THE EFFECT OF TAX INCENTIVES ON EXCHEQUER REVENUE MOBILIZATION: A CASE OF THE TOP 25 TAXPAYERS IN KENYA

By

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A research project submitted in partial fulfilment of the requirement for the award of the degree of master of business administration,

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DECLARATION

I confirm that this is my original work and has not been submitted for presentation at the University of Nairobi or any other institution of higher learning

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By supervisor

This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

This project is dedicated to my late father Mr. Willy Labatt Kigen who inspired and taught me the virtues of perseverance, humility, honesty and hard work. I will forever be grateful to you.

To my mum, Martha Sogome Kigen, who, without the benefit of formal education can read and write. Your desire for nothing short of the best has been driving me ever since.

To the members of the family of the late Mr. W. L. Kigen. So much is expected from you as is of me.

To the gallant and legendary Koitalel Arap Samoei together with the 23 Nandi warriors who resisted the British and got killed in cold blood in Nandi hills. I always marvel how some illiterate 'savages' could have fought and resisted the British who had armoured carriers and modern weapons for eleven good years. Indeed, nothing is insurmountable.

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ABBREVIATIONS

AETR-	Average Effective Tax Rates
CIAT-	Inter American centre of Tax Administrations
C&E-	Customs and Excise Act
DRC-	Democratic Republic of Congo
FDI-	Foreign Direct Investments
GDP-	Gross Domestic Product
IMF-	International Monetary Fund
ITA-	Income Tax Act
KRA-	Kenya Revenue Authority
LDCs-	Least Developed countries
LTO-	Large Taxpayers Office
MNCs-	Multinational Corporations
METR-	Marginal Effective Tax Rates
OECD-	Organization for economic cooperation and development
TE-	Tax Expenditure
UNCTAD-	United Nations Conference on Trade and Development
VAT-	Value Added Tax
IBD-	Industrial Building Deduction
ID-	Investment Deduction

ABSTRACT

The objective of the research paper was to determine the effect of tax incentives on exchequer revenue mobilization with a special focus on the top twenty five taxpayers in Kenya. Taxation is an important tool of generating revenue for a country and countries have a right to impose taxation within its borders.

In order to achieve the above objective, the study set out to investigate the utilization levels of tax incentives per taxpayer which are cost wise described as tax expenditure (TE) and determine how tax revenue is affected by tax incentives.

The results from the study indicated that turnover and taxable income were independent of tax incentives and neither influenced the other. Tax incentives were established to account for 0.6% and 5% of the total GDP and actual tax revenues collected per annum respectively.

The research noted that conclusions drawn from the study were subject to limitations such as reliability of accounting information and the fact that the study focused around high net worth firms who are the highest consumers of tax incentives.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the study

And it came to pass in those days, that there went out a decree from Caesar Augustus that the entire world should be taxed. And this taxing was first made when Cyrenius was governor of Syria. And all went to be taxed every one into his own city. And it was. In fact, the world has been 'rendering unto Caesar' ever since (Luke 2:1)! An early example of taxation is reported by Dowell (1884) who pointed out that that taxes were one of the causes of the revolt of the Iceni, and were referred to as oppressive in the harangue of Boadicea to her forces before the battle with Suetonius. Taxation has always caused social and political disharmony as portrayed by the demands of King John for 'scutage' (an early form of taxation) that led to popular revolts and advanced the crisis of 1215 which led to John's submission and the issue of Magna Carlo.

No taxation without representation as the basis for the American revolution is well documented (Becker, 1980). Being a compulsory levy made by public authorities for which nothing is directly received in return, taxation has been at the centre of societal uprisings and has contributed to major administrative developments. In advocating for the need for taxation, Musgrave and Musgrave (1973) says that what the government gives, it must first take away. The economic resources available to society are always limited and so an increase in government spending means a reduction in private spending. Taxation is the major method of accountably transferring resources from the private to the public sector.

According to Musgrave (1959), the economic functions of government may be divided into three main categories being the correction of market failure, redistribution of income and wealth and stabilization of the economy. The tax system plays a very important role in ensuring optimum operations and sustenance of these functions (James and Nobes, 2003). Taxation is primarily used to generate revenue or to divert control of economic resources from taxpayers to the government and to regulate economic activity (Simiyu, 2003). This enables governments to provide public goods and services and to transfer wealth to others. Because it would be neither feasible nor desirable to finance government expenditure solely by charges, taxation is a necessary evil. This is because for public goods, charges for services are infeasible, and for mixed public - private goods, they are undesirable due to the fact that pricing cannot perform all the allocative and distributive function of taxation (Goode, 1984).

In order to effectively administer taxation, well structured and thought out tax policies should be developed to primarily address domestic economic and social concerns (OECD, 1998). Tax systems should be established on the basis of desired level of public goods and transfers with regard to the allocative, stabilizing and redistributive aims for a country in furtherance of equity. International data show a significant gap between tax burden values (effective collection divided by Gross Domestic Product) in developed countries versus developing countries. The effective tax burden of a country is influenced by the collective decision as to the amount payable (based on the decision of the size of the State and the resulting tax legislation adopted) as well as the structural conditions in the country (CIAT, 2006).

The advent of globalization changed the relationship between domestic tax systems and provision of public goods and services. With globalization, non tax barriers to international trade were removed with the end result being the integration of national economies. This integration of national economies led to domestic tax systems of one having spill over effects on the economies of other countries creating a scenario in which the Kenyan tax regime is heavily incentivised (Inye, 2007). To retain local investments, prevent capital flight and attract foreign direct investments (FDI), favourable tax systems were bandied around as a catalyst and retainer of these investments and countries should put in place measures designed to attract these investments.

FDI allows the recipient economy to benefit from increased pool of capital, revenue, employment opportunities, introduction of new skills and transfer of technology (Tessema, 2008). As such, in a bid to achieve economic development, Kenya designed and implemented various incentives in order to attract FDI and retain local investments. Such incentives include but are not limited to infrastructure, liberalization of the economy and tax incentives (Ngowi, 2000). Tax incentives uses tax measures to attract mobile tax bases or to respond to citizens preferences for public services and tax policy. It affects corporate and individual mobility with taxes being reduced or lowered to induce firms to relocate to specific locations. When left unchecked, it causes more harm than good to the economy with countries which have specific cultural and geographical disadvantages viewing tax incentives as necessary to offset non tax – disadvantages often to the detriment of exchequer revenue and by extension provision of essential public goods and services (OECD, 1998).

Tax incentives drive effective tax rates down resulting in distortion of financial and real investment returns, undermining the integrity and fairness of tax structures, discouraging compliance by all taxpayers and reshaping the desired level and mix of taxes and public spending (OECD, 1998). Tax incentivisation limits the ability of governments to raise much needed revenue due to erosion of the tax base (OECD, 1998).

1.1.1. Taxes on Earnings

The first type of taxation is the payroll tax, a tax levied on the earnings of workers which is the Pay As you Earn. It should be noted that Pay As You earn is not a tax per se but a way of collecting taxes on earnings (Gruber, 2005).

1.1.2 Taxes on Individual Income

The second type of taxation is the individual income tax, a tax paid by Individuals on income accrued during the year. Income for income tax purposes includes earnings, but the tax is distinguished from the payroll tax by (a) applying to a broader set of income sources (such as interest earnings from household savings as well), and (b) applying in many cases to the entire income of a family, not just to the income of one individual worker. A form of income taxation that is of particular interest is the taxation of capital gains, the earnings from selling capital assets, such as stocks, paintings, and houses (Gruber, 2005).

1.1.3 Taxes on Corporate Income

In addition to taxing individual income, many countries also separately tax the Earnings of corporations through the corporate income tax. The purpose of the separate taxation of corporations, above and beyond taxes on individuals is to tax earnings of owners of capital that might otherwise escape taxation by the individual-based income tax system (Simiyu, 2003).

1.1.4 Wealth taxes

Wealth taxes are taxes paid not on income as it is accrued but on the value of The assets held by a person or family, such as land, jewellery, artwork, real estate, And stocks. Included in this category are state and local property taxes, Which are based on the value of land and any structures built on the land, and estate taxes, which are based on inheritances (money, property, and so on) left behind when one dies (Youngman, 1994).

1.1.5 Taxes on Consumption

The form of taxation that is most common around the world is the consumption tax, which is paid on individual or household consumption of goods (and sometimes services as well). Consumption taxes are often levied in the form of sales taxes, taxes that are paid by consumers to vendors at the point of sale. These taxes can either be applied to a broad variety of consumption goods or to a particular good alone. When applied to only certain goods, such as cigarettes or gasoline, the sales tax is called an Excise tax. Payroll income and wealth taxes are called direct taxes because they directly Tax individual resources. Consumption taxes are called indirect taxes because They tax the use of these resources rather than the resources themselves (Gruber, 2005).

1.1.6 Top 25 Taxpayers

The top 25 taxpayers are composed of the crème de la crème, the taxpayers whose contribution to the exchequer revenue is massive and belong to the top echelon in the revenue contribution. At the beginning of the financial year 2010/2011, Large Taxpayers Office (LTO) department of KRA instituted changes in its tax compliance programme by segmenting taxpayers based on the total contribution to the revenue kitty. Top 25 taxpayers sector was therefore started in order to offer more detailed revenue monitoring. This was because one issue affecting one of the taxpayers in Top 25 had a tendency to greatly impact on the general revenue performance. In order to better manage revenue risks associated with the top 25 taxpayers, the Top 25 sector was established and the list of the taxpayers which fall under top 25 sector is provided for in appendix 2.

1.1.7 Exchequer revenue

The exchequer, one of the earliest government departments, developed out of the king of Britain's king's chamber, the branch of the royal household which oversaw the royal finances. James I reformed the exchequer in the 1420s. Its functions were divided between the Comptroller (or Receiver General) and the Treasurer. The Comptroller handled the revenue from crown lands, burghs and customs which was spent on the royal household. The Treasurer received the feudal services and casualties (occasional payments to a superior of lands), the proceeds of taxation and the lucrative profits of justice. From these revenues he met the king's personal expenses (including military and naval expenses, liveries, stables,

repair of palaces, alms). The first recorded mention of whisky can be found in an early exchequer roll of 1494 (National Archives of Scotland, 2006).

In Kenya, the public finance management act bill 2011 defines exchequer as the account in which all the mainstream government revenues are kept and specifically the revenues collected by KRA. Exchequer account therefore is the main account in which tax revenues are banked and redistributed to finance various government spending programs (The Treasury, 2011).

1.1.8 Tax incentives

Quarshie (2009) argues that the main objective of tax systems should be that of collecting the sources to finance government spending on a more efficient basis, as well as ensuring the equitable distribution of the tax burden. Governments still frequently avail themselves of tax systems to promote Specific policies. UNCTAD (2000) alleges that for a long time it has been a usual policy, in developed as well as Developing countries, to grant tax incentives with different policy Objectives such as for example, the promotion of exports or foreign Direct investments. Every incentive implies a benefit, but not every benefit entails an Incentive, even if both result in revenue losses, to the end threat their outcomes are intentional measures to render financial assistance to taxpayers by means of a reduction in their tax liability. Incentives may be defined as benefits aimed at modifying agents' behaviour equation with the ultimate purpose of increasing investment (Inter American centre of Tax Administrations, 2006)

These incentives may be defined as those that, by reducing the tax burden companies are faced with, contribute to modify their behaviour by encouraging them to invest in certain sectors or regions. The may be considered exceptions to the general tax regime. International research research (UNCTAD, 2000) shows that the reductions in the income tax rate and exemptions or tax holidays, are the most frequently granted tax incentives. They are followed by the reduction in machinery equipment and indirect material import duties, duty drawback systems, accelerated depreciation regimes, specific deductions for certain income from the income tax payment, deductions on reinvestment and reductions in social security contributions.

In developing countries, specifically, commercial policies have been replaced by tax incentives to attract foreign direct investment (Villela & Barreix, 2002). It is clear that the role of these instruments is secondary, less relevant than factors such as the market size infrastructure and country risk. The strengths and weaknesses of tax incentives are still not clearly defined with remarkable success stories known and outright failures (Villela, 2006).

Tax holidays usually exempt an otherwise taxable business from the payment of taxes for a period of time. Tanzi and Zee (2000) say that though tax holidays are relatively simple to administer, they have shortcomings since by exempting profits from taxation irrespective of their amount, they confer benefits to business which would have ordinarily made the investment even without the tax incentives. Tax holidays also abate tax avoidance as they provide a point in which taxable firms shift their profits by colluding with firms enjoying tax holidays through transfer pricing. Overtime abuse of tax holidays becomes rampant as firms redesignate their businesses to beat durationary requirements through closing and restarting the same operations under different names. They create revenues leakages by eliminating tax on net revenues from investment projects over the holiday period (Eason & Zolt, 2007). Carvalho (2010) contends that exports incentives have lost importance significantly, based on different Reasons because they are incompatible and contrary to economic integration given the current consensus on the that fact that taxes may not be exported, the refund of indirect taxes paid in production processes prior to exports may no longer be considered an incentive. The world trade organization (WTO) allows the refund of the said indirect taxes provided the tax burden may be accurately calculated at the time of exporting.

Investment allowances are deductions allowable from taxable income and tend to lower the effective cost of new capital over time. Its effect is to maintain and keep the cashflow of the taxpayer healthy after heavy capital investments. Investment allowances usually applies to all investments, or based on certain locationary priorities or given per type of investment (UNCTAD). In the absence of capital gains tax as is the case in Kenya, these allowances may be abused since on sale of such investments, full prices are charged and not based on the original price. They distort choice in favour of short lived capital assets as further credit becomes available each time an asset is replaced. Overtime, qualified enterprises may attempt to abuse the system by selling and purchasing the same assets to claim multiple credits or allowances or by acting as a purchasing agent for enterprises not qualified to receive the incentive (Moyi & Ronge 2006).

