PRESS STATEMENT: FOR IMMEDIATE RELEASE

NAIROBI – Friday 28th JUNE 2024

CONTINUED ENGAGEMENT ON THE FINANCE BILL, 2024 AND PUBLIC EXPENDITURE MANAGEMENT

1. The Institute of Certified Public Accountants of Kenya (ICPAK) takes this opportunity to express its sincere condolences to the families, friends and the nation at large for loss of lives while exercising their right to picket. We regret the unfortunate actions of destruction of property and loss of businesses in course of demonstrations that ensued.

2. It is in our considered opinion that the demonstrations were as a result of the people feeling frustrated, unheard and overtaxed. The ever-increasing cost of living, unemployment among the youth and the outcome of last years' 2023 Finance Bill and the court battles that ensued on some of the provisions including the Affordable Housing Levy and the Social Health Insurance Fund among others further fueled the agitation. These and other root causes need to be addressed to avert their re-occurrence.

3. The Institute welcomes the President's decision to decline assenting to law, the Finance Bill, 2024 and subsequent referral to the National Assembly for reconsideration. We further laud Kenyans who in an unprecedented way came out, analyzed and made submissions to the National Assembly Finance and National Planning Committee on the various provisions in the Finance Bill, 2024; and those who came out to express their democratic right through peaceful demonstrations countrywide on the negative impact the Bill would have had.

4. The discussions on the Finance Bill have further been actively discussed in various platforms of both mainstream and social media, in which the Institute supports and welcomes the discourse on not only the Finance Bill, but also,

the entire budget making processes at the National and County Government level. Going forward, we encourage Kenyans to participate actively in county finance bills and other legislations in both levels of government and their attendant implementation. It is in such engagements that meaningful change will be realized. The Controller of Budget and Auditor General issues quarterly and annual reports on budget execution that require deeper analysis and follow-up to ascertain the efficiency, effectiveness and economic use of public resources.

5. The Institute has been involved in the Budget making process from the onset through submissions on the Budget Policy Statement, Division of Revenue Bill and robust engagement pre- and post-budget estimates with the National Treasury, Kenya Revenue Authority, the National Assembly's Finance and National Planning Committee and the public through various media channels. Our engagements pointed out critical issues and tax proposals that were to be reconsidered for deletion or amendment in a way to spur economic development, enhance conducive and predictable business environment as well as foster sustainable growth.

6. As Parliament reconsiders the Bill in line with the President's memorandum, the Institute proposes the following:

   (i) **Need for immediate implementation of the National Tax Policy**: The Institute and other stakeholders were heavily involved in submitting proposals on the Draft National Tax Policy. The Institute reiterates its concern that frequent changes to tax laws violate the canon of taxation and principles of certainty and simplicity.

   The more changes that are made, the greater the difficulty taxpayers, investors, practitioners and government tax administrators have in complying with and understanding the tax consequences of transactions. Also, it becomes more difficult for tax agencies to issue guidance in a timely manner when there are hundreds of tax law changes every few years. An effective, tax system should be predictable and tailored towards creating an enabling business environment. Unfortunately, the recent trend of frequent tax law changes has created an unpredictable tax environment leading to business closures and significant job losses.

   (ii) **Austerity measures and accelerated fiscal consolidation are important**: The Institute welcomes the President's directive on immediate austerity measures towards a lean budget as well as reduced spending in non-priority areas. It is worth noting that expenditure growth has accelerated faster than ordinary revenue in the last 15 years. The main solution is to reduce aggregate government expenditure growth and adopt an aggressive revenue collection.

(iii) **Maintain fiscal responsibility principles as stipulated under the Public Finance Management Act 2012**. This will create enough fiscal space to mitigate economic shocks. Over the years, fiscal space in Kenya has been limited by ever rising government expenditures. This has led to the widening of the fiscal deficit despite instituted austerity measures and tax reforms introduced to enhance revenue collection. In addition, the country has not been able to meet its fiscal deficit targets over the years.

