A Comprehensive Review of Tax Policy Changes and Their Effects on Kenya's Tax Revenue

Abstract: *Government revenue is crucial for fostering economic growth, especially in emerging economies where financial autonomy matters. Mobilising this revenue is key to achieving the United Nations Sustainable Development Goals (SDGs) focused on productivity and inclusive growth. This study analyses Kenya's tax revenue trends from 2001 to 2021, particularly the impact of tax policy reforms on the tax-to-GDP ratio. The research uses secondary data from various sources to highlight the importance of domestic resource mobilization in enhancing financial independence and addressing fiscal challenges. The findings reveal a significant increase in Kenya's tax revenue from 182,418 million shillings in 2001 to 1,692,662 million shillings in 2021, reflecting the effectiveness of tax reforms. It notes a shift towards direct taxes, which increased both in absolute terms and as a portion of total revenue, indicating improved compliance and administrative efficiency. Key reforms, such as the Tax Modernization Programme and the digital iTax system, enhanced revenue collection by improving compliance and broadening the tax base. While indirect taxes have traditionally dominated, the gap with direct taxes has narrowed, leading to a more balanced revenue structure. The study also highlights challenges, including political disruptions in 2007 and the economic effects of the COVID-19 pandemic in 2020, emphasizing the need for resilient revenue strategies. Ultimately, the research concludes that continuous tax policy reform and improved administrative efficiency are essential for Kenya's fiscal sustainability and broader economic development goals.*

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Keywords: Tax revenue, Tax policy, Tax reforms, Economic development

1. Introduction

Government revenue is critical for boosting economic growth. Domestic government revenues in Africa are diminishing due to lower resource prices in resource-rich economies. Non-resource-rich economies have seen increased tax revenue and tax-to-GDP ratios. According to the African Development Bank, the Organisation for Economic Cooperation and Development, and the United Nations Development Programme (AFDB, OECD, UNDP), broadening tax

bases has resulted in higher revenue yields (2016). Mobilizing government revenue is crucial for achieving the United Nations Sustainable Development Goals (SDGs) of boosting productivity and inclusive growth. This is crucial for promoting financial autonomy in African economies.

The availability of economic resources for society is limited. Typically, a rise in government spending results in a decrease in private expenditures. Implementing fiscal policies, such as raising taxes, can transfer resources from the private to the public sector. Governments employ several techniques to raise resources, including borrowing, receiving aid, printing money, and taxes. Taxation remains the primary source of government revenue Chaudhry et al., (2010)

Governments in emerging countries attempt to promote and guide economic and social growth. Implementing appropriate tax policies can help mobilize resources more effectively Wawire, (2017). With decreasing Official Development Assistance (ODA), aid-dependent countries require effective internal resource mobilization. In recent decades, many developing countries have implemented reforms such as VAT to improve tax collection. Tax income is a measure of an economy's ability to pay government expenditures. However, most developing countries still have low levels of taxation.

The literature increasingly recognizes that relying on external money for development is unsustainable. Not only is this source of finance unpredictable, but it also limits a country's policy flexibility, reduces its sense of ownership in the development process, and can lead to long-term debt sustainability issues Gupta, (2007) Meanwhile, the issue of Domestic resource mobilization (DRM) has recently garnered significant emphasis in development plans such as the Istanbul Program of Action (IPoA). The 2002 Monterrey Consensus on Financing for Development, Agenda 2063 of the African Union, and the Sustainable Development Goals (SDGs), Furthermore, there are numerous recommendations that domestic resource mobilization can assist emerging countries in boosting economic growth and development. Taxation is regarded as essential in nation-building (Ojong et al., 2016). While its function in the economy is critical, it is the primary source of domestic revenue.

Kenya's fiscal indiscipline in the 1970s impaired budget and expenditure control. The public sector grew larger and more bureaucratic. During the 1970s, the government held shares in approximately 250 commercial businesses. The government was forced to pay the loans of

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significant state-owned firms due to their losses. Inefficiencies in the public sector posed a problem for government programs like free university education and healthcare. During the early 1980s, the government had balance of payment (BOP) issues, including a current account deficit, a budget deficit-GDP ratio of above 7%, and high inflation rates. During this period, International Financial Institutions (IFIs) implemented Structural Adjustment Programmes (SAPs). The government initially resisted abandoning the regulated system, but borrowing from outside eventually led to its approval and subsequent economic liberalization.

Due to increasing pressure from IFIs, the government was forced to liberalize the economy (Were et al., 2006). Kenya's government initiated the Public Financial Management Reform (PFMR) plan in 2006 aimed at improving fiscal policy responsiveness, accountability, and transparency. Systemic reforms have been implemented in various areas, including external audit, budget development, revenue collection, public procurement, debt and guarantee, and internal audit. To boost domestic revenue mobilization, the Kenyan government established the Kenya Revenue Authority (KRA), which is responsible for assessing and collecting income as well as making subsequent adjustments to revenue and tax administration laws. Since its inception in 1995, KRA has established and modified numerous projects and Acts, including the Revenue Act, administrative policies, and Customs Act. Domestic revenue mobilization is seen as a key weapon utilized by the Kenyan government to achieve its poverty reduction strategy and four prosperity agenda, as well as to create financial independence and prepare for the transition to middle-income status. Kenya's tax income (% GDP) has consistently been dropping, and it is less than the 20% minimum necessary by the United Nations (2015) to meet the SDGs.