According to Bird (2007) incentives to less developed regions are typical of countries with large extensions of land. Argentina, Brazil, Chile and Peru, for example, offer incentive programs for the development of certain regions: Incentives of this kind tend to be implemented in regions with comparative disadvantages given their distance from the main urban areas. Activities in these regions generally imply higher transportation and communications costs, which increase production and distribution costs. They may even imply additional costs to relocate labour in the region, which will call for higher salaries to move people to a region that lacks the services of an urban area. International experience indicates that the government develops infrastructure in the area or the government rewards the investor for the cost of infrastructure development and training employees from the region, with employment subsidies instead of income tax reductions.

Asian countries ordinarily grant sector based tax incentives which encourages investments in sectors considered strategic for development. These incentives are more of an industrial policy instrument, that is to say, they pursue the development of certain activities and not so much investment incentives, specifically, foreign direct investment. The implicit rationale in the granting of incentives to sectors considered strategic is to overcome the market's failure to reflect future income stemming from the drop in unit costs in line with the sector's development in time, with the increase in production, unit costs drop and the country gains a comparative advantage with the development of the benefiting industry (Jorrat & Lemgruber, 2010).

Chalk (2001) reports that most of the tax incentives for sectors granted by developing countries are linked to the investment in the manufacturing industry, mining industry and, increasingly, tourism and related services. Kenya, for example, applies tourism incentives for hotels, tourist transportation, travel agencies and car rentals (Moyi & Ronge, 2006). Singapore grants income tax exemption for a five year term to companies that operate in less developed sectors of industry. The cases of Malaysia, Singapore and Philippines are exceptional in the sense they offer income tax reductions to services companies, a sector where this type of incentive is uncommon in developing countries. International experience indicates that it is very difficult to succeed in developing this incentives' program. If the regime is discretionary, it becomes vulnerable to political pressure, lobbies and grafts, and if the regime is discretionary as well as automatic, bad decisions may be made in the selection

of the beneficiary sectors, as was the case of Korea fifteen years ago. Tax benefits normally granted include tax credit for R&D spending, employee training, deduction of payments for technical assistance and patents' use authorization, exemption from taxes on imports of machinery equipment and instruments.

Accelerated depreciation lacks any of the weaknesses associated with tax holidays and investment allowances since it is least costly and induces short run surge in investment if the acceleration is only temporary. Zero rated tax rates usually applies to exports and some goods and services listed in the fifth schedule of the VAT act. It has been blamed for piling up the refund problem and creating scenarios of pure tax repayment position. Special tax rates are usually specified to be lower than the general VAT rate and is applied on those goods which public in nature or for heavy industrial use (Chalk, 2001).

1.1.9 Tax expenditure estimates

According to Carvalho (2010) Tax expenditure for a given year is measured as the difference between taxpayers' aggregate tax liability under present law and their tax liability that would result from a recomputation of tax without benefit of the tax incentive provision. Taxpayer behavior is assumed to remain unchanged for tax expenditure estimate purposes. The tax expenditure calculation for a given year reflects continuing timing differences attributable to investments made in prior years. Accelerated depreciation is the best-known example of this phenomenon. Estimates for this tax expenditure are based on the difference between tax depreciation deductions under present law and the deductions that would have been claimed in the current year if investments in the current year and all prior years had been depreciated using the alternative (normal income tax law) depreciation system. Tax expenditures are calculated on a static basis: that is, the behavioral consequences that would follow from repeal are ignored.

1.1.10 Tax potential

Bagchi et all (1995) defines tax potential is the expected collection by a government from the private sector, through enforcement of an optimized tax system, considering the economic and social conditions in place in a country. That is to say, considering the degree of development (structural features) of a country based on normal capacity or effort of the economy. it refers to the collection that would be naturally obtained. Because tax potential is a theoretical there is no sure way to measure it in objective terms. It may be assessed based

on variables that are effectively measurable and strongly correlated with tax potential. According to Varsano et al (1998) the following variables are limitations to a country's tax potential. National Per Capita Income affects it positively, since the greater the available income is, the greater are the tax base and the economic capacity to be considered;

Participation of the agricultural sector in the GDP negatively affects the tax potential since this sector is usually taxed at lower rates in addition to the inherent difficulties for control by the tax law due to it being dominated by small businesses or cooperatives, distant from urban centers, poor accounting practices, etc; The portion of the urban population in the overall population positively Affects tax potential because it expresses a more organized, formal, literate, monetized society with large corporations, greater tax awareness by citizens, better control by the tax law and potential implementation of instruments such as source withholdings;

Degree of openness in the economy which means, more imports divided by the GDP and it positively affects the tax potential. It entails a relevant tax base to be exploited and easier customs control; Share of mining and natural resources sectors in the GDP positively affects the tax potential. Since, contrary to agriculture, the economic sectors linked to mining and oil industries, for example, generate a high potential tax base that is easier to control (few large corporations to oversee). The preceding factors, among others, enable the estimation of a country's tax potential, and if properly combined and exploited by an optimized tax system, would lead to maximum collection levels.

Considering the aforementioned factors, developed countries enjoy a truly greater tax potential than developing countries. The fact of having a higher per capita income, greater percentage of their population living in urban areas, more formal and industrialized economic organization, and high degree of openness to foreign trade, makes the wealthy countries enjoy a tax potential to tap, that generally does not exist in poor countries, Kenya included (Piacanstelli, 2001).

1.2 Statement of the research problem

There is increasing competition with no signs of abating among developing countries to attract investments by offering a wide range of tax incentives. This incentivisation has done very little in enticing multinational companies (MNCs) to locate in developing countries (Mosioma, 2007). Loss of revenue through MNCs that have already set base in Africa and particularly Kenya continues to be a major problem. Tanzania, for instance earned US$ 89 Million from US$890 Million of gold exports between 1997 and 2002 (Tessema, 2008). To highlight the gravity of the problem, a natural resource powerhouse such as the Democratic Republic of the Congo (DRC) received only $86 000 from mineral rights in 2006. In another example, research on gold mining in Tanzania concluded that the country had lost at least $265.5 million in recent years as a result of an excessively low royalty rate, government tax concessions that allow companies' to avoid corporation tax, and possibly even tax evasion by others (Alemayehu, 2011).

The sale of petroleum mining rights recently in Uganda from Heritage Oil Plc to Tullow Oil Plc was successfully taxed after a protracted battle pitting the Government of Uganda against the two oil companies. Taxes totalling to US$ 404 Million or Kshs 32 Billion were finally raised and collected by the Uganda Revenue Authority, on behalf of the Ugandan government (New Vision, 2010). On the contrary, Kenya has continued to earn nothing from the capital gains arising from the sale of Kencell ltd, a telecommunication company to Celtel ltd, then from Celtel ltd to Zain and from Zain to Bharti Airtel. The Kenyan government also failed to tax the capital gains arising from the sale of Econet wireless (K) ltd, equally a telecommunication company, to the Essar group of India because the income tax law exempts capital gains from taxation. Indeed, the government of Kenya lost approximately Kshs 8.5 Billion in untaxed capital gains arising from the sale of the two telecommunication companies due to a harmful tax regime (Daily Nation, 2010).

At its inception, the Value added Tax Act Cap 476 had only 3 Zero rated items. As a result of wanton zero rating, the VAT act currently has over 300 Zero rated items plus zero rated supplies and supplies to privileged persons, as provided for by the fifth and the eight schedules of the VAT Act respectively. This has created a scenario in which taxpayers are in a net tax refund and therefore contribute negatively to the exchequer revenue (Moyi & Ronge, 2006). From the above, it can be deduced that there is no much economic benefit that Kenya gets through heavily incentivised tax system as she continues to lose revenue needed

for sustainable socio-economic development (Tessema, 2008). This research therefore seeks to establish current tax incentives and its quantitative effect on the exchequer revenue.

1.3 Objective of the study

To determine the effect of tax incentives on the contribution of top 25 taxpayers to the exchequer revenue in Kenya

1.4 Significance of the study

This study is important because it will enable policy makers to view from another prism the effect of spiralling tax incentives and take a stand in the need to protect the tax base and in extension revenue.

The findings of this study would help in legislators in formulating laws which will better protect revenue since revenue protection has often been given lesser attention by policy makers and stakeholders who continue to deplete the tax base by continually looking for exemptions and favourable treatment from the tax law.

This study will be useful to scholars, the government and tax practitioners because it will seek to demonstrate harmful effects of tax incetivization and how the country will be better off with no or limited tax incentives as the government will not find itself bridging budgetary deficits and thereby being able to finance all its recurrent and capital expenditure for the greater common good.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Most scholarly writings in the area of tax incentives and revenue mobilization are written by economists and tax lawyers who by and large write about the economic aspect of the issue. Over the past two decades, most governments have been actively promoting their countries as investment locations to attract scarce private capital and associated technology and managerial skills in order to help achieve their development goals. They have increasingly adopted measures to facilitate the entry of FDI. Examples of such measures include liberalizing the laws and regulations for the admission and establishment of foreign investment projects; providing guarantees for repatriation of investment and profits; and establishing mechanisms for the settlement of investment disputes. Tax incentives have become a global phenomenon as more and more governments try to attract multinational companies and enhance the associated technology spillovers. Although hardly new, this trend appears to have strengthened since the early 1990s. Consequently, using the tax system to influence economic behavior by granting tax incentives for particular activities has developed several literatures.

2.2 Theoretical Literature

2.2.1 Consumer and Producer Surplus Theory

The simplest theory of tax incentives is that they represent bids by countries to attract firms that will generate either consumer or producer surplus for the current residents of the country. According to this theory, when the firm moves in, it will be involved in local markets for inputs (mainly labor) and perhaps also local markets for outputs. In both of these cases, conventional welfare analysis suggests that there will be welfare triangles that are gained by the country. Even if the firm acts as a local monopolist or monopsonist, there will be inframarginal workers or consumers who strictly benefit from the firm's presence. Upward sloping labor demand curves mean that some workers will be strictly better off by the presence of the firm. Downward sloping consumer demand curves mean that some customers are made better off by the new producer. According to this theory, when countries bid for firms their bids reflect the different levels of welfare gain that they expect their residents to get from the presence of the firm. As such, this bidding presence is essentially benign (since after all, Pareto optimality requires that the firm takes this surplus into account when making

its location decision).This force seems to matter mostly for firms that are hiring large numbers of workers, or firms that are supplying to the local market.

2.2.2 Agglomeration Economies Theory

This theory represents the contribution of Garcia-Mila and McGuire to the literature. Their work argues that if there are agglomeration economies, then countries will bid to capture firms which generate these agglomeration economies. This theory states that firms that offer higher spill overs will get bigger tax incentives. Countries that stand to benefit most from these spill overs will pay most for these firms and offer higher incentives. Garcia-Mila and McGuire assume that agglomeration economies are a function of "k"— the capital to labor ratio of the jurisdiction. Countries are expected to offer tax incentives for firms that greatly broaden the scope of the activities in the place. If new ideas are formed by combining old ideas, then bringing in new industries that add diversity will have particular value. This theory predicts that tax incentives will be particularly likely to be given to firms that add industrial diversity to a country and as such they will be sufficiently high so that tax payments net of public services costs will be negative.

2.2.3 Ex-Post Appropriation Theory

A third theory of tax incentives is that these large up-front payments exist to compensate firms for future tax payments. According to this view, once firms move to a particular location they will be easy for the government to exploit. The firm's fixed resources create an immobility which means that it is easy prey for a taxing authority. Forward looking firms recognize this fact and demand up-front tax breaks to compensate for expost appropriation. This type of theory also has some clear implications for the firms that will be given particularly generous tax breaks. In particular, more immobile firms will be more likely to receive up front payments than less mobile firms. Furthermore, firms which have very inelastic demand for land and local labor will be the most attractive prey for ex-post appropriation. As such, they will be most likely to receive large up-front payments. Most generally, the firms that will end up paying the most ex post will receive the largest tax breaks ex ante. This theory also predicts that tax incentives will never be so high that the total net present value of future tax payments minus the tax break are less than the total net present value of providing the firm with public services. As such, this is a theory that can explain the tax incentives that we see in practice, including the Boeing deal. However, this theory cannot explain tax incentives as they are defined by Garcia-Mila and McGuire.

2.2.4 Tax Discrimination Theory

According to this theory, there are firms with different levels of demand for different locations. As such, governments face a supply of potential resident firms. Just as monopoly providers of any goods ideally charge different prices for the product to consumers with different reservation values, this theory predicts that locations will charge different tax rates to different firms depending on how much they want to locate in the country. If the country is to extract maximum revenues (while attracting as many firms as possible), it needs to tax inframarginal firms more and marginal firms less. This theory predicts that the recipients of tax incentives will be those firms that are on the locational margin. Thus firms that are strongly attracted to the location should get lower tax incentives. This theory portends that tax incentives will never be so high that the net present value of taxes minus the cost of public services is negative. At the most extreme, tax incentives will mean that for the firm that is on the margin, the flow of tax revenues minus public costs will equal zero.

2.2.5 Corruption and Influence Theory

The fifth theory of why tax incentives occur is corruption and influence. According to this theory, these incentives don't represent maximization of tax revenue or maximization of the welfare of current residents of the city. Instead, tax incentives reflect the ability of the firm to bribe or coerce the leaders of the government. The 19th century tax incentives for railroads were often motivated by this force as railroads regularly bribed politicians to get generous tax treatment (Glaeser, 2001). In the 19th century explicit bribes were often the norm. In the 20th century, contributions to election campaigns or skilful use of the revolving door are presumably more common. This theory predicts that the level of tax incentives is determined by the ability of the firm to get away with this bribery. Situations where detection is difficult will be more likely to lead to tax incentives. This predicts that tax incentives will be linked to the appearance of spillovers or large consumer surplus. Tax incentives will be more likely to be granted to firms that are politically influential. Furthermore, when it is difficult to monitor public officials we will expect to see higher levels of tax incentives. This theory predicts that tax incentives should be more common in countries with weaker rule of law, and that tax incentives should have been more common in the 19th century when detection was difficult. Naturally, this theory predicts little about the overall tax level. Tax incentives may be so generous that the overall net tax revenue may even be negative. On the other hand, tax incentives may be much less depending on what the firm and politicians can get away with.

