tax justice network — Africa

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Tax incentives are draining Kenya of needed revenue for essential public services

Every year Kenya sacrifices an amount equal to more than twice its entire health budget due to its use of tax incentives such as tax holidays for foreign businesses. Worse still, research shows that these incentives are not necessary to attract investments to Kenya. Government needs to remove excessive tax incentives, promote transparency on the tax incentives they give, and coordinate with the East African Community to avoid harmful tax competition.

A new report by Tax Justice Network-Africa and ActionAid International shows that tax incentives reduce revenues available to fight poverty. Kenya's revenue losses from tax incentives and exemptions – as much as **KShs 100 billion** every year – amount to more than twice Kenya's entire health budget of KShs 41.5 billion. **Removing these incentives could raise more revenue for essential public services**.

> *'the EPZ [Economic Processing Zone] exemptions have not benefited us'*
> - Geoffery Mwau, Kenya's Economic Secretary

Tax incentives are granted by the Government to businesses to attract Foreign Direct Investment (FDI). **The primary beneficiaries of Kenya's tax exemptions and incentives are large domestic firms and foreign multinational companies**. The poor bear the burden of the incentives as they reduce the revenue available to fund essential public services.

What is worse, there is ample research documenting that **tax incentives are not needed to attract FDI** in countries such as Kenya. The IMF, World Bank, OECD, UN, and African Development Bank are among the institutions that endorse this conclusion.

> *A 2010 study found that the main reasons for firms investing in Kenya are access to the local and regional market, political and economic stability and favourable bilateral trade agreements; fiscal concessions offered by EPZs were mentioned by only 1% of the businesses sampled.*

The Government has promised to review the tax incentives that they have granted, but very little has so far been done and lack of transparency around tax incentives is still the norm.

Kenya's provision of tax incentives is part of the **tax competition among countries in the region**. Countries are being tempted to increase tax incentives in the belief that it will attract FDI, creating **'a race to the bottom'**.

Urgent action is needed to address the problem of excessive tax incentives and harmful tax competition. The Government should:

- Remove tax incentives granted to attract FDI, especially tax holidays.
- Promote transparency in the granting of tax incentives by:
    - Undertake a review of all tax incentives, which should be made public,
    - During the annual budget process, provide a tax expenditure analysis with annual figures on the cost to the government of tax incentives and information on the beneficiaries of such tax expenditure. This information should be made freely available.
- Promote coordination in the EAC to address harmful tax competition.

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