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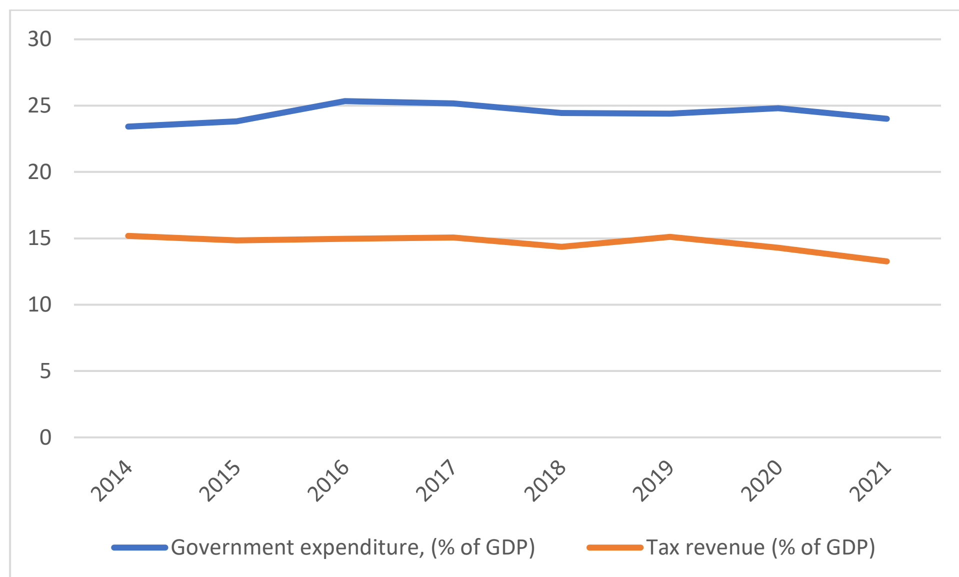
Figure 1: Trend in Tax Revenue and Government Expenditure as a percentage of GDP



Source: WDI (2021) and IMF (2021)

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In recent years, the Kenyan government's ability to raise revenue through taxes has attracted greater interest. Tax income is the lifeblood of government spending, funding critical services such as infrastructure, education, and healthcare. Understanding how tax collection trends evolve in Kenya is critical for assessing the country's economic health and ability to invest in the future.

The low tax-to-GDP ratio is characteristic of most SSA countries. Despite their best efforts, many countries are unable to produce adequate income to finance their government deficits and meet their development needs. According to the United Nations Development Program (2013), half of SSA nations generated 16.8% of GDP from tax revenue, which is less than the UN benchmark of 20% to meet the Millennium Development Goals. Kenya's 2010 tax-to-GDP ratio was 17.7%. Although greater than neighbouring nations like Ethiopia (12.2%) and Rwanda (14.1%), it still falls short of the UN standard aim. This means that tax revenue varies by country and has various economic characteristics. This distinction is linked to characteristics that are specific to each country due to socioeconomic and political circumstances. Furthermore, most African countries, including Kenya, have major hard-to-tax sectors, such as small businesses and farms, as well as a high proportion of informal activity.

This study will conduct a complete examination of Kenya's tax landscape. It will examine tax revenue trends for a 20-year period (2001-2021), seeking to discover patterns of increase, stagnation, or decline. It will also look at the tax-to-GDP ratio, which is an important indicator that shows how much of a country's economic output is collected in taxes. This ratio allows us to measure the efficiency of Kenya's tax collection system and its contribution to the national economy.

Objectives:

i. Analyze the trends in Kenya's tax revenue to identify patterns of increase, stagnation, or decline.
ii. Evaluate the tax-to-GDP ratio to gauge the efficiency of Kenya's tax collection system and its impact on the national economy.

2. Methodology

In this study, a 20-year period of time series data spanning 2001 to 2021 was utilized to examine the trends in tax income as well as to evaluate the tax-to-GDP ratio in Kenya. The study uses secondary data sourced from several local and international institutions, including the Central Bank of Kenya (CBK) and The Kenya Revenue Authority (KRA), the Organisation for Economic Cooperation and Development (OECD) and the World Bank (World Development Indicators (WDI)).

3. Literature Review

In his study,Alsharari (2019) assesses the effectiveness of previous tax policy adjustments against revenue, equality, and efficiency standards to guide future reform efforts. The report compares taxation and revenue developments in North Africa (MENA) region and the Middle East from 1990 to 2012. The study found that non-resource revenues decreased slightly while income from resources increased significantly. Analyzing government revenues and taxing structures can reveal the effectiveness of previous changes in terms of revenue, equity, and efficiency and identify areas for improvement to create simpler tax systems. The analysis shows that the Maghreb sub-region has higher taxes and revenues than the Mashreq, with the exception of value-added tax, where low rates lead to equal or larger revenue. Income taxes,

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rather than indirect taxes, were found to partially compensate for revenue losses due to trade liberalization.

Studying the Tax Reform Experience of Kenya (Kanyi et al., 2014) stated taxation as a measure of state capability, formation, and power relations in society as a whole. Kenya implemented tax reforms to combat inequality and develop a sustainable income structure for state expenditures. The tax modernization initiative aims to create a sustainable tax system that can adapt to changing situations, both locally and globally. Policies shifted towards relying on indirect taxes rather than direct taxes. Consumption taxes encourage investment and growth. Trade tariffs were viewed as promoting export-led development rather than protecting or maximizing revenue. Trade levies were employed to boost exports rather than defend the manufacturing sector against imports, as was previously done. The research study aimed to assess the impact of tax policy reforms on tax revenue in Kenya. The regression model of Total Tax Revenue on Domestic Taxes and Customs yielded positive and significant coefficients at the 5% level.