2.3 Specific tax incentives in Kenya

2.3.1 Reduced corporation tax rate

Corporation tax on the taxable income of a resident company is levied at 30% while that on non resident companies is levied at 37.5%. A company that lists its shares at the Nairobi Stock Exchange will benefit from incentive tax rates as follows; where a company has 20% of its issued shares listed corporation tax is levied at 27% for the first 3 years. With 30% of its issued shares listed corporation tax is levied at 25% for the first 5 years and with 40% of its issued shares listed corporation tax is levied at 20% for the first 5 years (ITA, 2011).

2.3.2 Industrial Building Allowance (I.B.A)

IBA is granted on capital expenditure incurred on the construction of an industrial building. A rate of 2.5% per annum is applied to the qualifying cost of the construction of an industrial building and 4% per annum is applied on the qualifying cost of a hotel building. These rates may however be varied upon formal application to the Kenya Revenue Authority detailing the inadequacy of the rate provided (ITA, 2010).

2.3.3 Investment Deduction

This incentive is granted to encourage development in manufacturing industries. It is granted once at 100% in the first year of use, to any person who incurs capital expenditure on construction of a new building and installation therein of new or old manufacturing machinery. It is also offered for the construction of a hotel that is certified to be an industrial building. Machinery that is ancillary to manufacture such as water pumps, electricity transformers, generators, machinery for disposal of effluent and enhancing cleanliness of the environment also qualify for investment deduction. Where the machinery is installed in an old building, only the machinery will qualify for the allowance and not the building (ITA, 2010).

2.3.4 Farm Works Deduction

This is granted at the rate of 33.33 % per annum for three years to the owner or tenant of any agricultural land who incurs capital expenditure on the construction of farm works. Farm works means labour quarters, farm house and any other immovable building necessary for the proper operation of the farm such as fences, dips, drains, dams, water and electrical supply works etc (ITA, 2010)

2.3.5 Shipping Investment Deduction

This is granted at the rate of 40% on capital expenditure and only one such deduction can be allowed in respect of the same ship. To qualify the purchase must be that of a new, unused power driven ship of more than 495 tonnes or on the purchase and subsequent refitting for the purpose of shipping business of a used power driven ship of more than 495 tonnes(ITA,2010)

2.3.6 Mining Allowance

This is granted to a person who incurs capital expenditure on searching for, discovery, testing and winning access to minerals; expenses incurred in obtaining acquisition rights over deposits; expenses related to purchase of machinery and buildings together with the development, general administration and management prior to commencement of production. This is granted at the rate of 40% in the first year and 10% from the second to the seventh year (ITA, 2010).

2.3.7 Export Processing Zones (EPZs)

Tax incentives are offered to investors that locate their operations in Export Processing Zones under the Export Processing Zones Act (Chapter 517, Laws of Kenya) and subsequent amendments thereto as follows; An initial 10-year corporate income tax holiday and a 25% corporation tax rate for a further 10 years thereafter (except for EPZ commercial enterprises). 10-year withholding tax holiday on dividends and other remittances to non-resident parties (except for EPZ commercial licence enterprises) laced with Perpetual exemption from VAT and customs import duty on inputs – raw materials, machinery, office equipment, certain petroleum fuel for boilers and generators, building materials, other supplies. VAT exemption also applies on local purchases of goods and services supplied by companies in the Kenyan customs territory or domestic market. Motor vehicles which do not remain within the zone are not eligible for tax exemption. Further, there is perpetual exemption from payment of stamp duty on legal instruments with 100% investment deduction on new investment in EPZ buildings and machinery, applicable over 20 years being granted. Indeed, there is indiscriminate exemption from any quotas or other restrictions or prohibitions on imports or exports with the exception of trade in firearms and military equipment (ITA, VAT & CE, 2010).

2.3.8 Tax Remission for Exports

For investors operating outside an EPZ, the government provides incentives through the remission of taxes incurred in respect of exports of taxable Goods. This applies where a person incurs VAT on goods imported under bond for manufacture of exports. Such tax will be remitted upon such person applying for and obtaining a tax remission certificate. However, prior to such remission, a security bond must be executed in order to obtain the remission certificate. This bond is cancelled after the exporter satisfies the commissioner for VAT that the goods have been duly exported (VAT, 2010)

The remission of VAT paid will also be allowed in respect of capital goods (excluding motor vehicles) imported or purchased for investment in industries such as oil exploration or prospecting for minerals.

2.3.9 Double taxation treaties

Kenya has entered into double taxation treaties which mitigate the tax chargeable on the income of persons derived from a country other than the country in which they are resident. Countries with which Kenya has such treaties are Canada, Denmark, Norway, Sweden, India, Zambia, United Kingdom and Germany. A double tax agreement for the East African Region (between Kenya, Uganda and Tanzania) has not been ratified. However, Income Tax legislation allowing for unilateral relief operates in Uganda and Tanzania which enables both individuals and businesses receiving income from off-shore to obtain a tax credit for tax paid on such income in the countries from which it originates. In Kenya, the benefit of such unilateral relief is restricted to the employment income of Kenyan citizens (ITA, 2010).

2.4 Empirical literature

Various scholars have conducted studies on taxation. Musgrave (1959) asserted that there exist a relationship between tax structure and level of economic growth and development while policy objectives vary with the stages of development. Economic factors account for the size of different tax bases while political and social factors influence opinions on tax equity.

Musgrave (1959) divided the period of economic development into two; namely the early period when an economy is relatively underdeveloped and the later period when the economy is developed. During the early period, there is limited scope for the use of direct taxes because the majority of the populace resides in the rural areas and are engaged in subsistence agriculture. Because their incomes are difficult to estimate, tax assessment at this stage is based on presumptions and prone to wide margins of error. This problem necessitates the use of the ability-to-pay principle, effectively limiting personal income taxation to the wage income of civil servants and employees of large firms both of which account for an insignificant proportion of the total working population.

Leuthold (2000) observed that tax structures in developing nations (LDCs) differ markedly from those in developed economies. These differences were attributed to the structure of the economies, high population growth rate, low literacy plus education levels and openness to trade. To achieve greater socio economic growth, nations must mobilize their own internal resources and avoid relying on foreign help or aid funded projects(wilford & Wilford 1983). An effective and efficient tax policy is the most appropriate tool for marshalling resources in order to reallocate them for optimum results (Wawire, 2009)

Eason and Zolt (2003) asserts the position taken by most international organisations like International Monetary Fund (IMF)by saying that states are advised to avoid introducing tax incentives as means of attracting FDI. In doing so he shows how tax incentives affect the revenue of a country and the distortive effect that they have on business decisions. Enrich (1996) argues that American states are engaged in interstate competition by providing tax incentives for businesses to locate in-state. He argues that these state location incentives harm the states and their citizens. But Enrich concludes by proposing ways of using the American Commerce Clause to stop what he calls 'second Civil War' between states. So, he approaches the matter as a purely business issue and domestic affair and not a national revenue issue.

Keen (1994) alleges that competition among jurisdictions leads to an efficient provision of public goods and different equilibrium tax rates. Due to this, tax competition force governments to impose inefficient tax burdens for the provision of public goods and services (Rogowski, 2003). However according to Oates (1972) tax incentivisation make governments to adopt inefficiently low tax regimes and thereby fail to provide public goods. Other countries while trying to avoid lagging behind in tax incentivisation adopted by other countries are caught up in a circus of tax competition where 'spill over effects' affects the tax regimes in different tax jurisdictions.

Tiebout (1956) argues that the level of a tax base depends on the combination between taxes and public goods in a host country. This implies that a country keen on increasing its provision of highly valued public goods can increase its taxes without losing investments. Thus to attract and retain investments, governments need not engage in tax competition but should focus on good public governance and provision of public goods. Since variables other than tax rates matter and investment in infrastructure is financed in part through tax revenues, tax incentives should be limited. Thus tax competition leading to a zero taxation of capital earnings is present and amplified for countries suffering from lack of good public governance and poor provision of public goods and services. FDI should therefore not be tied to tax incentives (Azemar, 2008).

Tax expenditures are revenues foregone through preferential provisions in the tax code. Surrey (1973) pointed out that deductions, exemptions and other benefits granted on the tax laws were not part of the inherent structure in the tax and were truly, government spending made through the tax system in lieu of direct spending, through budget items. Surrey (1973) called them Tax Expenditures. The analysis of tax expenditure is made up of two components which include that which covers all the legal provisions that form the regulatory structure of tax and the special provisions that represent a deviation from the regulatory structure.

Tax neutrality between domestic and outbound investment encourages investment decision-making on the basis of business considerations aiming to maximise (pre-tax) returns. Underlying the assumption of the dividend credit system is the approach of taxing domestic and outbound investments at equivalent rates of tax. This often is because a fixed pool of capital is most productive most productive when allocated across tax jurisdictions so that

pre-tax rates of return are everywhere the same, a result predicted in the absence of taxation under competitive conditions. The same outcome may be predicted with taxation, where investors allocate capital so that after-corporate tax rates of return are equalized, if domestic and foreign profits are subject to the same effective tax rate (OECD, 2008).

Tessema (2008) observed that it is always not clear that a tax reduction is required (or is able) to attract investments. Where a higher corporate tax burden is matched by well-developed infrastructure, public services and other attributes attractive to business, including market size, tax competition from relatively low-tax jurisdictions not offering similar advantages may not seriously affect location choice. Indeed, a number of countries with relatively high effective tax rates are very successful in attracting investments. The European Commission's Taxation and Customs union in its efforts to deter harmful tax competition established a code of conduct which had its key issues being that members were to roll back tax measures that constitute harmful tax competition and to refrain from introducing any such measures in the future.

The Kenyan government finances 90% of its budget through exchequer revenue and the balances are supported by donors and privatization of state corporations activities (Finance Bill, 2011). In the fiscal year ended June 2011, KRA collected Kshs 634.9b against a revised target of Kshs 630.7b. It should be noted that though the revised target was met, the actual target which stood at 641.2b was revised due to prevailing economic conditions and macroeconomic adjustments that were put in place to ensure social harmony. The KRA effectively failed to achieve the actual target and therefore there was budgetary deficit (KRA, 2011). This deficit could have been effectively achieved had the tax laws not been heavily incentivised to the detriment of the few taxpayers who pay the tax. The revenue target has not been achieved since 2006/2007 fiscal year.

In spite of the failure to achieve the target during this three year period, numerous tax incentives have been introduced in this period which continues to erode the tax base. For example, in the finance bill for 2010/ 2011, investment deduction on capital investments outside the geographical map of Nairobi was revised to 150% (Finance Bill, 2010). Firms which were technically located in Nairobi metropolis like Mavoko qualified for this deduction. Kapa oil refineries, a company located juts outside Nairobi in Mavoko qualified

for this deduction and revenue losses amounting to Kshs 500 Million in the 2010/2011 fiscal year was recorded as they were allowed in form of investment deduction (Kapa, 2010).

Varsano et al (1998) and Piancastelli (2001). Sought to estimate the tax capacity of a country which is the maximum tax income attainable in a society, by carrying out analogous analysis on the production limits in the economy. An economy operates in the limits of production if there is no other possible combination with the existing resources that can enable an increased production level. Therefore, a country operates at its tax potential if there is no possible combination, given the existing resources to produce greater revenue.

They carried out estimations for 27 developed and developing countries for 1991and used variables which included ; overall population, GDP per capita, inflation, inflation fluctuation, industrial GDP share in overall GDP, share of the economically active population as to overall population and share of urban population as to overall population. They concluded that the more developed countries feature a greater potential than developing countries and that the fact of enjoying a great potential tapped does not necessarily entail a high tax burden in a country. It is possible that there be countries that do not wish to exploit their full broad tax potential based on a number of reasons: a) the country does not wish to have a welfare state type society, that is to say, they do not desire that the size of the State be substantial in their economy and prefer that certain assets be provided by the private sector; b) the country enjoys a comfortable tax status and prefers to leave the existing potential for situations of fiscal crisis.

Fredrick Chiluba, former Zambian president claimed that the international community had forced him to change the laws in Zambia to attract foreign investment but this had not led to investment. The same companies that had called for the changes went to the DRC during the war. This shows that companies will go where they can make a profit, regardless of the situation, because their main aim is to maximise profits (Bokosi, 2011).

Using AETR methodology, Devereux et al (2002, 2003, 2004, 2008) argue that recent corporate tax reforms in Europe that broadened the tax base while lowering the statutory tax rates enabled governments to compete more effectively for mobile investments. There should therefore be no pressure for a race to the bottom, but as the international competitive pressures on taxation increase, a convergence in tax rates could be expected (Nassar, 2008).

Hines (1999) provides a survey of the literature and concludes that there is little doubt that taxes affect the volume and location of FDI (as well as tax avoidance). De Mooij and Ederven (2003) perform a meta analysis of published results on this relationship and find a median semi-elasticity of FDI to the tax rate of -3.3 (implying that a 1 percentage point increase in the tax rate reduced FDI by 3.3 percent). They also report an enormous variation across studies, the standard deviation of semi-elasticities being 9.0. The majority of elasticities are, however, within a range of -5 to 0, and over 80 percent have a negative sign.