The Institute proposes as follows regarding government expenditure:

a) **Salaries and wages** are the biggest component of the recurrent government expenditure. Implement measures including cleaning and regular audit of the payroll register, keeping wages, salaries and allowance adjustments in line with the PFM Act and recommendations from the Salaries and Remuneration Commission (SRC), elimination of ghost workers and curbing duplicity of government functions. There is need to implement the resolutions of the Third National Wage Bill Conference that emphasized on the government's commitment to achieving a wage bill to revenue ratio of not more than 35 per cent by 2028.
b) **Undertake a national job evaluation** to review public sector workforce to promote efficiency and eliminate redundancy in line with the government's goal of digital transformation.
c) **Reduce regular supplementary budgets** which have often increased the size of the budget deficit. In the long term this creates a culture of additional expenditure which adds pressure to raise more revenue.
d) **Focus on completion** of already initiated projects with long-term return on investments and defer commencement of new capital projects.
e) **Reduce expenditures in some recurrent areas** such as advertisement, communication, printing, hospitality, fuel, purchase of furniture, purchase of motor vehicles, refurbishments, and routine maintenance.
f) **Adopt enhanced digitization** in delivery of government services.
g) **Complete unbundling of functions** to free funds from duplicated roles and functions at National and County level – finance follows function principle, lowering of transfers to state owned enterprises.
h) **Leverage on public private partnerships (PPPs)** to crowd in private sector funding and reduce reliance on government funding in achieving some of the key priority areas.

i) Further, Parliament to assess the uptake and impact of previously established austerity measures by the Executive.

(iv) **Over-reliance on a small pool of taxpayers**: Kenya has continued to place reliance on a small pool of taxpayers, largely drawn from the formal sector. According to KRA, only 6.3 million taxpayers including corporate entities filed their 2022 tax returns by June 30th, 2023. This implies that out of the economically active and working population of about 19.7 million people, only 32% are contributing to income tax, translating to about 15% of the total population. As such, the tax burden is not shared fairly, as envisaged under Article 201(b)(i) of the Constitution.

Further, the increased deductions on the gross emoluments of salaried employees continue to reduce the disposable income on this segment of Kenyans exacerbating the cost of living and negatively impacting demand and indirect tax revenues. Not only has this resulted in tax fatigue for this pool of taxpayers, it also contravenes the tax maxim of Equity and Fairness.

(v) **Sealing revenue leakages and avenues of corruption**: Revenue leakages, corruption and misappropriation of resources leads to destruction of taxpayer morale and tax apathy. Such revenue losses also make it difficult for government to provide essential services commensurate to the taxes that Kenyans pay. Revenue leakage is caused by various reasons such as complicated tax systems, discretionary power on exemptions, as well as a dampened morale to pay taxes occasioned by the culture of corruption. There's a need to:

a. Review the penalty system on tax evasion.
b. Develop a change management strategy to address income tax matters.
c. Leverage on simplified technological solutions to enhance integration of taxpayer information systems.
d. Institute culture change through a leadership that frowns upon and fights corruption.
e. Take legal action against corrupt leaders and officials.

As the government strives to enhance collection through taxes, the citizenry is worried on the commensurate service delivery. The Institute urges all public sector players to enhance prudent utilization of public resources, take responsibility for decisions made and enhance accountability and openness.

(vi) **The Housing Levy**, a punitive clause unfairly passed under the Finance Act 2023, deserves immediate review and revocation. Public outcry against the levy during the participation stage was clear. This levy represents double taxation, an unnecessary burden on individual taxpayers and businesses who had already voiced their disapproval.

(vii) **The Social Health Insurance (General) Regulations**, 2024 propose a monthly statutory deduction contribution at a rate of 2.75%. This will further negatively impact the already shrinking disposable income on salaried households. The Institute proposes for the immediate review and revocation of this deduction.

The Institute therefore recommends that all three arms of government work together to reduce revenue leakages and avenues of corruption. Not only will this have a positive morale impact, but it will also lead to greater availability of resources to execute government priority projects thus supporting the governments transformation agenda as enshrined in the 2022-2027 Bottom-up Economic Transformation Agenda (BETA).

The Institute is ready and committed to support the National Treasury and Parliament to enhance scrutiny of the proposals as well as ensure proper implementation thereafter.

CPA PHILIP KAKAI
CHAIRMAN, ICPAK

ABOUT US

The Institute of Certified Public Accountants of Kenya (ICPAK) is a statutory body of Accountants established under the Accountants Act of 1978, and as repealed under the Accountants Act No.15. of 2008, with the mandate to develop and regulate the Accountancy Profession in Kenya. The Institute is also a member of the Pan Africa Federation of Accountants (PAFA) and the International Federation of Accountants (IFAC), the global umbrella body for the accountancy profession.

For further enquiries, please reach us at chairman@icpak.com and ceo@icpak.com.