Genschel et al. (2016) compare tax policy changes in underdeveloped nations and transition economies to those in established Western democracies, estimating total tax income by combining domestic taxes and customs duties. Non-Western countries tend to follow Western countries in some areas, but not all. Non-Western countries adopted Western consumption taxation, such as higher value-added tax and lower trade taxation, but did not replicate the strong and progressive personal income tax of the 20th century. Taxation patterns are linked to socioeconomic changes (measured by GDP per capita) and structural issues (determined by country size). Political institutions' impact on taxation is non-linear and complex.

Analyzing tax ratio and effort differences between Kenya and Malawi from 1980-2015 Rasiel Macha et al., (2018). The study estimated tax effort and identified factors contributing to disparities in tax indices. The study found that GDP per capita, agriculture's part of GDP, and industry's share all had an impact on Kenya's tax collection in the long run. However, the dummy variable for political transformation in Kenya did not show significant results. In Malawi, long-run changes in tax income were explained by GDP per capita, Agriculture's GDP share and industry's GDP share and the dummy variable for political transformation. The analysis found that Malawi was undertaxed and Kenya was overtaxed, based on their distinct economic structures. The study recommends that the two countries work towards an optimal level of taxation.

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In his research, Addison et al. (2009) use an imbalanced panel dataset of 39 nations from 1980-2005 to analyze the factors influencing tax revenue in Sub-Saharan Africa. The econometric study takes into account several factors that may affect tax collections, including the tax base, structural factors, foreign aid, and conflict. Their contribution involves analyzing the determinants of tax revenue and their impact on the tax structure, including international trade taxes, domestic indirect taxes, and domestic direct taxes. The findings indicate that open and less agriculturally based economies, as well as less populated and peaceful countries, have greater tax-to-GDP ratios. VAT significantly improves the tax-to-GDP ratio. Our findings indicate that openness and per-capita GDP correlate with the trade-tax GDP ratio. Agricultural sector size and foreign aid have a negative impact on the direct-tax GDP ratio. VAT and a pleasant environment have a large favourable impact.

The proper content and level of government taxes have become critical for achieving a broad-based, stable path of economic growth across countries. Kenya has gradually shifted from direct to indirect taxation since 1973, with the goal of building a long-term tax structure capable of generating sufficient money for economic growth. According to Owino (2018), "The Trade-off between Direct and Indirect Taxes in Kenya. An Empirical Analysis" The regression study found a negative association between direct taxes and economic growth, but a positive relationship between indirect taxes and economic growth. On the other hand, tax revenue leads to economic growth. The empirical data show that direct taxes have a negative link with economic growth in Kenya, whereas indirect taxes have a positive correlation, corroborating the endogenous growth models' predictions. Thus, according to these and other findings, the global shift from direct to indirect taxation has empirical support in Kenya. As a result, it advised that the government depend on indirect taxation rather than direct taxation due to its higher economic potential and lower distortionary character.

According to the research 'The Tax Reform Experience of Kenya,' the purpose of Kenya's tax modernization project was to build a tax structure that could withstand changes in both the domestic and global economies. Karingi et al. (2005) The reliance on indirect taxes has expanded at the expense of direct taxes. Consumption taxes were deemed to be more beneficial for growth and investment. Trade tariffs were viewed as tools to promote export-led industrialization rather than for protection or revenue maximization; as a result, rather than protecting the manufacturing sector from import competition, trade taxes were employed to promote a competitive export industry.

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4. RESULTS AND DISCUSSION

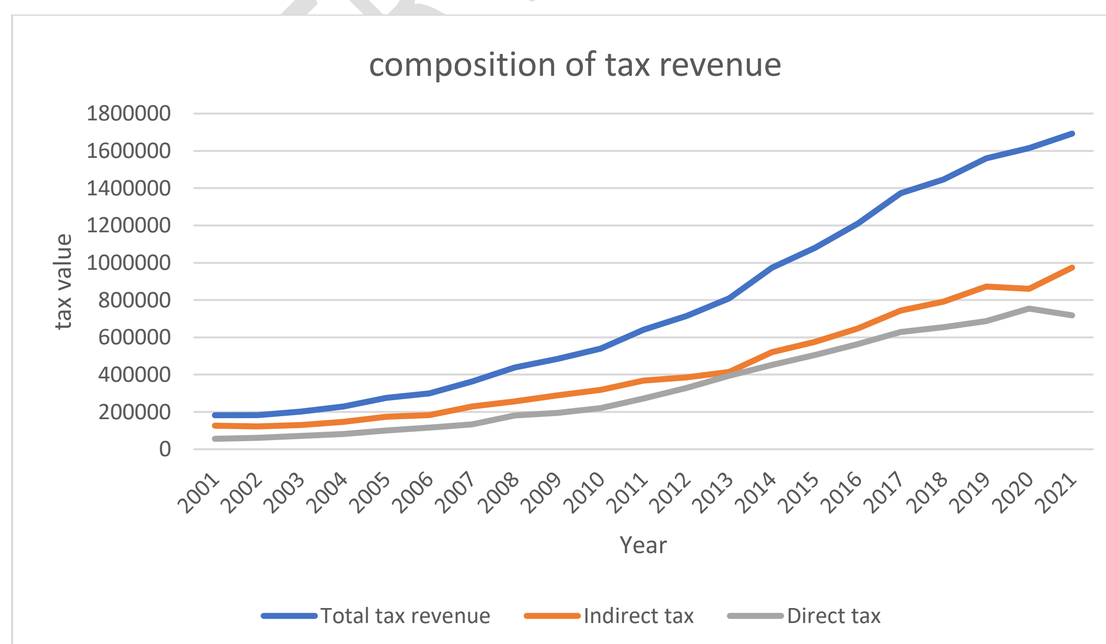
4.1 Assessment of the impact of tax policy reforms on Tax revenue trends in Kenya.