A growing literature has explored the specific effect of R&D tax credits and found that they had a significant effect. R&D tax credits are ideal for empirical analysis, because they apply to a very specific activity, were introduced in a number of industrialized countries and data are available. While much of the research uses data for one country only, Bloom and others (2002) use a panel of nine OECD countries, which allows them to control for country effects. They find that a $1 tax expenditure leads to $1 increase in R&D in the long-run, with a much smaller short-run impact. This and other studies, however, do not attempt to include costs other than revenue given up (such as administrative costs) or to take account of possible relabeling of existing investment or crowding out of other investment. It is hence far from clear, whether these incentives are worth their cost. Moreover, a one-to-one relationship between tax expenditure and investment suggests that the government could equally have just spent the money directly on R&D. In order to justify using the funds instead on tax incentives, one would need to show that the private sector is superior in identifying relevant R&D or in undertaking the research. This is possible, as they are more likely to be driven by market demands, but it is far from certain, because private business will retain a preference to engage in R&D leading to results with relatively limited spillovers, despite receiving tax

Bond (1981) finds that tax holidays lead to short-lived and small firms in Puerto Rico. Shah (1995) contains thirty six papers looking at the effect of tax incentives in a variety of countries, using different methodologies including calculations of METRs and business surveys. The overall conclusion from them is that tax incentives are often ineffectual, either because the particular incentives offered are not very valuable to firms or because important pre-conditions are not met, such as a relatively stable macroeconomic environment and satisfactory public infrastructure. These studies tend also to conclude that investment

incentives are more effective than tax holidays. These results are, however, not fully reliable. A main weakness is that most studies focus on one country only, making it difficult to control for factors other than tax incentives. Moreover, most studies present just estimates of the effect of incentives on the cost of capital or the METR, but not on the ultimate goal of the policy, i.e., typically investment.

New econometric evidence suggests that tax incentives may have boosted FDI, but with no effect on total investment. Klemm and van Parys (2008) use a panel of African, Caribbean and Latin American countries to test for tax competition in tax incentives and to explore the effects of tax incentives on FDI and total investment. They find that countries react to other countries' tax incentives, just as they do to their tax rates. They also find that FDI increases if tax incentives, particularly tax holidays, are offered, although this is partially counteracted by the negative effect of the resulting higher corporate tax rate. There is, however, no robust effect on total gross fixed capital formation or economic growth, suggesting that FDI crowds out other investment or that especially the part of FDI that covers change of ownership rather than new investment is attracted.

A system with tax incentives would allow attracting mobile capital and at the same time choosing a tax system for the immobile firms on the basis of national requirements. Some tax incentives may thus paradoxically make tax competition less harmful, as there will be less downward pressure on general tax rates (Keen, 2002).There will be a host of problems, including attempts of immobile local firms to benefit from the incentives, distortions of the capital stock towards the mobile sector, increased complexity and reduced transparency due to different rules, etc. In some regions of the world, there would also be legal impediments to such tax differentiation, notably in the EU. These drawbacks will need to be weighted against the advantage of being able to combine raising relatively high capital income taxes while remaining competitive for mobile activity

Rodríguez and Robles (2003), in their summary of the main incentives for the free trade areas in Central America, point out that the exemption periods may vary but are extensive in all the countries and practically all businesses enjoy the same exemptions: 100% for taxes on the import of raw materials (including fuel), machinery and equipment, 100% for repatriation of income and 100% for sales and assets' taxes. In the case of Income Tax, the exemption is also 100% but for variable terms that range from 8 years in Costa Rica (and then extend the

50% exemption for 4 additional years) or do not feature a limitation, such as the case of Honduras. Something similar occurs with municipal taxes and service charges that are 100% exempted for 10 years -in Costa Rica- or without limitation -in Guatemala, Honduras and Nicaragua-. No restrictions apply on the handling of foreign currency or requisitions for local purchases

In developing countries, specifically, commercial policies have been replaced by tax incentives to attract foreign direct investment (Villela & Barreix 2002). It seems clear that the role of these instruments is secondary, less relevant than factors such as the market size, infrastructure and country risk. The point has been and still is the object of numerous research efforts, and the strengths and weaknesses of tax incentives are still not clearly defined, since remarkable success stories are known, but also outright failures.

Wells and Allen (2001) reported that between 1970 and 1980, Indonesia offered foreign investors tax incentives similar to those administered in other tax jurisdictions. However, in a major radical policy shift, Indonesia eliminated tax holidays in 1984 and became the one of a very few developing countries to eliminate tax holidays. Despite elimination of the tax holidays, investments flowing to Indonesia did not drop by material points and thus pointed out to what many researchers have long established: tax holidays do not form a basis of location decision of many investors. Indeed, a comparison of the effectiveness of tax holidays in attracting and retaining investors with their costs supports the argument that for many countries, costs far outweigh the benefits. Despite the overwhelming evidence of the natural experiment as to the futility of tax incentives, Indonesia continued to be pressured to reintroduce tax holidays and she eventually did in 1996. However these holidays were soon dropped as it became evident that they were grossly ineffective and fell short of their intended role. The 1996 tax holidays were soon dropped with new incentives reappearing in 2000 as the country frantically sought to assuage the effects of the Asian economic crisis. Again, their effect was little.

The reverse foreign aid effect was for sometime felt as countries who took advantage of the tax holidays in Indonesia were taxed heavily in their home countries. This case of reverse foreign aid represented a direct leak of revenues with the home countries of investors being the direct recipients. Hong Kong has developed without offering tax holidays even though surrounding countries do. To beat tax incentives that drained on the exchequer revenue, Hong

Kong offered a flat income tax rate to all rather than grants exemptions and impose higher taxes on other investors. She attracted investments between 1971 and 1997 that were greater to those flowing to much larger Asian countries like Thailand which had liberal tax incentives policy.

2.3 Conclusion

In many cases, previous scepticism about tax incentives seems warranted, and advice against their rampant use appears appropriate. An argument can be made that tax incentives are a rational and beneficial response to the pressures of tax competition, because they permit, in principle, the combination of a competitive tax system for mobile activities with higher taxes elsewhere. In practice, however, it may be difficult to achieve such an outcome, because of the many disadvantages of existing tax incentives and difficulties in their administration. Given the difficulty in assessing both the costs and benefits of tax incentives, opinions about their desirability may differ. It is important—though admittedly difficult—to ensure that any cost-benefit analysis go beyond the obvious costs in terms of revenue loss and administrative costs, unless it is to be very misleading.

Advice on the specific types of incentives may need to be reconsidered. The advice to avoid tax holidays, however, remains generally valid, as they are particularly attractive to short-lived one-off investment. Bringing together the insights from both the broad principles and the detailed analysis of tax incentives, Even if a tax incentive can be useful in principle, a country may well be advised to refrain from introducing one. This reflects the advantage of a coherent and simple tax system, which cannot take account of all issues, especially since they may be changing overtime. Moreover, once a system has created the precedence of an exemption for one particular sector or region, the pressure for further ones will increase. The ultimate outcome may be a less efficient tax system, even if a few of the incentives used have a sound economic rationale and are cost-effective.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology adopted in this study. The chapter highlights the population and sampling technique and sample size, as well as the data collection and analysis technique.

3.2 Research design

The method used to quantify the value of tax incentives is the revenue foregone approach. It measures how much tax revenue is reduced, relative to a benchmark, for each tax incentive through comparison of the current/prospective treatment to the benchmark treatment, assuming taxpayer behaviour is unchanged and surveyed descriptively. A descriptive survey attempts to describe or define a subject often by creating a profile of a group of problems or events through the collection of data and tabulation of the frequencies on research variables or their interaction (Cooper and Schindler, 2006). In this case, the research problem is to determine the effect of tax incentives on the exchequer revenue in Kenya and the Key empirical evidence based on the theories. Descriptive research seeks to describe the uses of a product, determine the effect of a particular variable and predict behavioural changes of selected variables. A descriptive research should define questions, population surveyed and the method of analysis prior to beginning data collections.

3.3 Population

This is a case study of the top 25 taxpayers in Kenya. Data related to taxation collected by the various mandated bodies for a period of five years beginning from 2006 to 2010 were used. The population adopted in the study was obtained from the KRA list of the top 25 tax payers as segmented in the LTO.

3.4 Data collection

Secondary data was used to collect information for the study. The data was obtained from the aggregate data for income tax returns, monthly VAT returns and financial statements of identified taxpayers.

3.4.2 Data collection chart

The data collection chart assisted in the collection of secondary data to ensure all pertinent data are collected and was found to be a useful tool. The use of a data collection chart is to ensure the various tax incentives are fully covered. A detailed data collection chart is illustrated in appendix 1

3.5 Period of the study

The study covered a period of six years in the computation of the tax expenditures incurred by way of incentives. The period covered started from January 2004 and ended on December 2009.

3.6 Research Procedure

Tax expenditures assume different forms, such as: exemptions, base deductions, tax claims, deferrals, reduced rates or special regimes. In turn, the degree of available information for every item to be estimated varied in quantity and quality. Therefore, there was no unique methodology employed in the estimation of TE, but an array of methodologies, each one applicable to a group of exemptions. The TE figure of year t is a measure of the greater collection to be had in year t should a given incentive not be in effect. The measurement was conducted on an isolated basis, that is to say, assuming the other incentives remained unaltered. The report includes the estimation of the aggregate TE for Income Tax and for VAT, and the joint related effects were considered individually.

3.7 Data analysis

The data collected was normalized by adjusting for the foregone tax rate element to arrive at what would have been ordinarily collected and descriptively analyzed using Statistical package for social sciences. The descriptive statistical tools helped in describing the data and the extent tax incentives were used. The data was then analyzed through frequencies, percentages, measures of central tendency and standard deviation. The generated quantitative reports were presented through tabulations, charts and graphs.

CHAPTER 4: DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

A total of 25 top taxpayers in Kenya were selected for the study. The firms are listed in appendix 2. Collection of data was done by way of secondary data where access to data was sought from the head of KRA return processing unit, the unit which is responsible for capturing data submitted by tax payers. The data was found to be good for analysis as it contained primary data submitted by the taxpayer. The following is a snapshot of the gross data retrieved for the period 2004 through to 2009. The rest of this chapter presents the findings and interpretation of the study.

4.2 Analysis of tax expenditures

Table 1; details of tax incentives under income tax

Year	Turnover	Taxable income	Tax Charged	IBD	IBD TE	ID	1D TE	TE	DTD TE
2004	187.1	24.2	5.7	0.3	0.1	0.6	0.2	0.3	0.7
2005	270.8	45.4	13.0	0.6	0.2	10.9	3.3	3.5	9.4
2006	333.2	50.8	14.0	0.7	0.2	9.3	2.8	3.0	8.1
2007	373.2	71.7	21.1	0.7	0.2	12.8	3.9	4.1	11.0
2008	434.4	74.1	19.9	0.8	0.2	18.0	5.4	5.7	15.3
2009	481.4	65.4	21.3	0.9	0.3	32.2	9.7	9.9	26.9
Total	**2,080.2**	**331.7**	**95.1**	**4.1**	**1.2**	**83.9**	**25.2**	**26.4**	**71.3**

Table 1 above gives details of tax incentives and corresponding variables under the income tax scheme for the period in question in billions of Kenya Shillings. The table shows that TE for the population amounted to Kshs 26.4 billion and Kshs 71.3 billion for DTD

Table 2; VAT Tax expenditures

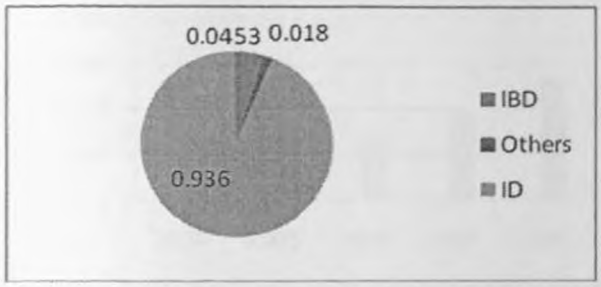
Year	LTO TE	DTD TE	VAT TE	DTD TE
2004	0.3	0.7	1.8	4.6
2005	3.5	9.4	3.2	7.9
2006	3.0	8.1	3.7	9.3
2007	4.1	11.0	4.3	10.7
2008	5.7	15.3	4.0	10.1
2009	9.9	26.9	5.1	12.7
Total	**26.4**	**71.3**	**22.2**	**55.4**

Table 2 above provides details of tax expenditures incurred under the value added tax Scheme in billions of Kshs. The table shows that VAT TE for the population amounted to Kshs 22.2 billion and Kshs 55.4 billion for DTD

4.3 Utilized Incentives

The TE was established using data generated regarding the incentive policies over the six year period. The study found out that the investment deduction incentive was the greatest used incentive accounting to over 93.6% of the incentive policies administered under the income tax act by way of tax expenditure. The total TE under the LTO office amounted to Kshs 48.6 billion and the share among the various incentives is shown in the pie chart below

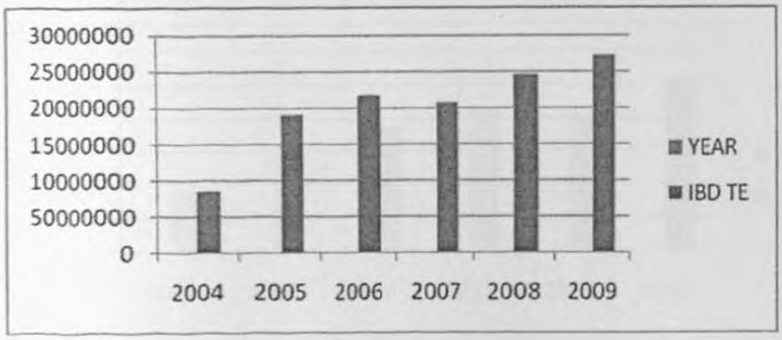
Figure 1; Pie chart of utilized incentives



4.3.1 Industrial Building Deduction TE

The industrial building deduction was found to account for tax expenditures totaling to Kshs 1.2 Billion under LTO over the period, an average of Kshs 0.2 Billion per year. The bar graph below shows TE incurred under the IBD over the period.

