before exportation subject to approval by the Commissioner-General.

v Paragraph 29: The supply of locally assembled and manufactured mobile phones.

vi Paragraph 30: The supply of motorcycles of tariff heading 8711.60.00.

vii Paragraph 31: The supply of electric bicycles.

viii Paragraph 32: The supply of solar and lithium ion batteries.

ix Paragraph 33: The supply of electric buses of tariff heading 87.02.

x Paragraph 34: Inputs or raw materials locally purchased or imported for the manufacture of animal feeds.

xi Paragraph 35: Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).

ANNEX V: Excise Duty Benchmarks

1. Goods for use or consumption by passengers or crew while on board, primarily for use during international traffic, approved by the Commissioner.
2. Excisable goods imported or purchased by diplomatic or consular missions, diplomats, consuls, or their household members as per the Privileges and Immunities Act.
3. Excisable goods imported or purchased by foreign governments, international organizations, or aid agencies according to international agreements or the Privileges and Immunities Act.
4. Exemption for one motor vehicle for persons with disabilities, applicable once every four years, with prior vehicle tax paid.
5. Excisable goods imported or purchased for official use in relief services.
6. Excisable goods imported by individuals changing residence or returning residents, subject to certain conditions, including the ability to sell a left-hand drive vehicle and import a right-hand drive vehicle of equal retail value.
7. Excisable goods imported by passengers, within limitations provided for under the East African Community Management Act.
8. One motor vehicle previously owned by a deceased person outside Kenya, subject to
9. Excisable goods imported or purchased for direct use in the implementation of Official Aid-Funded Projects as per financing agreements.
10. Excisable goods for direct use in the manufacturing of sanitary towels.
11. All goods including materials, supplies, equipment, machinery, and motor vehicles for the official use by the Kenya Defence Forces and the National Police Service.

11. Excisable services supplied in Kenya to diplomatic or consular missions, diplomats, consuls, or their household members, per the Privileges and Immunities Act.
12. Excisable services provided to foreign governments, international organizations, or aid agencies under international agreements or the Privileges and Immunities Act.

Annex VI:

Benchmarks of Import VAT on Goods:

i. Supply to the Commonwealth and other governments;
ii. Supply to Diplomats or First Arrival persons;
iii. Supply to donor agencies with bilateral or multilateral agreements;
iv. Supply to regional and international organizations;
v. Supply to the National Red Cross Society and St. John Ambulance;
vi. Ship stores supplied to international sea or air carriers on international voyage or flight;
vii. Transportation of passengers by air carriers on international flight;

viii. The supply of taxable supplies to international sea or air carriers on international voyage or flight;

ix. Goods purchased from duty free shops by passengers departing to places outside Kenya; and

x. Personal effects and motor vehicles imported by returning residents subject to limitations provided for under the Fifth Schedule to the East African Community Management Act.

Benchmarks Tax System for IDF and RDL:

These include:

i. Goods destined to approved duty-free shops;

ii. Ammunition, weapons or implements of war imported by the Government;

iii. Gifts and supplies for diplomatic and consular missions and to the United Nations Missions;

iv. Goods for use by the United Nations or its Agencies;

v. Goods from the East African Community Partner States that meet the East African Community Rules of origin;

vi. Goods destined for official aid-funded projects;

vii. Gifts by foreign Governments or international organizations to charities and foundations;

viii. Aircraft catering stores for use in an aircraft owned and operated by a designated airline;

ix. Ships weighing 250 tonnes or more; and

x. Equipment, machinery and motor vehicles for the official use by the Kenya Defence Forces and National Police Service

Annex VII: Importation of Duty-Free Agricultural Products

No.	Commodity / Year	CIF Value on Imports (Ksh, In Millions)		
		2021	**2022**	**2023**
1	Maize	1.10	3.01	12,423.40
2	Rice	11,256.75	6,595.01	53,327.39
3	Vegetable Oils	62.81	145.76	6,630.19
4	Raw Materials for Manufacture of Animal Feeds	2.19	144.35	6,984.45
5	Sugar	-	-	26,736.67
6	Beans	-	-	24.19
7	Fertilizers	-	-	2,707.05
	Total	**11,322.85**	**6,888.14**	**108,833.34**
	Exchange Rate*	**113.14**	**123.37**	**139.68**

Source: Kenya Revenue Authority
** Average annual exchange rate*

Annex VIII: Tax Expenditure on Various Categories for 2022 and 2023

		Ksh. In Millions					
Year	**Category / Tax Head**	**Import Duty**	**Import Excise Duty**	**Import VAT**	**IDF**	**RDL**	**Totals**
2022	**Agriculture**	1,966.45	-	-	64.68	37.10	2,068.23
	Locally Assembled Motorcycles	187.04	251.77	-	-	-	438.81
	Locally Assembled Motor vehicle	8.59	1,161.76	5.45	-	-	1,175.80
	Others	-	424.19	8,660.80	1,462.75	852.30	11,400.05
	Total	**2,162.07**	**1,837.73**	**8,666.26**	**1,527.43**	**889.40**	**15,082.89**
2023	**Agriculture**	60,879.55	-	20.69	463.39	268.10	61,631.74
	Locally Assembled Motorcycles	843.13	900.62	-	-	-	1,743.75
	Locally Assembled Motor vehicle	13.94	886.22	405.69	-	-	1,305.84
	Others	-	317.98	4,055.83	253.66	166.08	4,793.55
	Total	**61,736.62**	**2,104.82**	**4,482.20**	**717.05**	**434.18**	**69,474.88**

Annex IX: Treasury Undertakings in 2022 and 2023

	Ksh. In Millions					
Year / Tax Head	**Import Duty**	**Import Excise Duty**	**Import VAT**	**IDF**	**RDL**	**Totals**
2022	1,363.85	308.73	3,457.81	319.24	168.20	**5,617.84**
2023	264.09	87.85	210.83	41.15	16.76	**620.68**