Kenya's tax income increased from 182,418 million shillings in 2001 to 1,692,662 million shillings in 2021. The administration is exploring tax reforms to create a sustainable and productive mechanism for funding government spending without relying on deficit financing. The country's constitution mandates a devolved governance structure, which necessitates increasing tax collection to support both the central and devolved governments.

Tax reforms implemented in the early 1970s have led to an increase in revenue to date. Taxes can be characterized as direct or indirect, depending on how they are collected. Let's examine the trends in the collection of direct and indirect taxes at the central level as well as their proportion in total central revenue.

4.2 Trends in Direct and Indirect Tax

Figure 2 **Composition of Central Taxes**



Source: Organization for Economic Cooperation and Development (OECD)

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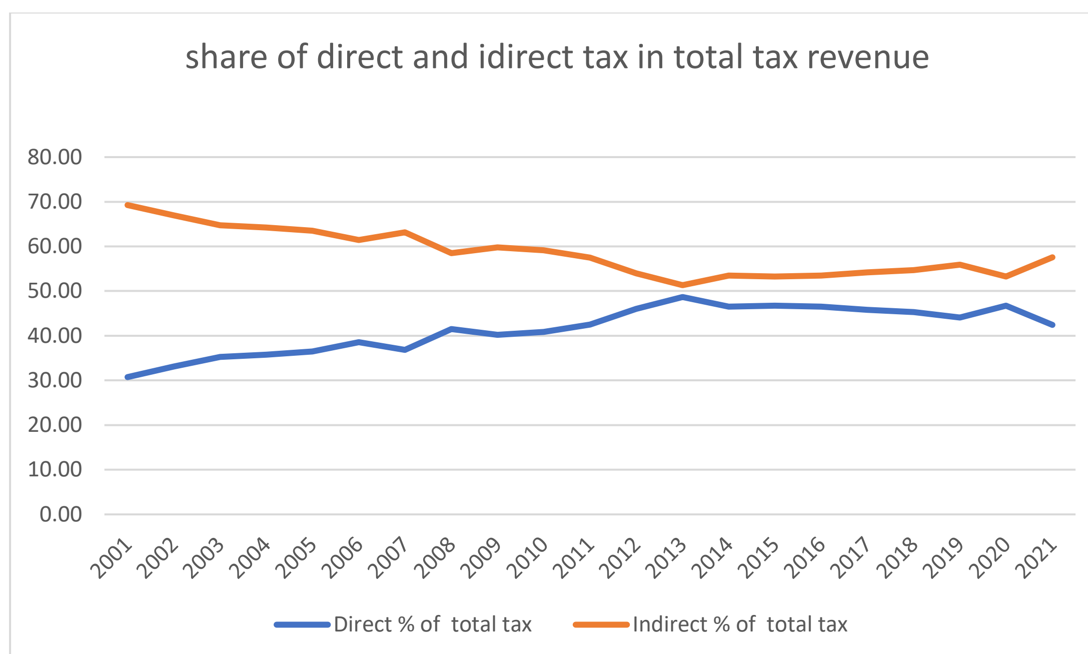
Figure 3. Trends of Direct and Indirect Taxes



Source: Organisation for Economic Cooperation and Development (OECD)

The comparison of direct tax collection to indirect tax collection, Table 1 and Figures 2 and 3, show that direct taxes have risen since 2001, both in absolute terms and as a percent of overall revenue. Direct taxes have grown significantly not only in absolute terms but also as a ratio of total taxes. It began at 30.74 per cent of the total in 2001 and rapidly climbed to 38.59 per cent by 2006. It fell somewhat to 36.81 per cent in 2007 but then recovered, reaching a peak of 48.67 per cent in 2013. However, it then fell somewhat and has remained in the range of 42% to 49% till 2021. In 2013, indirect taxes outperformed direct taxes by a slight margin of 51.33 per cent against 48.67 per cent. Throughout the study period, indirect tax dominated, but the gap has significantly narrowed since 2001.

Kenya had a high dependency on indirect tax from 2001 to 2008, contributing 69.26 per cent of the total tax income, while direct tax only accounted for 30.74 per cent. During the early 2000s in Kenya, indirect taxes, like sales tax or import duties, took centre stage compared to direct taxes on income. This preference for indirect taxes is attributed to several factors. Firstly, collecting them at the point of sale or import made them much simpler and cheaper for the government to administer. Secondly, these taxes cast a wider net, reaching a larger portion of the population through everyday purchases, unlike direct taxes, which might only apply to

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salaried individuals or formal businesses. Additionally, indirect taxes offered the government a more stable source of income. Even during economic slumps, people tend to continue consuming at least some basic necessities, ensuring a steady flow of revenue. Kenya's economic landscape in the early 2000s has also played a role. A potentially larger informal sector, where income is difficult to track, has made direct taxes less effective. Finally, trade

policies focused on import duties have further contributed to their dominance.

The increase in direct tax collection can be linked to the explosive expansion of the organized sector, the expansion of the financial sector's interaction with the rest of the economy, administrative measures taken by the tax administration (Kenya Revenue Authority), and tax structural reforms implemented during the research period. These resulted in improved tax compliance following the rationalization of tax rates to a realistic level of 20% for the highest rate beginning in 1996, the introduction of technology and automation, and greater enforcement. E-payment of taxes, e-filing of returns, and computerization of departmental tasks all help to improve tax collection and management.