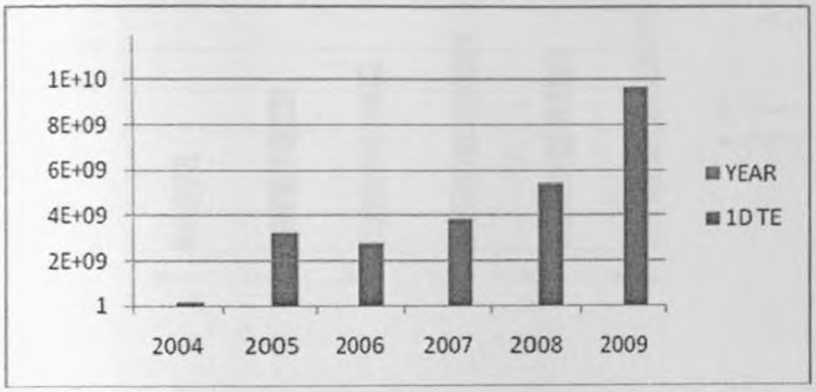
Fig. 2; IBD TE



4.3.2 Investment Deduction TE

The investment deduction incentive accounts for the greatest tax expenditures totaling to Kshs 25.1 Billion over the six year period and an average of Kshs 4.1 b per year as shown in the graph below,

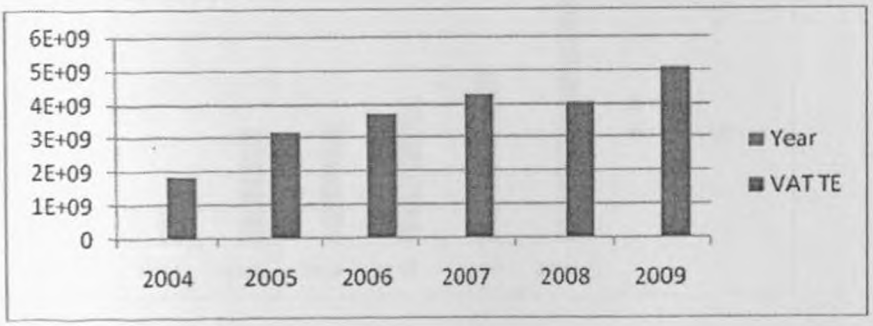
Fig. 3; ID TE



4.2.3 VAT zero rate and exemptions

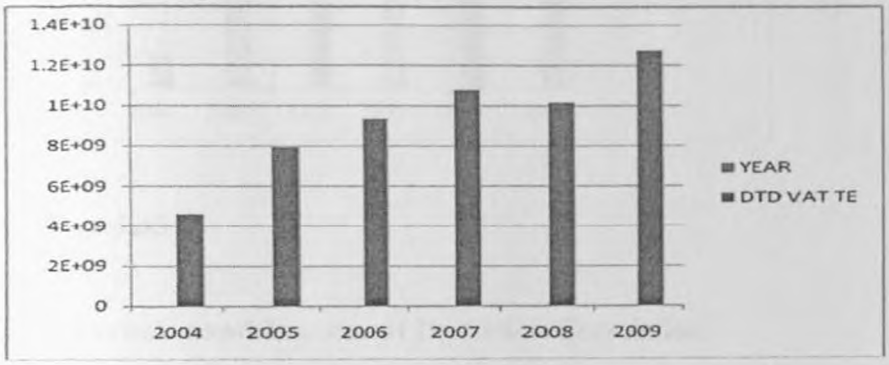
Analysis done on zero rating and exemptions under the VAT law show that tax expenditures over this period totalled to Kshs 22.1 billion averaging to Kshs 3.7billion per year. The tax expenditure has been gradually increasing over this period.

Fig. 4; LTO VAT TE



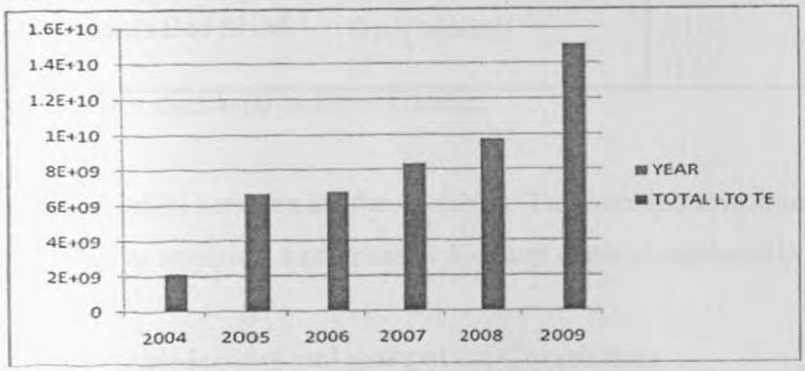
KRA wide, the revenue lost in this form obtained by applying an equivalent function of the revenues collected under LTO and KRA wide collections amounted to over Ksh 55 billion and an average of Kshs 9 billion per annum.

Fig. 5; Total VAT Tax expenditures



The total tax expenditure incurred over the period amounted to Kshs 126.8 billion or Kshs 21.1 billion per annum, an equivalent of 4% of the gross domestic product. The total expenditure was derived from summation of the tax expenditures applicable to the LTO taxpayers.

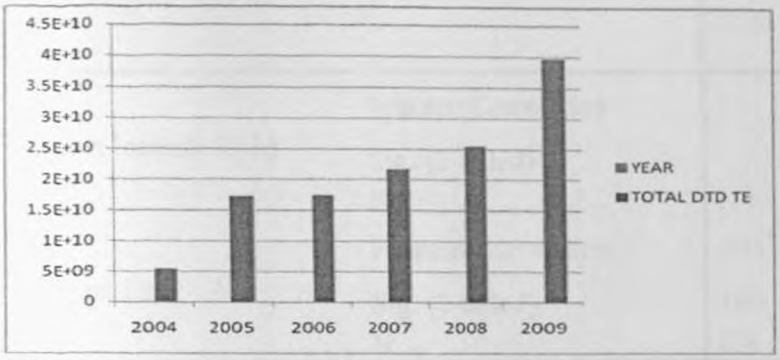
Fig. 6; TE incurred in LTO



4.3.4 Total Tax Expenditure in the Economy

The total tax expenditure incurred over the period amounted to Kshs 126.8 billion, an equivalent of 4 % of the total gross domestic product as at December 2009. The total expenditure was obtained from summation of the tax expenditures which the LTO taxpayers were found to be utilizing.

Fig. 7; Total lost revenues in TE.



4.4 Correlations

4.4.1 Turnover and Investment Deduction Correlation

The correlation was tested for the totals of turnover and investment deductions. The results of the same are tabulated below

		Turnover SUM	Investments Ded SUM
Turnover SUM	Pearson Correlation	1	.222*
	Sig. (2-tailed)		.010
	N	134	133
Investments Ded SUM	Pearson Correlation	.222*	1
	Sig. (2-tailed)	.010	
	N	133	133

*. Correlation is significant at the 0.05 level (2-tailed).

The correlation between the two variables, Turnover and Investment deduction is found to be insignificant implying a complete lack of any material relationship between the two variables.

4.4.2 Taxable income and charged tax Correlations.

When taxable income was correlated with charged tax, it was found out that their correlation was zero. This implies that the level of tax charged had no relationship whatsoever with income, implying that a higher taxable income did not necessarily mean higher tax or vice versa

		Taxable Income SUM	Charged Tax SUM
Taxable Income SUM	Pearson Correlation	1	.993**
	Sig. (2-tailed)		.000
	N	134	134
Charged Tax SUM	Pearson Correlation	.993**	1
	Sig. (2-tailed)	.000	
	N	134	134

**. Correlation is significant at the 0.01 level (2-tailed).

4.5 Tax expenditures and actual revenue collected

A ratio and percentage analysis was conducted to show the proportion of tax expenditures incurred over the period vis-a-vis actual revenue collection. The results are shown in the table below

Table 3; TE and actual revenue

YEAR	TOTAL DTD TE	KRA collections	Percentage
2004	5.3	274.9	1.939%
2005	17.3	297.7	5.809%
2006	17.4	360.1	4.841%
2007	21.7	433.9	5.003%
2008	25.4	480.6	5.288%
2009	39.6	534.4	7.405%

The table above shows that tax incentives accounted for an average of 5% of the total tax revenue collected and this tended to be stable over the period.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECCOMENDATIONS

5.1 Summary of findings and Conclusions

The effect of the tax incentives was clearly spelt out in the previous section. It appears that with massive revenue losses of over Kshs 126 billion over the period under study or Kshs 22 billion per annum, the incentive policies with the ministry of finance were not well thought out in the context of revenue maximization and self sufficiency. Correlation results showed that incentives had little effect on turnover, a clear indication that tax incentives do not necessarily lead to increased turnover which in turn results to increased tax revenues. An increase in investment deduction was observed to fail to result in a proportionate way to increased turnover. Therefore the notion of using investment deduction as a means of catalyzing production in the economy was found to be defective

With actual revenue collections in comparison with revenue targets averaging a deficit of Kshs 2 billion over the period, it is evident that a change in tax incentives resulting to a broadened tax base leads to revenue surplus since tax incentives were found to be over 5% of actual revenue collected per year. The consumption of tax expenditures relating to income tax still went up in 2008 implying that companies did not rate highly the post election violence as they continued to invest or engage in expansion programs in the midst of an unstable economy as evidenced by the high investment deductions during this year.

5.2 Policy Recommendations

This study has demonstrated that tax incentives fail to catalyze production in the economy, retain existing investments and attract investments. In a nutshell, tax incentives are not key variables in investment appraisal. As such, the government continues to suffer huge revenue leakages due to tax incentives while they are immaterial and irrelevant in sustainable economic growth. Tax incentives should therefore be reviewed with the aim of abolishing them in order to broaden the tax base and boost revenue collections.

5.3 Limitations of the study

The data used in the study was obtained from KRA records submitted by taxpayers in meeting statutory requirements. There is likelihood that in an attempt to lower their tax liability, taxpayers may have in one way or another provided incorrect information.

The population used in the study represents extremely high net worth firms and may not be suited to make economy wide generalization

5.4 Suggestions for further research

There is need to study the reasons informing the continued increase of investments deduction in 2008 given that the economy was highly unstable this year owing to the post election violence

A further study could be carried out to determine optimal tax incentive levels which will maximize tax revenue and document the qualitative effect of tax incentives by testing the efficacy of their policies.

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APPENDIX 1

LIST OF TOP 25 TAXPAYERS

	PIN NO.	TAXPAYER
		AIRTIME
1	P051129820X	SAFARICOM LTD
2	P051128176G	TELKOM (K) LTD
3	P051131780Q	CELTEL KENYA LTD
		BEER
4	P000593584F	KENYA BREWERIES LTD
		CIGARETTES
4	P000595091F	BRITISH AMERICAN TOBACCO LTD
6	P000600959V	MASTERMIND TOBACCO (K) LTD
		SOFT DRINKS
7	P000611756Q	NAIROBI BOTTLERS
		BANKS
8	P000594434U	KENYA COMMERCIAL BANK LTD
9	P000595351A	STANDARD CHARTERED BANK (K) LTD
10	P000611975V	BARCLAYS BANK OF KENYA LIMITED
11	P051166413P	EQUITY BANK LTD
12	P000592866E	COOPERATIVE BANK OF KENYA LIMITED
13	P000594433T	CFC STANBIC BANK LIMITED
		GOVERNMENT & PARASTATALS
14	P051093067A	UNIVERSITY OF NAIROBI
15	P0051098084N	TEACHERS SERVICE COMMOSSION
16	P000591581V	KENYA ELECTRICITY GENERATING CO LTD
17	P051094522S	KENYA PORTS AUTHORITY
18	P000591096X	KENYA POWER & LIGHTING COMPANY LTD
19	P000609533Z	KENYA AIRWAYS LTD
		OILS
20	P000593441R	KENYA PIPELINE CO LTD
21	P000591167T	KENYA SHELL LIMITED
		CONSTRUCTION
22	P000618404S	BAMBURI CEMENT LIMITED
		MEDIA
23	P000594927A	NATION MEDIA GROUP LIMITED
		SUPERMARKETS
24	P000599375Q	NAKUMATT HOLDINGS LIMITED
		AGRICULTURE
25	P000626584I	MUMIAS SUGAR COMPANY LTD

Appendix 2
Data Collection Chart

No	Taxpayer	Year	Turnover	Taxable Income	Tax Charged	Tax Paid	IBD	Wear & Tear	MOD	ID

APPENDIX 3: Descriptives

```
DESCRIPTIVES VARIABLES=TurnoverSUM ChargedTaxSUM
  /STATISTICS=MEAN STDDEV MIN MAX.
```

Notes

Output Created		22-OCT-2011 11:33:51	
Comments			
Input	Active Dataset	DataSet1	[DataSet1]
	Filter	<none>	
	Weight	<none>	
	Split File	<none>	
	N of Rows in Working Data File	161	
Missing Value Handling	Definition of Missing	User defined missing values are treated as missing.	
	Cases Used	All non-missing data are used.	
Syntax		DESCRIPTIVES VARIABLES=TurnoverSUM ChargedTaxSUM /STATISTICS=MEAN STDDEV MIN MAX.	
Resources	Processor Time	00:00:00.02	
	Elapsed Time	00:00:00.06	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Turnover SUM	134	0	70631763000	15754171907.87	14773164644.353
Charged Tax SUM	134	-77378767	5366380777	729874109.83	996862256.194
Valid N (listwise)	134				

```
DESCRIPTIVES VARIABLES=TaxableIncomeSUM BuildingDedSUM
  /STATISTICS=MEAN SUM STDDEV VARIANCE.
```

Notes

Output Created		22-OCT-2011 11:53:57
Comments		
Input	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	161
Missing Value Handling	Definition of Missing	User defined missing values are treated as missing.
	Cases Used	All non-missing data are used.
Syntax		DESCRIPTIVES VARIABLES=TaxableIncome SUM BuildingDedSUM /STATISTICS=MEAN SUM STDDEV VARIANCE.
Resources	Processor Time	00:00:00.00
	Elapsed Time	00:00:00.00

[DataSet1]

Descriptive Statistics

	N	Sum	Mean	Std. Deviation	Variance
Taxable Income SUM	134	340725833890	2542730103.66	3561087746.370	1268134593734 5663000.000
Building Ded SUM	134	4180635438	31198771.93	57683699.637	3327409203825 184.000
Valid N (listwise)	134				

```
REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT TurnoverSUM
  /METHOD=ENTER InvestmentsDedSUM.
```

