KENYA REVENUE AUTHORITY

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Press Release

H1 PERFORMANCE REVIEW AND PROSPECTS FOR H2 FY 2017/2018

12th February 2018

Revenue up 9.6% against backdrop of depressed business environment

Overall Revenue for the first half (H1) of FY 2017/18 grew by **Sh 62.5 billion** to **Sh 712.2 billion** from **Sh 649.7 billion** recorded in the previous year, while Exchequer Revenue grew more strongly by 10% to reach **Sh 664.77** billion up from **Sh 604.27 billion** in FY 2016/17. This growth compares well with the 3-year (2014/15 to 2016/17) average Exchequer Revenue growth of 10.5%.

The overall growth, representing **9.6 %** rise was recorded against the backdrop of a depressed economic climate occasioned by the prolonged election cycle that stretched for the better part of calendar year 2017. The prolongation according to knowledgeable business sources adversely affected business confidence and depressed consumer spending, leading to weak performance in consumption related taxes especially in the non-essential goods sectors including beverages. Moreover, delayed normalisation of the Government's fiscal programme adversely impacted both public and private sector tax remittances, the latter due to delayed settlement of bills. Overall, economic growth for the period slowed to an estimated **4.4%** against the **6.0%** used in Budget Policy Statement (BPS) projections.

For the second half (H2), focus has shifted to leveraging the improved business environment following the conclusion of elections, a development expected to lead to a normalised Government fiscal programme and improved business climate. For H2, the target is to raise Sh 798.84 billion, as part of the drive to generate resources to fund the ambitious Big 4 Agenda announced by His Excellency President Uhuru Kenyatta, CGH on Jamhuri Day, 2017.

Economic Review

The prolonged political season that saw a repeat of the Presidential election coupled with delayed release of funds to Government suppliers and County governments had the effect of dampening revenue collection. On its part, the economy grew at 4.4% against the 6% projected in the BPS. Average inflation rate stood at 6.2% but mainly affecting the non-taxable food sector.

The growth achieved for H1 is attributable largely to better compliance enhancement efforts largely underpinned by technology and other reforms implemented in the recent past. The iTax system presently provides a valuable treasure of data collected about business transactions by persons, including businesses doing business with government and the top 6500+ of Kenya's largest corporate entities. This data is now being mined and used to issue tax assessments against previously non-registered persons or registered taxpayers whose filings materially differ from the declarations they submit to KRA. To date assessments totalling **Sh 29.6 billion** have been issued and collection efforts are in progress. On the side of Customs, consistent focus on valuation benchmarking and cargo scanning has shored up revenues by Sh 3.1 billion for H1 to push Customs collection to **Sh 235.6 billion** up from **Sh 218.7 billion** in FY 2016/17.

Consumption Taxes

VAT

VAT recorded growth of 7.5% mainly driven by the expansion of withholding VAT framework which now encompasses almost 7,000 agents. Sectors that exhibited robust growth include telecommunications, transport and energy, while depressed growth was recorded in agriculture, manufacturing, construction and mining sectors. VAT has consistently performed strongly since 2013 with annual growth averaging 21.5 %.

Income Taxes

Corporation Tax

Corporation Tax grew by 7.2% in H1 with the key banking sector recording growth of 11.1%. Profit performance within the sector was mixed with several Tier 1 banks issuing profit warnings whereas a sizeable proportion of Tier 3 banks recorded losses. Other sectors that recorded improved growth were telecommunication (16.1%); construction (124%); and transport (40.0%). As would be anticipated weakest growth was recorded in the manufacturing sector, while the energy sector performed poorly, a fact mainly attributed to high investment deductions.

PAYE

PAYE recorded growth of 9.2% driven by improved compliance within the Public Sector following the establishment of a dedicated compliance programme within KRA for this critical sector. The new compliance programme focuses on education and compliance support interventions geared towards helping public enterprises better understand requirements, with a resultant 29.5% growth in remittances from the sector.

PAYE from large private firms recorded subdued growth of 2.4% with key sectors such as construction, wholesale/retail, agriculture and transport collectively declining by 5.8%.

Excise Tax

Domestic Excise Tax recorded the worst performance, declining by 9.0% in H1 compared to annual average growth of 16.0 % over the previous 3 years. Remittances from the main excise sectors of beer, tobacco and spirits, declined by 8.4% attributed largely to drop in volumes; 16.0% for tobacco, 11.2% for spirits and 16.3% for beer. Industry analysts term the performance as unusual given what would otherwise have been a strong season given election related consumption. There are indications of recovery with January 2018 figures showing reversal of trend with recorded growths of 6.8% and 1.8% for alcohol and tobacco respectively.

Customs

Customs recorded overall growth of 7.7%, with non-oil collections, which account for about 70% of revenue growing at 8.1%.

Improved performance is largely attributed to tighter enforcement through among others (i) benchmarking of cargo values to address undervaluation, (ii) greater use of scanners, and, (iii) stricter application of cargo auction processes. This has resulted in **average daily collection** for non-oil revenue increasing from **Sh 1.126 billion** in H1 of FY 2016/17 to **Sh 1.257 billion** in H1 of FY 2017/18, an increase of **Sh 131 million per day.**

Customs performance however continued to be adversely impacted by sluggish import growth with container volumes in H1 recording marginal growth of 2.8% compared to growth of 4.9% in H1 of FY 2016/17.

Revenue Enhancement Programme

Target collection for H2 is Sh798.84 billion expected to be delivered through focus on the following initiatives, among others:

1. Utilization of data collected through *iTax* to net the non-compliant and deliberate evaders;
2. Aggressive debt collection expected to net Sh 15.3 billion;
3. Revamped rental income programme expected to net additional 20,000 landlords;
4. Enhance cargo scanning by Customs following commissioning of a 2nd container scanner at Mombasa Port.
5. Tighter control over cargo scanning following the launch of centralized scanning control through the Scanner Command & Control Centre expected to become operational by March 2018.

6. Expedited tax dispute resolution through KRA's revamped Alternative Dispute Resolution (ADR) programme expected to deliver Sh 2.7 billion.

These initiatives and other programmes targeted at encouraging voluntary compliance through more responsive service will help deliver better revenue outcomes for H2 of FY 2017/18 and beyond.

J.K. Njiraini, CBS

COMMISSIONER GENERAL