First is the Tax Modernization Programme (TMP), which has had an impact since the beginning of the 2000s. The success of this reform package was dependent on achieving several objectives, including increasing revenue from 22 to 28 per cent of GDP, improving the economic efficiency of the tax system by lowering and rationalizing tax rates, and increasing reliance on self-assessment systems.

Second, the Electronic Tax Register (ETRs) was adopted, making it essential for VAT-registered enterprises to send tax invoices that are either ETR-generated or accompanied by ETR receipts. This was supposed to improve administrative efficiency, reduce evasion, and address the long-standing issue of poor record-keeping for business transactions by lowering the time required to prepare VAT returns.

Despite these initial measures, there was a decrease in direct taxes in 2007, which can be attributed to the election season. The decrease in direct tax collection in 2007 was a one-time event, as opposed to a constant growth in previous years and a subsequent increase. This may be a reflection of the 2007 election and the political and economic turmoil it created, including political insecurity, disruption of corporate activities, and erosion of trust in government.

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Third, Digitization of tax administration, including the Excisable Commodities Management System (EGMS) in November 2013, which is a Track and Trace System (TTS) for excisable commodities such as cigarettes and cigars, the *i*Tax system and KRA M-Service, improved revenue performance, particularly for direct taxes. The *i*Tax system, established in 2013, is a web-based tool that enables taxpayers to register, file, pay, and submit queries. The KRA M-Service platform, created in 2014, allows taxpayers to make payments and obtain tax information via mobile phones (Ndung'u, 2017). The digitization of tax collection has resulted in the implementation of excise taxes on financial services and mobile phone airtime. However, their performance remains low. Technology has helped minimize unregistered commercial activity. This will increase the tax base by including more small and medium-sized firms (SMEs) in the tax rate. Digitizing the tax system has reduced corruption and improved efficiency by eliminating in-person encounters.

4.3 Trends in Direct Tax Collection

Kenya's direct taxes are broadly classified into corporate tax, personal income tax, property tax and other direct taxes. Though it has been noticed that the total direct tax collection in Kenya has been increasing at a steady pace in the last 20 years, it is important to see how its components are faring over the same period. From Figure 4, it can be seen that personal income tax has been in the lead for the last two decades compared to corporate tax, property tax, and other direct taxes. Even though all these components of direct tax have exhibited growth over time, the margin between personal income tax and other components has widened, given its steady increase. CIP, property tax and Other represent smaller portions of total direct taxes. CIP has increased slightly but fluctuates more than PIT. Others have seen a slight increase but remain relatively flat. Property tax appears to be the least significant contributor to total direct tax collection. It has remained relatively flat throughout the period.

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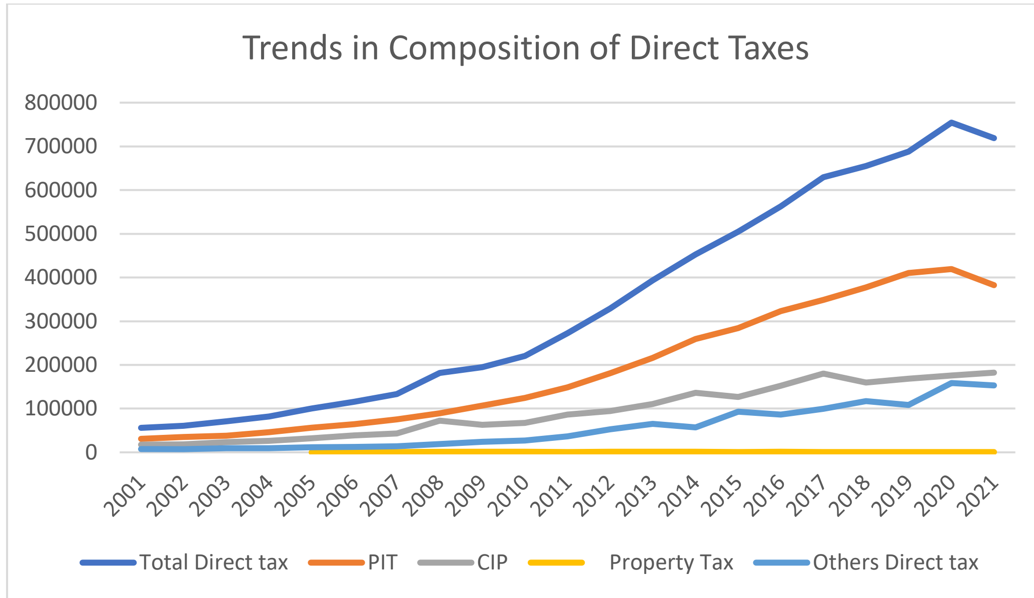
Figure 4. Composition of Direct Taxes in Kenya

Trends in the Composition of Direct Taxes



Source: Organisation for Economic Cooperation and Development (OECD)