APPENDIX 4: Regression

Notes

Output Created		22-OCT-2011 12:02:20
Comments		
Input	Active Dataset	DataSet1
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	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	161
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.
Syntax		REGRESSION /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT TurnoverSUM /METHOD=ENTER InvestmentsDedSUM.
Resources	Processor Time	00:00:00.00
	Elapsed Time	00:00:00.94
	Memory Required	1556 bytes
	Additional Memory Required for Residual Plots	0 bytes

[DataSet1]

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Investments Ded SUM[b]	.	Enter

a. Dependent Variable: Turnover SUM

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.222[a]	.049	.042	14514336119.813

a. Predictors: (Constant), Investments Ded SUM

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1424678145258192400000.000	1	1424678145258192400000.000	6.763	.010[b]
	Residual	2759723984285663000000.000	131	2106659529989055800000.000		
	Total	2902191798811482500000.000	132			

a. Dependent Variable: Turnover SUM

b. Predictors: (Constant), Investments Ded SUM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	14650224820.316	1330259335.641		11.013	.000
	Investments Ded SUM	1.605	.617	.222	2.601	.010

a. Dependent Variable: Turnover SUM

```
CORRELATIONS
  /VARIABLES=TaxableIncomeSUM ChargedTaxSUM
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

APPENDIX 5: Correlations

Notes

Output Created		22-OCT-2011 12:08:58
Comments		
Input	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	161
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
Syntax		CORRELATIONS /VARIABLES=TaxableIncomeSUM ChargedTaxSUM /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.
Resources	Processor Time	00:00:00.00
	Elapsed Time	00:00:00.05

[DataSet1]

Correlations

		Taxable Income SUM	Charged Tax SUM
Taxable Income SUM	Pearson Correlation	1	.993**
	Sig. (2-tailed)		.000
	N	134	134
Charged Tax SUM	Pearson Correlation	.993**	1
	Sig. (2-tailed)	.000	
	N	134	134

**. Correlation is significant at the 0.01 level (2-tailed).

```
CORRELATIONS
  /VARIABLES=TurnoverSUM InvestmentsDedSUM
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

Notes

Output Created		22-OCT-2011 12:11:50	
Comments			
Input	Active Dataset	DataSet1	[DataSet1]
	Filter	<none>	
	Weight	<none>	
	Split File	<none>	
	N of Rows in Working Data File	161	
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.	
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.	
Syntax		CORRELATIONS /VARIABLES=TurnoverSUM InvestmentsDedSUM /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.	
Resources	Processor Time	00:00:00.00	
	Elapsed Time	00:00:00.23	

Correlations

		Turnover SUM	Investments Ded SUM
Turnover SUM	Pearson Correlation	1	.222*
	Sig. (2-tailed)		.010
	N	134	133
Investments Ded SUM	Pearson Correlation	.222*	1
	Sig. (2-tailed)	.010	
	N	133	133

*. Correlation is significant at the 0.05 level (2-tailed).

```
CORRELATIONS
```

```
/VARIABLES=TurnoverSUM BuildingDedSUM
/PRINT=TWOTAIL NOSIG
/MISSING=PAIRWISE
```

Notes

Output Created		22-OCT-2011 12:13:03
Comments		
Input	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	161
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
Syntax		CORRELATIONS /VARIABLES=TurnoverSUM BuildingDedSUM /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.
Resources	Processor Time	00:00:00.00
	Elapsed Time	00:00:00.25

```
[DataSet1]
```

Correlations

		Turnover SUM	Building Ded SUM
Turnover SUM	Pearson Correlation	1	-.043
	Sig. (2-tailed)		.620
	N	134	134
Building Ded SUM	Pearson Correlation	-.043	1
	Sig. (2-tailed)	.620	
	N	134	134

```
CORRELATIONS
  /VARIABLES=TaxableIncomeSUM InvestmentsDedSUM
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

Notes

Output Created		22-OCT-2011 12:13:55
Comments		
Input	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	161
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
Syntax		CORRELATIONS /VARIABLES=TaxableIncomeSUM InvestmentsDedSUM /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.
Resources	Processor Time	00:00:00.02
	Elapsed Time	00:00:00.27

```
[DataSet1]
```

Correlations

		Taxable Income SUM	Investments Ded SUM
Taxable Income SUM	Pearson Correlation	1	.045
	Sig. (2-tailed)		.609
	N	134	133
Investments Ded SUM	Pearson Correlation	.045	1
	Sig. (2-tailed)	.609	
	N	133	133

```
CORRELATIONS
  /VARIABLES=ChargedTaxSUM InvestmentsDedSUM
  /PRINT=TWOTAIL NOSIG
  /MISSING=PAIRWISE.
```

Notes

Output Created		22-OCT-2011 12:15:00
Comments		
Input	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	161
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
Syntax		CORRELATIONS /VARIABLES=ChargedTaxSUM InvestmentsDedSUM /PRINT=TWOTAIL NOSIG /MISSING=PAIRWISE.
Resources	Processor Time	00:00:00.00
	Elapsed Time	00:00:00.00

```
[DataSet1]
```

Correlations

		Charged Tax SUM	Investments Ded SUM
Charged Tax SUM	Pearson Correlation	1	.015
	Sig. (2-tailed)		.867
	N	134	133
Investments Ded SUM	Pearson Correlation	.015	1
	Sig. (2-tailed)	.867	
	N	133	133

