TAX GAP ANALYSES IN KENYA

KENYA REVENUE AUTHORITY

Overview of Tax Gap Analyses

- The tax gap refers to the difference between the amount of taxes owed to the government and the actual amount collected.

- Tax gaps can result from various factors, including tax evasion, non-compliance, errors in reporting, and the effectiveness of tax administration

- The tax gap analyses that have been done in Kenya are: VAT, CIT, PIT and excise tax gap analysis is ongoing.

- The studies adopted the International Monetary Fund's Revenue Administration – Gap Analysis Program (RA-GAP) methodologies.

Identifying Compliance Risks

- Focused Analysis: Tax gap estimations involve a detailed examination of tax collections and liabilities, allowing tax authorities to pinpoint specific areas where there may be discrepancies.

- Sectoral Insights: By assessing gaps in VAT, CIT, PIT, and Excise, revenue authorities can gain sector-specific insights into potential non-compliance.

- Targeted Compliance Efforts: Armed with knowledge from tax gap estimations, tax authorities can allocate resources more strategically.

- Maximizing Resources: Instead of employing a one-size-fits-all approach, tax authorities can tailor their compliance strategies based on the identified risks.

Kenya's Tax Gap Journey

Kenya has strategically utilized tax gap estimations as a cornerstone in enhancing tax compliance, employing a proactive approach to address gaps and improve revenue collection. The journey involves comprehensive gap reduction strategies, with specific initiatives and dedicated monitoring mechanisms.

- *Tax Gap Estimations*: The process begins with robust tax gap estimations, analyzing data across key tax categories such as Value Added Tax (VAT), Corporate Income Tax (CIT), and Personal Income Tax (PIT).

- These estimations serve as diagnostic tools, revealing the extent of non-compliance and areas where revenue leakage is most pronounced.

- *Development of Gap Reduction Strategies*: Based on the findings from tax gap estimations, Kenya formulates targeted gap reduction strategies.

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- These strategies are designed to address specific challenges identified in each tax category, ensuring a tailored and effective approach to minimize non-compliance.
- Initiatives for Implementation: The gap reduction strategies include a set of initiatives and interventions to be implemented by relevant KRA departments.
- Initiatives encompass improvements in tax administration processes, taxpayer education programs, technological enhancements, and legal reforms aimed at reducing gaps and improving compliance.
- Timely Monitoring and Evaluation: A crucial aspect of Kenya's approach is the implementation of a robust monitoring and evaluation framework.

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- This ensures that initiatives are progressing as planned, allowing for adjustments and corrective measures to be taken promptly.
- Departmental Assignments: To enhance accountability and efficiency, specific initiatives within the gap reduction strategies are assigned to relevant departments responsible for implementation.
- Clear departmental responsibilities help streamline efforts and ensure that each aspect of the strategy is addressed by the department with the relevant expertise.
- Kenya has developed strategy papers specifically focused on CIT, VAT and PIT gap reduction.
- These strategy papers serve as comprehensive guides, outlining the objectives, action plans, and key performance indicators for narrowing the gap in these tax categories.

Conclusion

- The synergy between tax gap analyses and compliance risk management represents a pivotal strategy in fostering a resilient and effective tax system

- As demonstrated by our exploration of Kenya's initiatives, the integration of tax gap estimations into compliance risk management processes provides a roadmap for jurisdictions seeking to enhance revenue collection while minimizing non-compliance risks.

- By leveraging tax gap analyses, tax authorities gain valuable insights into potential areas of non-compliance, enabling them to tailor risk profiling tools and direct resources toward high-risk sectors or taxpayer groups.


Thank you