Figure 5. Growth in Direct Taxes

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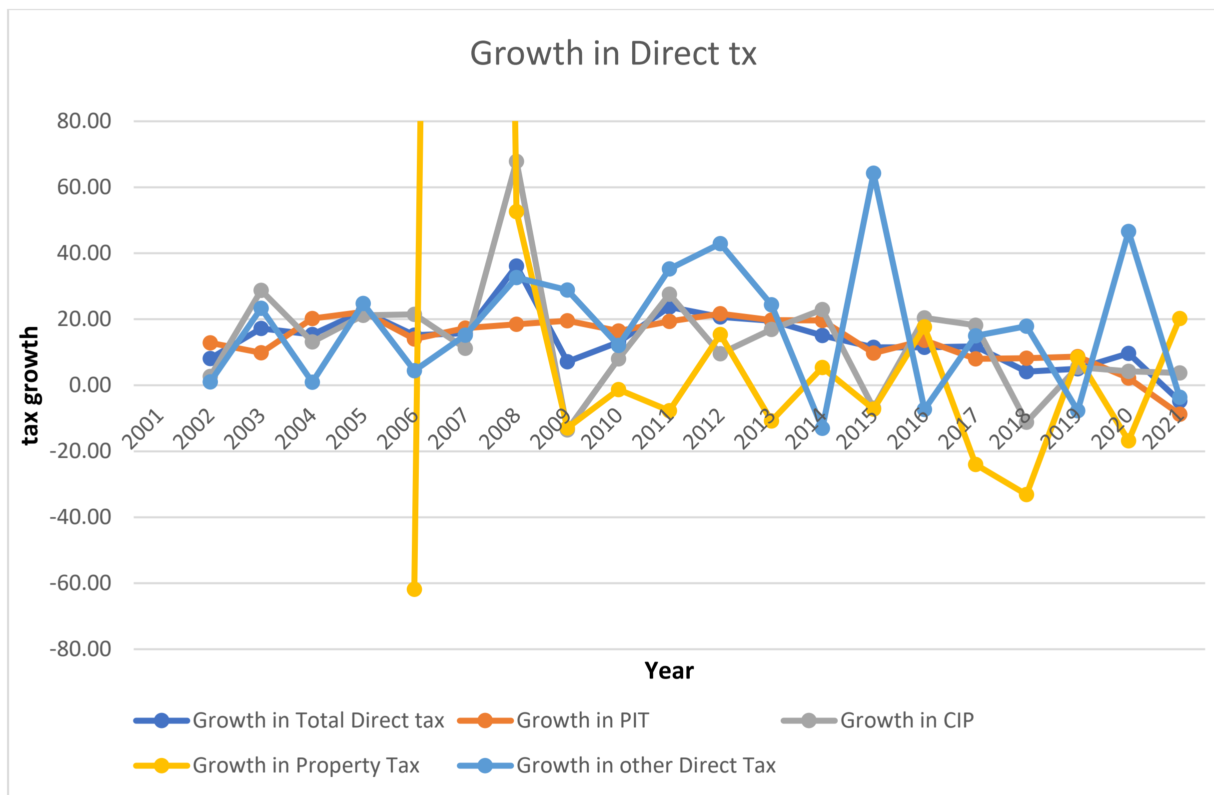

Source: Organisation for Economic Cooperation and Development (OECD)

During this period, personal income taxes outperformed corporation taxes. Tax changes, such as the Pay-as-You-Earn (PAYE) system, have increased direct tax bases and improved tax administration through digitization (KRA 2010; Wawire, 2016; KRA 2015; Ndung'u, 2017). The Kenyan government's efforts to combat corruption, as well as the mandatory filing of individual tax returns through the *i*Tax system, are likely factors contributing to this increase. Tax incentives for corporations to invest (KRA 2011) have led to lower corporate tax performance compared to income taxes.

During the study period, there was no significant increase in property or other taxes. In 2018, the International Monetary Fund (IMF) found that property taxes are insufficient to generate revenue. Property owners may struggle to be traced, there is no legislative framework for property taxation, or there are insufficient resources for property assessment (KRA, 2015; McCluskey et al., 2017).

The total direct tax has experienced fluctuating growth with a width band between 0 per cent and 20 per cent with three years exceptions: 2008 recorded the highest growth of 36.14 per

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cent, 2011 recorded a growth of 23.73 per cent and the lowest growth was seen in 2021, which recorded -4.75 per cent.
Overall, the graph suggests that direct tax collection in this country has grown significantly over the past ten years. Personal income tax is the main driver of this growth, while corporate income tax, property tax, and other direct taxes play a smaller role.

4.4 Trends in Indirect Tax Collection

The analysis of the data from 2001 to 2021 reveals significant trends in various tax components. The total indirect tax collections have shown a consistent upward trend, with notable exceptions in 2002, which saw a slight decrease of -2.95%, and 2020, which experienced a decline of -1.24%. Significant growth periods include 2004-2005, with increases of 12.73% and 18.82%, respectively; 2007, with a 24.82% rise; and 2014, with a substantial growth of 25.41%. In 2021, there was a recovery with a growth of 13.16%.

VAT (Value-Added Tax) collections also generally increased over the years. There were moderate increases in 2002-2003 at 0.94% and 10.74%, respectively. Significant growth was observed in 2005 at 23.62%, in 2007 at 26.76%, and in 2011 at 21.72%. The year 2014 saw a major growth of 27.44%. However, 2020 saw a decrease of -3.33%, followed by a recovery in 2021 with an increase of 6.90%.

Excise duty collections have mostly shown an upward trend, with consistent increases in 2002-2003 of 9.32% and 9.45%, respectively. Notable increases were recorded in 2004-2005 with 14.80% and 15.10%, respectively, and a significant rise in 2007 to 22.16%. The year 2014 saw a considerable increase of 13.44%, and 2016 experienced a major growth of 25.42%. Despite a decrease of -3.39% in 2020, there was a large increase of 27.93% in 2021.

Customs duties have shown an overall increasing trend, albeit with more variability compared to other taxes. There was a significant decrease of -22.10% in 2002. However, 2004-2005 saw increases of 20.98% and 10.79%, respectively, and a large increase of 28.05% in 2007. The year 2014 experienced a substantial growth of 37.41%. Although there was a small increase of 2.92% in 2020, 2021 saw considerable growth of 16.51%.