```
CORRELATIONS
  /VARIABLES=TaxableIncomeSUM InvestmentsDedSUM
  /PRINT=TWOTAIL NOSIG
  /STATISTICS DESCRIPTIVES XPROD
  /MISSING=PAIRWISE.
```

Notes

Output Created		22-OCT-2011 12:17:35
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	Cases Used	Statistics for each pair of variables are based on all the cases with valid data for that pair.
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[DataSet1]

Descriptive Statistics

	Mean	Std. Deviation	N
Taxable Income SUM	2542730103.66	3561087746.370	134
Investments Ded SUM	697962122.72	2046499796.372	133

Correlations

		Taxable Income SUM	Investments Ded SUM
Taxable Income SUM	Pearson Correlation	1	.045
	Sig. (2-tailed)		.609
	Sum of Squares and Cross-products	1686619009666973200000.000	4316289207617620000.000
	Covariance	1268134593734 5663000.000	3269916066376 33470.000
	N	134	133
Investments Ded SUM	Pearson Correlation	.045	1
	Sig. (2-tailed)	.609	
	Sum of Squares and Cross-products	4316289207616 7620000.000	5528373069845 73240000.000
	Covariance	3269916066376 33470.000	4188161416549 797400.000
	N	133	133

Appendix 6
Data Collected

Pin	IncomeYear	Turnover SUM	Taxable Income SUM	Charged Tax SUM	Tax SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SU	Investments Ded SUM
P000592866E	2005	4,241,389,000	44,128,223	13,195,267	13,195,267	0	262,413,252	0	0
P000592866E	2006	6,857,055,000	1,129,624,750	338,826,421	338,826,421	0	343,148,364	0	0
P000592866E	2007	8,196,672,421	2,407,974,445	722,225,392	722,225,392	0	398,767,589	0	0
P000592866E	2008	0	0	-76,740	-76,740	0	0	0	0
P000592866E	2009	450,919,000	0	-37,710	-37,710	0	0	0	0
P000592866E	2010	901,837,000	0	-84,435	-84,435	0	0	0	0
P000611975V	2005	14,275,000,000	4,705,860,412	1,411,726,204	1,411,726,204	0	183,537,251	0	0
P000611975V	2006	15,123,000,000	6,503,973,624	1,951,169,527	1,951,169,527	0	203,910,761	0	0
P000611975V	2007	11,381,000,000	6,910,488,607	2,073,146,582	2,073,146,582	0	396,176,384	0	0
P000611975V	2008	23,627,000,000	8,124,546,898	2,437,273,679	2,437,273,679	0	571,307,771	0	0
P000611975V	2009	23,397,000,000	9,259,784,132	2,777,819,470	2,777,819,470	0	518,562,061	0	0
P051166413P	2005	947,830,160	568,420,070	170,497,941	170,497,941	0	11,823,525	0	0
P051166413P	2006	1,635,244,515	1,113,578,460	333,878,260	333,878,260	0	383,358,688	0	0
P051166413P	2007	3,155,000,000	2,282,116,703	684,248,316	684,248,316	0	593,568,528	0	0
P051166413P	2008	7,169,000,000	5,076,735,291	1,522,956,267	1,522,956,267	0	831,906,140	0	0
P051166413P	2009	15,686,924,932	5,686,430,878	1,705,188,535	1,705,188,535	0	1,057,812,708	0	0
P000594433T	2005	34,912,565	0	-5,760	-5,760	0	725,275	0	0
P000594433T	2006	1,576,075,949	433,572,428	120,552,608	120,552,608	0	38,846,179	0	0
P000594433T	2007	2,257,702,000	1,253,817,154	376,145,146	376,145,146	0	36,080,500	0	0
P000594433T	2008	6,713,449,000	1,395,633,462	418,614,559	418,614,559	0	90,831,142	0	0
P000594433T	2009	6,176,995,996	1,204,661,409	361,265,433	361,265,433	0	117,687,140	0	0
P000594433T	2010	10,082,813,000	2,469,326,425	736,069,127	736,069,127	0	678,453,404	0	0
P000609533Z	2004	28,454,000,000	1,603,824,571	473,305,623	478,843,690	0	1,718,983,828	0	0
P000609533Z	2005	41,333,000,000	3,354,566,342	996,841,014	1,009,873,109	0	4,244,299,982	0	0
P000609533Z	2006	52,804,000,000	108,332,683	-21,151,304	-21,141,304	0	8,902,246,884	0	0
P000609533Z	2007	58,792,000,000	0	-55,066,933	-55,066,933	11,539,009	9,286,737,698	0	0
P000609533Z	2008	59,419,000,000	337,796,114	36,542,600	38,369,730	14,010,672	7,388,845,000	0	0
P000609533Z	2009	70,631,763,000	0	-71,887,545	-71,887,545	14,010,673	6,106,442,464	0	0
P051094522S	2005	13,669,405,266	4,081,219,948	1,194,516,164	1,194,516,164	217,963,290	555,351,802	0	0
P051094522S	2006	12,774,858,605	2,702,610,938	790,962,525	790,962,525	221,560,299	1,887,466,095	0	0
P051094522S	2007	13,185,472,000	3,389,378,236	1,000,579,329	1,028,379,513	224,935,214	1,360,306,387	0	0
P051094522S	2008	13,889,895,000	1,485,153,211	445,443,408	445,443,408	256,320,746	947,200,871	0	0
P051094522S	2009	18,363,596,404	5,335,779,954	1,573,279,666	1,573,279,666	303,214,825	1,247,575,201	0	0
P000591581V	2004	8,754,447,000	18,787,506	-25,449,659	-25,449,659	102,739,778	1,398,618,745	0	9,379,843,173
P000591581V	2005	11,011,577,000	0	-58,554,896	-58,554,896	102,739,778	1,219,074,638	0	0
P000591581V	2006	14,300,060,151	0	-206,363	-206,363	103,027,674	1,072,164,501	0	143,926,621
P000591581V	2007	14,551,767,000	5,595,130,571	1,601,293,351	1,601,293,351	51,529,984	928,553,315	0	0
P000591581V	2008	16,091,563,000	0	-75,204,644	-75,204,644	103,115,100	855,957,225	0	15,820,067,039
P000591581V	2009	13,559,599,000	0	-70,272,425	-70,272,425	105,229,755	765,158,402	0	
P000594434U	2004	3,921,685,000	0	-15,360	-15,360	0	302,532,406	0	0
P000594434U	2005	6,051,213,000	0	-115,440	-115,440	0	446,498,859	0	0
P000594434U	2006	11,729,203,000	0	-766,576	-766,576	0	562,316,226	0	0
P000594434U	2007	12,817,092,000	3,044,872,572	913,461,772	913,461,772	0	658,542,155	0	0
P000594434U	2008	19,961,381,000	5,617,564,232	1,683,764,913	1,683,764,913	0	1,080,321,812	0	0
P000594434U	2009	22,704,139,000	4,527,113,091	1,357,710,312	1,357,710,312	0	1,330,797,854	0	0
P000595351A	2005	5,574,286,000	3,688,824,121	1,106,647,236	1,106,647,236	0	153,979,318	0	0
P000595351A	2006	8,004,930,381	3,828,527,394	1,148,487,826	1,148,487,826	0	152,970,119	0	0
P000595351A	2007	11,056,477,598	5,294,479,410	1,588,343,823	1,588,343,823	0	155,663,740	0	0
P000595351A	2008	10,110,070,000	5,269,506,029	1,580,237,577	1,580,237,577	0	204,668,936	0	0
P000595351A	2009	11,786,241,000	6,887,830,243	1,993,899,884	1,993,899,884	0	211,667,887	0	0
P000593584F	2004	22,792,301,000	4,297,680,612	1,265,035,730	1,265,035,730	9,037,154	109,986,119	0	937,480,315
P000593584F	2005	26,170,727,000	5,465,235,251	1,613,853,767	1,613,853,767	8,858,300	96,893,765	0	966,592,373
P000593584F	2006	27,713,508,000	4,307,656,308	1,251,133,364	1,251,143,364	8,969,058	87,855,104	0	1,294,637,086
P000593584F	2007	33,296,271,000	6,874,601,013	2,021,293,544	2,021,293,544	8,973,676	93,739,746	0	614,179,337
P000593584F	2008	38,049,849,000	8,714,572,551	2,549,052,149	2,549,052,149	9,441,499	177,228,646	0	758,258,443
P000593584F	2009	40,756,634,000	4,113,421,107	1,192,797,354	1,192,797,354	9,444,914	207,650,057	0	3,749,108,936
P000593441R	2004	6,737,216,000	2,106,433,000	631,762,290	649,350,405	64,163,777	646,141		0
P000593441R	2005	8,108,365,000	3,216,646,265	964,740,927	964,740,927	65,296,650	579,396,676		0
P000593441R	2006	8,451,512,028	4,104,783,660	1,231,332,543	1,231,332,543	65,298,783	680,593,705		2,788,998,969
P000593441R	2007	9,065,302,125	4,000,820,937	1,145,384,522	1,145,384,522	65,298,783	635,912,491		0
P000593441R	2008	8,421,572,278	2,983,379,528	894,827,318	894,827,318	65,298,783	585,524,412		0
P000593441R	2009	10,361,588,050	3,637,158,191	1,090,936,722	1,090,936,722	99,950,151	1,206,036,200		0
P000591096X	2004	28,668,430,663	0	-9,378,093	-9,378,093	13,135,383	401,976,971	0	0
P000591096X	2005	29,012,882,000	0	-33,178,964	-33,178,964	13,135,383	1,000,858,164	0	0

Fin	IncomeYear	Turnover SUM	Taxable Income SUM	Charged Tax SUM	Tax SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Investments Ded SUM
P000591096X	2006	34,955,411,000	-	- 77,378,767	- 77,378,767	13,135,383	1,152,776,645	-	-
P000591096X	2007	39,210,442,000	-	- 27,859,538	- 27,859,538	13,445,885	1,612,950,748	-	9,410,506,080
P000591096X	2008	41,885,063,905	-	- 14,556,094	- 14,556,094	13,445,835	2,204,916,935	-	2,094,253,195
P000591096X	2009	66,362,811,746	290,407,216	65,501,864	65,501,864	13,445,835	3,406,571,393	-	5,176,299,316
P000593441R	2004	6,737,216,000	2,106,433,000	631,762,290	649,350,405	64,163,777	646,141	-	-
P000593441R	2005	8,108,365,000	3,216,646,265	964,740,927	964,740,927	65,296,650	579,396,676	-	-
P000593441R	2006	8,451,512,028	4,104,783,660	1,231,332,543	1,231,332,543	65,298,783	680,593,705	-	-
P000593441R	2007	9,065,302,125	4,000,820,937	1,145,384,522	1,145,384,522	65,298,783	635,912,491	-	-
P000593441R	2008	8,421,572,278	2,983,379,528	894,827,318	894,827,318	65,298,783	585,524,412	-	-
P000593441R	2009	10,361,588,050	3,637,158,191	1,090,936,722	1,090,936,722	99,950,151	1,206,036,200	-	-
P000600959V	2004	4,511,782,303	377,492,408	113,192,912	113,192,912	5,357,384	65,332,326	-	-
P000600959V	2005	4,694,648,152	176,314,729	52,683,519	52,683,519	5,223,449	57,114,377	-	219,162,755
P000600959V	2006	4,936,701,886	335,750,111	100,497,498	100,497,498	5,092,862	59,684,391	-	228,482,515
P000600959V	2007	5,581,111,841	498,026,213	149,407,864	156,878,257	4,965,541	83,551,556	-	-
P000600959V	2008	6,148,938,342	193,132,817	57,278,655	57,278,655	4,841,403	86,902,323	-	402,802,801
P000600959V	2009	6,064,148,707	512,916,555	153,181,328	153,181,328	4,720,368	82,987,153	-	14,809,525
P051129820X	2004	18,857,645,000	6,359,895,556	1,662,088,209	1,679,175,738	-	2,262,650,913	-	-
P051129820X	2005	26,911,918,000	10,095,236,590	2,755,246,094	2,755,246,094	-	3,265,516,696	-	3,310,165,914
P051129820X	2006	34,971,944,000	13,159,747,357	3,401,300,476	3,418,621,582	-	4,602,215,993	-	3,846,913,840
P051129820X	2007	47,447,490,000	18,007,093,686	5,366,380,777	5,366,380,777	-	6,143,771,356	-	1,897,899,600
P051129820X	2008	61,369,408,000	20,973,635,613	4,761,513,499	4,887,484,447	-	8,188,159,188	-	4,295,858,560
P051129820X	2009	70,460,592,000	17,493,304,908	5,227,881,535	5,357,651,758	-	9,855,924,613	-	-
P000618404S	2005	11,886,623,831	2,783,377,047	834,490,337	13,696,481	122,507,465	-	-	140,115,564
P000618404S	2006	13,761,527,955	3,648,296,826	1,092,567,469	13,940,273	105,639,231	-	-	108,088,699
P000618404S	2007	18,050,347,417	4,506,115,191	1,349,093,309	14,158,647	37,228,557	-	-	10,048,621
P000618404S	2008	27,467,000,000	4,186,897,370	1,237,112,384	14,158,647	42,855,137	-	-	1,360,358,660
P000618404S	2009	2,276,000,000	5,753,119,964	1,720,016,861	14,861,480	118,023,798	-	-	1,183,137,192
P000618404S	2010	19,827,460,000	6,597,235,208	1,970,256,238	16,063,093	115,575,558	-	-	131,062,084
P000595091F	2004	2,404,383,000	297,696,849	52,560,556	52,560,556	7,642,673	103,310,820	-	421,144,756
P000595091F	2005	8,705,642,551	871,922,859	129,546,707	129,546,707	7,640,453	106,238,548	-	6,783,404
P000595091F	2006	9,958,276,385	-	- 24,000	- 24,000	9,180,548	187,719,058	-	715,373,845
P000595091F	2007	12,375,269,812	205,338,775	61,601,633	61,601,633	9,148,108	166,377,919	-	338,809,020
P000595091F	2008	13,619,104,846	328,097,399	85,550,612	85,550,612	9,486,617	170,078,301	-	406,914,869
P000595091F	2009	18,719,542,000	-	- 15,070,406	- 15,070,406	9,486,084	197,650,972	-	752,979,345
P000611756Q	2004	4,256,243,000	-	- 733,695	- 733,695	5,367,829	131,358,100	-	-
P000611756Q	2005	4,703,616,000	8,013,098	1,284,674	1,284,674	13,053,229	154,553,149	-	296,842,715
P000611756Q	2006	5,026,486,000	495,844,841	148,164,102	148,164,102	12,794,795	161,869,784	-	166,832,091
P000611756Q	2007	5,783,589,000	17,988,585	5,396,576	5,396,576	12,963,395	180,584,454	-	533,913,353
P000611756Q	2008	6,132,217,000	6,676,000	1,111,410	1,166,164	13,057,791	180,455,575	-	796,180,019
P000611756Q	2009	7,537,495,000	764,210,468	227,795,180	227,795,180	13,057,788	205,347,658	-	146,014,579
P000599375Q	2004	7,115,418,000	-	- 328,630	-	- 318,630	90,506,984	-	-
P000599375Q	2005	10,952,549,000	-	- 437,120	-	- 427,120	111,011,765	-	-
P000599375Q	2006	15,191,385,000	329,890,376	98,796,413	-	98,796,413	121,662,629	-	-
P000599375Q	2007	18,004,041,000	554,118,857	166,235,657	-	166,235,657	125,194,555	-	-
P000599375Q	2008	21,399,823,000	676,637,833	202,128,592	-	202,128,592	143,544,172	-	-
P000599375Q	2009	25,661,303,000	331,417,593	98,922,283	-	98,922,283	153,081,260	-	-
P000594927A	2004	4,056,450,407	1,180,869,729	311,726,281	311,726,281	2,126,857	158,963,935	-	4,104,278
P000594927A	2005	5,043,300,000	991,383,049	289,331,694	289,331,694	-	-	-	135,706,029
P000594927A	2006	5,635,800,000	1,340,784,864	391,033,739	391,033,739	2,247,678	155,936,562	-	71,248,314
P000594927A	2007	6,789,751,000	1,584,421,288	460,904,771	460,904,771	2,247,678	160,540,445	-	203,853,087
P000594927A	2008	6,465,987,000	1,914,509,680	556,575,280	556,575,280	2,247,678	180,329,433	-	40,862,693
P000594927A	2009	6,911,009,000	1,574,566,339	465,692,440	465,692,440	2,247,678	167,179,554	-	46,925,902
P051128176G	2004	20,540,000,000	843,763,397	252,655,289	265,288,041	-	2,410,559,806	-	-
P051128176G	2005	18,259,134,665	-	- 1,453,875	- 1,443,875	-	2,282,976,384	-	-
P051128176G	2006	16,520,514,382	-	- 683,265	- 673,265	-	2,213,046,678	-	3,138,897,733
P051128176G	2007	11,510,000,000	-	- 4,800	5,200	-	2,026,068,149	-	230,200,000
P051128176G	2008	16,503,000,000	83,497,329	10,722,856	11,258,999	-	4,710,033	-	2,227,905,000
P051128176G	2009	10,249,227,954	30,127,954	8,194,636	8,529,368	-	3,311,697,300	-	-
P051131780Q	2004	9,535,669,000	-	- 26,688,834	- 26,688,834	-	1,594,227,756	-	-
P051131780Q	2005	1,071,478,000	-	- 2,976,141	- 2,976,141	-	-	-	-
P051131780Q	2006	11,125,597,000	-	- 4,155,393	- 4,155,393	-	2,103,566,786	-	-
P051131780Q	2007	11,255,728,000	-	- 1,572,564	- 1,572,564	-	2,395,655,183	-	1,271,897,264
P051131780Q	2008	9,612,938,000	-	- 2,013,276	- 2,013,276	-	2,619,670,713	-	1,249,681,940
P051131780Q	2009	10,770,976,000	1,238,281,675	369,533,796	369,533,796	-	2,765,962,132	-	-
P000626584I	2004	9,792,503,000	1,310,542,332	392,778,149	392,778,149	15,316,055	116,072,864	-	29,366,348
P000626584I	2005	10,080,174,000	2,040,587,369	611,043,804	611,043,804	15,316,077	113,060,434	-	61,411,374
P000626584I	2006	11,657,540,000	1,723,829,664	505,913,126	505,913,126	15,336,876	110,451,339	-	671,593,511
P000626584I	2007	10,381,190,000	1,306,688,120	342,241,606	342,241,606	15,414,182	110,917,450	-	592,499,183