Figure 6. Trends in the Composition of Indirect Taxes

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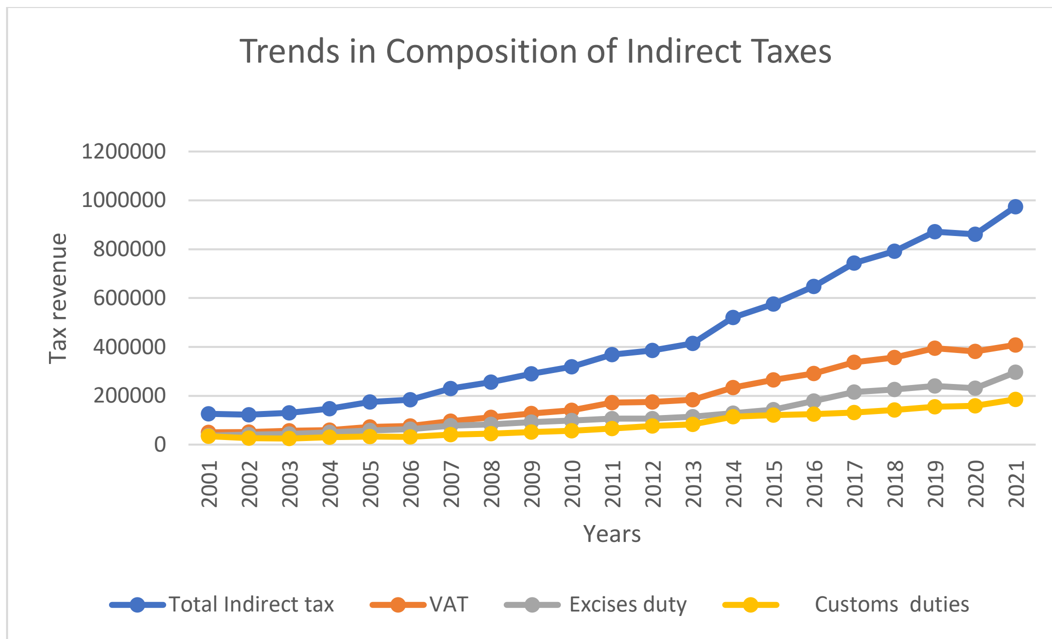

Source: Organisation for Economic Cooperation and Development (OECD)

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From 2001 to 2021, the total indirect tax collections in Kenya have shown a consistent upward trend, with a few instances of minor declines, particularly in 2002 (-2.95%) and 2020 (-1.24%). VAT has been a major contributor to the total indirect tax revenue, generally accounting for a significant portion of the collections, with substantial growth in years like 2005 (23.62%), 2007 (26.76%), and 2014 (27.44%). Excise duty collections have also shown an upward trend, with notable increases in 2004-2005 (14.80% and 15.10%) and 2016 (25.42%), though there were occasional declines, such as in 2020 (-3.39%). Customs duties have demonstrated variability but generally followed an increasing trend, with significant growth in years like 2004 (20.98%), 2007 (28.05%), and 2014 (37.41%), despite notable declines in certain years, such as 2002 (-22.10%). Comparative analysis reveals that VAT has consistently been the largest contributor to the total indirect tax revenue, followed by excise duties and customs duties. Key years like 2007, 2014, and 2021 saw significant increases across multiple tax components, indicating strong fiscal performance or policy changes, while years like 2002 and 2020 experienced declines due to economic downturns or other external factors. Proportional contributions in selected years illustrate that VAT, excise duties, and customs duties have played dynamic roles in revenue collection, with VAT being the most significant contributor.

4.5 Analysis of Tax-GDP Ratios

There is a public discussion about Kenya's historical tax collecting record as a percentage of GDP. The widespread consensus is that we're punching below our weight. The government has embarked on a tax reform plan outlined in the Medium-Term Revenue Strategy (MTRS) aimed at raising domestic revenues. The plan is expected to generate additional resources necessary to fulfil the present administration's pledges under the Bottom-up Economic Transformation Agenda.

The MTRS will be implemented across three years, from fiscal year 2024/25 to 2026/27. The East African Community (EAC) strives for a 25% tax-to-GDP ratio, which the government intends to accomplish by 2030. The government's three-year strategy is to increase the regular revenue-to-GDP ratio by 5% through administrative initiatives and tax policy adjustments. In addition, Kenya's non-tax receipts accounted for 2.3% of GDP. This was lower than the 33 African countries' average non-tax revenue (5.8% of GDP). In general, the agriculture sector's contribution to tax collections is expected to be small in comparison to its GDP contribution.

This is due to the fact that a considerable percentage of the industry is small-scale, with the majority of farmers engaged in subsistence farming and very few commercial farming activities. When implementing the MTRS, the government should take Kenya's particular economic structure into account in order to strike a healthy balance between increasing tax collections and promoting economic growth. This will ensure that the goose that lays the golden eggs continues to lay them while also encouraging all sectors to thrive and contribute more to the national tax budget.