P000626584I	2008	11,970,101,000	2,112,551,662	633,184,065	633,184,065	15,414,252	101,265,605	-	216,189,550
P000626584I	2009	12,194,312,000	-	- 1,047,102	- 1,037,102	15,454,213	133,379,630	-	7,771,774,906

Appendix 7
Tax Expenditures

Income Tax Expenditures

YEAR	VAT TE LTO	DTD VAT TE	IT LTO TE	IT DTD TE	TOTAL LTO TE	TOTAL DTD TE
2004	1845499970	4613749925	265038894.9	716321337.6	2110538865	5330071262
2005	3166847493	7917118732	3468827794	9375210254	6635675287	17292328985
2006	3730690882	9326727205	2998888062	8,105,102,870.27	6729578944	17431830075
2007	4297568274	10743920686	4057114215	10965173554	8354682489	21709094240
2008	4048999092	10122497730	5658125750	15292231758	9707124842	25414729488
2009	5085715692	12714289230	9938146611	26859855705	15023862303	39574144936
						1.26752E+11
						21125366498
					GDP	$29B
					te$	1280325242
					%gdp	0.04137931
					pa	0.006896552

VAT Tax Expenditures

YEAR	VAT TE LTO	DTD VAT TE	IT LTO TE	IT DTD TE	TOTAL LTO TE	TOTAL DTD TE
2004	1.84549997	4.613749925	0.265038895	0.716321338	2.110538865	5.330071262
2005	3.166847493	7.917118732	3.468827794	9.375210254	6.635675287	17.29232899
2006	3.730690882	9.326727205	2.998888062	8.10510287	6.729578944	17.43183008
2007	4.297568274	10.74392069	4.057114215	10.96517355	8.354682489	21.70909424
2008	4.048999092	10.12249773	5.65812575	15.29223176	9.707124842	25.41472949
2009	5.085715692	12.71428923	9.938146611	26.85985571	15.0238623	39.57414494
Total	22.1753214	55.43830351	26.38614133	71.31389548	48.56146273	126.752199

YEAR	VAT TE LTO	DTD VAT TE	IT LTO TE	IT DTD TE	TOTAL LTO TE	YEAR	TOTAL DTD TE	KRA collec	Percentage
2004	1.84549997	4.613749925	0.265038895	0.716321338	2.110538865	2004	5.330071262	274.852	0.019392514
2005	3.166847493	7.917118732	3.468827794	9.375210254	6.635675287	2005	17.29232899	297.7	0.058086426
2006	3.730690882	9.326727205	2.998888062	8.10510287	6.729578944	2006	17.43183008	360.1	0.048408303
2007	4.297568274	10.74392069	4.057114215	10.96517355	8.354682489	2007	21.70909424	433.915	0.050030753
2008	4.048999092	10.12249773	5.65812575	15.29223176	9.707124842	2008	25.41472949	480.6	0.052881252
2009	5.085715692	12.71428923	9.938146611	26.85985571	15.0238623	2009	39.57414494	534.4	0.074053415
	22.1753214	55.43830351	26.38614133	71.31389548	48.56146273	12039	126.752199	2381.567	0.302852663

Data consolidation

Pin	IncomeYear	Turnover SUM	Taxable Income SUM	Charged Tax SUM	Tax SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op	Investments Ded SUM
P000592866E	2005	4241389000	44128223	13195267	13195267	0	262413252	0	0
P000592866E	2006	6857055000	1129624750	338826421	338826421	0	343148364	0	0
P000592866E	2007	8196672421	2407974445	722225392	722225392	0	398767589	0	0
P000592866E	2008	0	0	-76740	-76740	0	0	0	0
P000592866E	2009	450919000	0	-37710	-37710	0	0	0	0
P000592866E	2010	901837000	0	-84435	-84435	0	0	0	0
		20647872421	3581727418	1074048195	1074048195	0	1004329205	0	0
P000611975V	2005	14275000000	4705860412	1411726204	1411726204	0	183537251	0	0
P000611975V	2006	15123000000	6503973624	1951169527	1951169527	0	203910761	0	0
P000611975V	2007	11381000000	6910488607	2073146582	2073146582	0	396176384	0	0
P000611975V	2008	23627000000	8124546898	2437273679	2437273679	0	571307771	0	0
P000611975V	2009	23397000000	9259784132	2777819470	2777819470	0	518562061	0	0
		87803000000	35504653673	10651135462	10651135462	0	1873494228	0	0
P051166413P	2005	947830160	568420070	170497941	170497941	0	11823525	0	0
P051166413P	2006	1635244515	1113578460	333878260	333878260	0	383358688	0	0
P051166413P	2007	3155000000	2282116703	684248316	684248316	0	593568528	0	0

Pin	IncomeYear	Turnover SUM	Taxable Income SUM	Charged Tax SUM	Tax SUM	Building Ded SUM	Wear Tear Ded SUM	Mining Op Ded SUM	Investments Ded SUM
		240,095,041,314	290,407,216	- 96,849,592	- 96,849,592	79,743,704	9,780,050,856	-	16,681,058,591
P000593441R	2004	6,737,216,000	2,106,433,000	631,762,290	649,350,405	64,163,777	646,141	-	-
P000593441R	2005	8,108,365,000	3,216,646,265	964,740,927	964,740,927	65,296,650	579,396,676	-	-
P000593441R	2006	8,451,512,028	4,104,783,660	1,231,332,543	1,231,332,543	65,298,783	680,593,705	-	-
P000593441R	2007	9,065,302,125	4,000,820,937	1,145,384,522	1,145,384,522	65,298,783	635,912,491	-	-
P000593441R	2008	8,421,572,278	2,983,379,528	894,827,318	894,827,318	65,298,783	585,524,412	-	-
P000593441R	2009	10,361,588,050	3,637,158,191	1,090,936,722	1,090,936,722	99,950,151	1,206,036,200	-	-
		51,145,555,481	20,049,221,581	5,958,984,322	5,976,572,437	425,306,927	3,688,109,625	-	-
P000600959V	2004	4,511,782,303	377,492,408	113,192,912	113,192,912	5,357,384	65,332,326	-	-
P000600959V	2005	4,694,648,152	176,314,729	52,683,519	52,683,519	5,223,449	57,114,377	-	219,162,755
P000600959V	2006	4,936,701,886	335,750,111	100,497,498	100,497,498	5,092,862	59,684,391	-	228,482,515
P000600959V	2007	5,581,111,841	498,026,213	149,407,864	156,878,257	4,965,541	83,551,556	-	-
P000600959V	2008	6,148,938,342	193,132,817	57,278,655	57,278,655	4,841,403	86,902,323	-	402,802,801
P000600959V	2009	6,064,148,707	512,916,555	153,181,328	153,181,328	4,720,368	82,987,153	-	14,809,525
		31,937,331,231	2,093,632,833	626,241,776	633,712,169	30,201,007	435,572,126	-	865,257,596
P051129820X	2004	18,857,645,000	6,359,895,556	1,662,088,209	1,679,175,738	-	2,262,650,913	-	-
P051129820X	2005	26,911,918,000	10,095,236,590	2,755,246,094	2,755,246,094	-	3,265,516,696	-	3,310,165,914
P051129820X	2006	34,971,944,000	13,159,747,357	3,401,300,476	3,418,621,582	-	4,602,215,993	-	3,846,913,840
P051129820X	2007	47,447,490,000	18,007,093,686	5,366,380,777	5,366,380,777	-	6,143,771,356	-	1,897,899,600
P051129820X	2008	61,369,408,000	20,973,635,613	4,761,513,499	4,887,484,447	-	8,188,159,188	-	4,295,858,560
P051129820X	2009	70,460,592,000	17,493,304,908	5,227,881,535	5,357,651,758	-	9,855,924,613	-	-
		260,018,997,000	86,088,913,710	23,174,410,590	23,464,560,396	-	34,318,238,759	-	13,350,837,914
P000618404S	2005	11,886,623,831	2,783,377,047	834,490,337	13,696,481	122,507,465	-	-	140,115,564
P000618404S	2006	13,761,527,955	3,648,296,826	1,092,567,469	13,940,273	105,639,231	-	-	108,088,699
P000618404S	2007	18,050,347,417	4,506,115,191	1,349,093,309	14,158,647	37,228,557	-	-	10,048,621
P000618404S	2008	27,467,000,000	4,186,897,370	1,237,112,384	14,158,647	42,855,137	-	-	1,360,358,660
P000618404S	2009	2,276,000,000	5,753,119,964	1,720,016,861	14,861,480	118,023,798	-	-	1,183,197,192
P000618404S	2010	19,827,460,000	6,597,235,208	1,970,256,238	16,063,093	115,575,558	-	-	131,062,084
		93,268,959,203	27,475,041,606	8,203,536,598	86,878,621	541,829,746	-	-	2,932,810,820
P000595091F	2004	2,404,383,000	297,696,849	52,560,556	52,560,556	7,642,673	103,310,820	-	421,144,756
P000595091F	2005	8,705,642,551	871,922,859	129,546,707	129,546,707	7,640,453	106,238,548	-	6,783,404
P000595091F	2006	9,958,276,385	-	- 24,000	- 24,000	9,180,548	187,719,058	-	715,373,845
P000595091F	2007	12,375,269,812	205,338,775	61,601,633	61,601,633	9,148,108	166,377,919	-	338,809,020
P000595091F	2008	13,619,104,846	328,097,399	85,550,612	85,550,612	9,486,617	170,078,301	-	406,914,869
P000595091F	2009	18,719,542,000	-	- 15,070,406	- 15,070,406	9,486,084	197,650,972	-	752,979,345
		65,782,218,594	1,703,055,882	314,165,102	314,165,102	52,584,483	931,375,618	-	2,642,005,239
P000611756Q	2004	4,256,243,000	-	- 733,695	- 733,695	5,367,829	131,358,100	-	-
P000611756Q	2005	4,703,616,000	8,013,098	1,284,674	1,284,674	13,053,229	154,553,149	-	296,842,715
P000611756Q	2006	5,026,486,000	495,844,841	148,164,102	148,164,102	12,794,795	161,869,784	-	166,832,091
P000611756Q	2007	5,783,589,000	17,988,585	5,396,576	5,396,576	12,963,395	180,584,454	-	533,913,353
P000611756Q	2008	6,132,217,000	6,676,000	1,111,410	1,166,164	13,057,791	180,455,575	-	796,180,019
P000611756Q	2009	7,537,495,000	764,210,468	227,795,180	227,795,180	13,057,788	205,347,658	-	146,014,579
		33,439,646,000	1,292,732,992	383,018,247	383,073,001	70,294,827	1,014,168,720	-	1,939,782,757
P000599375Q	2004	7,115,418,000	-	- 328,630	-	- 318,630	90,506,984	-	-
P000599375Q	2005	10,952,549,000	-	- 437,120	-	- 427,120	111,011,765	-	-
P000599375Q	2006	15,191,385,000	329,890,376	98,796,413	-	98,796,413	121,662,629	-	-
P000599375Q	2007	18,004,041,000	554,118,857	166,235,657	-	166,235,657	125,194,555	-	-
P000599375Q	2008	21,399,823,000	676,637,833	202,128,592	-	202,128,592	143,544,172	-	-
P000599375Q	2009	25,661,303,000	331,417,593	98,922,283	-	98,922,283	153,081,260	-	-
		98,324,519,000	1,892,064,659	565,317,195	-	565,337,195	745,001,365	-	-
P000594927A	2004	4,056,450,407	1,180,869,729	311,726,281	311,726,281	2,126,857	158,963,935	-	4,104,278
P000594927A	2005	5,043,300,000	991,383,049	289,331,694	289,331,694	-	-	-	135,706,029
P000594927A	2006	5,635,800,000	1,340,784,864	391,033,739	391,033,739	2,247,678	155,936,562	-	71,248,314
P000594927A	2007	6,789,751,000	1,584,421,288	460,904,771	460,904,771	2,247,678	160,540,445	-	203,853,087
P000594927A	2008	6,465,987,000	1,914,509,680	556,575,280	556,575,280	2,247,678	180,329,433	-	40,862,693
P000594927A	2009	6,911,009,000	1,574,566,339	465,692,440	465,692,440	2,247,678	167,179,554	-	46,925,902
		34,902,297,407	8,586,534,949	2,475,264,205	2,475,264,205	11,117,569	822,949,929	-	502,700,303
P051128176G	2004	20,540,000,000	843,763,397	252,655,289	265,288,041	-	2,410,559,806	-	-

Pin	IncomeYea	Turnover SUM	Taxable Income S	Charged Tax SUM	Tax SUM	Building Ded SU	Wear Tear Ded SU	Mining Op	Investments Ded SUM
P05112817	2005	18259134665	0	-1453875	-1443875	0	2282976384	0	0
P05112817	2006	16520514382	0	-683265	-673265	0	2213046678	0	3138897733
P05112817	2007	11510000000	0	-4800	5200	0	2026068149	0	230200000
P05112817	2008	16503000000	83497329	10722856	11258999	0	4710033	0	2227905000
P05112817	2009	10249227954	30127954	8194636	8529368	0	3311697300	0	0
		93581877001	957388680	269430841	282964468	0	12249058350	0	5597002733
P05113178	2004	9535669000	0	-26688834	-26688834	0	1594227756	0	0
P05113178	2005	1071478000	0	-2976141	-2976141	0	0	0	0
P05113178	2006	11125597000	0	-4155393	-4155393	0	2103566786	0	0
P05113178	2007	11255728000	0	-1572564	-1572564	0	2395655183	0	1271897264
P05113178	2008	9612938000	0	-2013276	-2013276	0	2619670713	0	1249681940
P05113178	2009	10770976000	1238281675	369533796	369533796	0	2765962132	0	0
		53372386000	1238281675	332127588	332127588	0	11479082570	0	2521579204
P00062658	2004	9792503000	1310542332	392778149	392778149	15316055	116072864	0	29366348
P00062658	2005	10080174000	2040587369	611043804	611043804	15316077	113060434	0	61411374
P00062658	2006	11657540000	1723829664	505913126	505913126	15336876	110451339	0	671593511
P00062658	2007	10381190000	1306688120	342241606	342241606	15414182	110917450	0	592499183
P00062658	2008	11970101000	2112551662	633184065	633184065	15414252	101265605	0	216189550
P00062658	2009	12194312000	0	-1047102	-1037102	15454213	133379630	0	7771774906
		66075820000	8494199147	2484113648	2484123648	92251655	685147322	0	9342834872
		2.07762E+12	3.39433E+11	97420112470	89132694830	4110340611	1.4146E+11	0	90889179564

Tax lost through Building Deductions							Tax lost through Investment Deductions		
Tax Expenditure incurred per year							Tax Expenditure incurred per year		
TE=BDS*.3							TE=IDS*0.3		
4110340611*0.3							90889179564*0.3		
1233102183							27266753869		
Tax expenditures=BDS/6=							Tax expenditures=IDS/6=		
1233102183.3/6							27266753869.2/6		
205517030.6							4544458978		
Top 25 sector accounts for over 40% of DTD revenue							Top 25 sector accounts for over 40% of DTD revenue raised		
Total tax expenditure incurred on BDS							Total tax expenditure incurred on IDS		
205517030.55/0.4							4,544,458,978/0.4		
513792575							11361147445		

Appendix 8
KRA Wide TE

YEAR	Turnover	Taxable Income	Tax Charged	Industrial building deduction	IBD TE	Investment Deduction	1D TE	LTO TE	DTD TE
2004	1.87135E+11	24192243081	5.72E+09	288732037	86619611.1	594730946	178419283.8	265038895	716321337.6
2005	2.70848E+11	45448084911	1.3E+10	636603604	190981081.2	10926155709	3277846713	3468827794	9375210254
2006	3.33162E+11	50837539960	1.4E+10	726378383	217913514.9	9269915157	2780974547	2998888062	8105102870
2007	3.73209E+11	71709317919	2.11E+10	689224452	206767335.6	12834489598	3850346879	4057114215	10965173554
2008	4.34448E+11	74082226761	1.99E+10	816962888	245088866.4	18043456280	5413036884	5658125750	15292231758
2009	4.81444E+11	65389859625	2.13E+10	907158516	272147554.8	32219996854	9665999056	9938146611	26859855705
Total					1219517964		25166623363		

YEAR	Turnover	Taxable Income	Tax Charged	Industrial building deduction	IBD TE	Investment Deduction	1D TE	LTO TE	DTD TE
2004	187.1353894	24.19224308	5.724273	0.288732037	0.086619611	0.594730946	0.178419284	0.265038895	0.716321338
2005	270.8480362	45.44808491	13.01366	0.636603604	0.190981081	10.92615571	3.277846713	3.468827794	9.375210254
2006	333.1621433	50.83753996	14.03158	0.726378383	0.217913515	9.269915157	2.780974547	2.998888062	8.10510287
2007	373.2090183	71.70931792	21.08826	0.689224452	0.206767336	12.8344896	3.850346879	4.057114215	10.96517355
2008	434.4479326	74.08222676	19.91687	0.816962888	0.245088866	18.04345628	5.413036884	5.658125 75	15.29223176
2009	481.4444058	65.38985963	21.32224	0.907158516	0.272147555	32.21999685	9.665999056	9.938146611	26.85985571
Total	2080.246926	331.6592723	95.09689	4.06505988	1.219517964	83.88874454	25.16662336	26.38614133	71.31389548

APPENDIX 9

LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 08/10/2011

TO WHOM IT MAY CONCERN

The bearer of this letter KIGEN T. KANDIE

Registration No D61/76231/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P.O. Box 30197
NAIROBI

JUSTINE MAGUTU
ASSISTANT REGISTRAR
MBA OFFICE, AMBANK HOUSE