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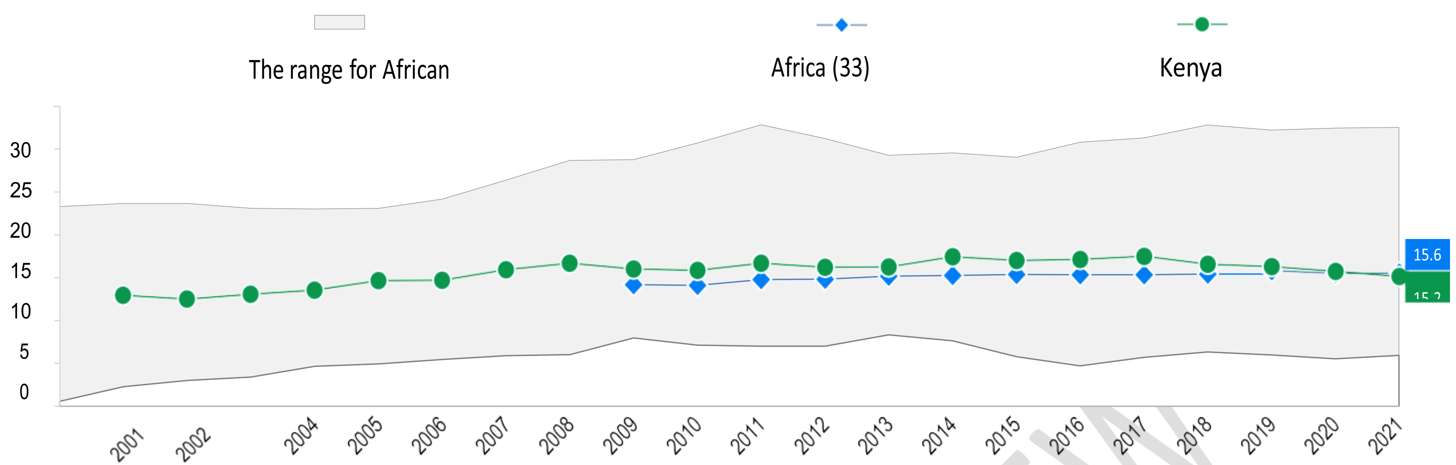
Despite a significant rise in revenue collections over the years, Kenya's tax-to-GDP ratio has been found to be lower than the predicted average for comparable countries. According to the OECD, Kenya's tax-to-GDP ratio fell by 0.6 percentage points from 15.8 per cent in 2020 to 15.2 per cent in 2021. The average tax-to-GDP ratio for the 33 African countries, as published in the Revenue Statistics in Africa publication, stayed at 15.6 per cent throughout the same time period. It also states that Kenya's highest tax-to-GDP ratio reported since 2000 was 17.5% in 2017, with the lowest at 12.5% in 2002.

Fig 7. Analysis of Tax-GDP Ratios



According to the OECD, the average relative contribution of the various tax heads to total tax collections in Africa is as follows: personal income tax (17%), corporate income tax (19%), social security contributions (8%), taxes on goods and services other than VAT (24%), Value Added Tax (28%), and other taxes (4%).

Kenya's tax receipts in 2021 were as follows: Non-VAT taxes on goods and services (32%), VAT (24%), personal income tax (22%), corporate income tax (11%), social security contributions (2%), and other taxes, which accounted for about 10%.

According to MTRS, Kenya's ordinary revenue as a percentage of GDP fell from 18.1% in 2013/14 to 14.1% in 2022/23. This was ascribed to a number of factors, including the negative effects of Covid-19, increased tax expenditure, and low tax compliance.
In particular, the Kenya Revenue Authority (KRA) has introduced a variety of fiscal and administrative strategies over the years to boost tax collections. These initiatives have shown significant benefits, with revenue collections increasing in the last five years from Sh1.58 trillion in 2018/19 to Sh2.166 trillion in 2022/23. This reflects a 37% increase over the last five years, equivalent to Sh586.259 billion.

According to the Economic Survey, Kenya's GDP, which is the total of all finished products and services produced in the country within a certain period, has expanded at a steady rate throughout the last five years, except in 2020, when the economy contracted by 0.3%. In 2022, services contributed 55.1% of GDP, agriculture 21.2%, industry 17.7%, and other sectors 6.1%.

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Furthermore, formal employment accounted for 17.1 per cent of overall employment, while informal work accounted for 82.9 per cent.

5. CONCLUSION

In conclusion, the assessment of tax policy reforms on Kenya's tax revenue trends reveals significant strides and challenges over the past two decades. From 2001 to 2021, Kenya's tax income increased substantially, reflecting the government's commitment to fiscal sustainability and economic development. The shift towards direct taxes has been notable, with direct tax revenues steadily increasing as a proportion of total tax income, signalling improvements in compliance and administration. The evolution of tax policy reforms, such as the Tax Modernization Programme and digitization initiatives like the *i*Tax system, has played a crucial role in enhancing revenue collection efficiency. These reforms facilitated better tax compliance, streamlined administrative processes, and broadened the tax base, particularly in the formal sector. However, challenges such as political disruptions in 2007 and external economic shocks like the COVID-19 pandemic in 2020 underscore the volatility and resilience required to sustain revenue growth.

Indirect taxes, though historically dominant, have seen a narrowing gap with direct taxes, reflecting a more balanced revenue structure. VAT, excise duties, and customs duties have shown varying growth patterns, influenced by economic trends and policy adjustments aimed at stimulating economic activity and revenue growth. Looking forward, Kenya's Medium-Term Revenue Strategy aims to further increase tax-to-GDP ratios and enhance revenue diversification through administrative reforms and targeted policy adjustments. Achieving these goals will be critical in supporting sustainable development goals and ensuring fiscal resilience amidst global economic uncertainties. While Kenya has made significant strides in tax policy reforms and revenue collection, continued efforts are necessary to achieve optimal revenue performance, mitigate economic vulnerabilities, and foster inclusive growth across all sectors of the economy.

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