Total Tax Contribution of the Kenya Banking Sector - 2023

August 2024

pwc

KENYA BANKERS
ASSOCIATION

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1 Foreword

Welcome to the fifth edition of the Total Tax Contribution (TTC) study of the Kenya Banking Sector covering the financial year ended 31 December 2023. The estimated TTC for the 43 banks and micro finance institutions that participated in this study is KES 190.26 bn. In 2022, the TTC was KES 181.27 bn. At KES 190.26 bn, this is the highest TTC since the study's inception in 2017 and is equivalent to 8.78% of all the taxes collected by the government[1] and represents a year-on-year growth of 4.96%.

43 participating banks (37 banks and 6 Microfinance Institutions) representing over 99% of the banking sector market share from net assets perspective provided us with their TTC data. This is the highest level of participation since the inception of the study. Notably, all tier-one banks, which control more than 75% of the market share, participated in the study in both 2022 and 2023.

The taxes contributed by the participating banks grew by 4.96% while the taxes collected by government from the entire economy increased by 6.7%. Furthermore, the relative contribution by the participating banks to total taxes collected in Kenya decreased by a marginal 0.15% in 2023 compared to 2022. Given the current high levels of compliance within the banking sector, this perhaps indicates that the tax contribution of the banking sector is reaching a level where it cannot be optimised further.

The year 2023 saw the strengthening of Kenya's economic performance despite challenges such as elevated inflation, rising debt service obligations and the depreciation of the Kenya shilling. Real GDP grew to 5.6%[2] in 2023, surpassing the previous year's growth of 4.9%[3]. This growth was driven by a robust rebound in the agriculture sector, following improved weather conditions, and moderate growth in the services sector, particularly tourism and financial services.

Notwithstanding the improved GDP growth, the year 2023 saw an increase in the ratio of Non-Performing Loans (NPLs) to total loans from 13.8% in 2022 to 14.2% in 2023[4]. This can be attributed to macroeconomic factors such as elevated inflation, currency depreciation, and increased costs of doing business. The increase resulted in a reduction in the profitability of the banking sector with the Profit Before Tax (PBT) reducing by 9.24%[5] and Corporate Tax paid by the banking sector reducing by 23.00%[6].

Reflecting on the government's continued focus on taxation of citizens in formal employment, we have introduced a separate section on people taxes containing an analysis of Pay As You Earn (PAYE), Affordable Housing Levy (AHL), National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF) and Fringe Benefit Tax (FBT) this year in the study. As a significant employer in the formal economy[7], the contribution of the banking sector towards PAYE was 7.79%[8] of all PAYE collected in the country.

43

Banks and micro finance institutions participated in the 2023 study.

[1]Government's financial year runs from July to June while banks' run from January to December. Both periods run for 12 months and therefore the statistics are comparable.

[2]https://www.knbs.or.ke/wp-content/uploads/2024/05/2024-Economic-Survey.pdf

[3]https://www.knbs.or.ke/wp-content/uploads/2024/05/2024-Economic-Survey.pdf

[4]https://www.kba.co.ke/state-of-the-banking-industry-report/

[5]KBA members include 46 banks and microfinance institutions as listed on their website: https://www.kba.co.ke/kba-members/

[6]KRA defines the banking sector to include Listed banks (44); SACCOs (16); Microfinance (7); Investment/Custodian banks (38); Others (47)-i.e., Bureaus, International Bank Corporations with Local Offices

[7]KNBS Economic Survey 2023

[8]KRA defines the banking sector to include Listed banks (44); SACCOs (16); Microfinance (7); Investment/Custodian banks (38); Others (47)-i.e., Bureaus, International Bank Corporations with Local Offices

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We have also included a section to quantify the cost of compliance. The section addresses, among other aspects, the impact of changes in tax policy and administration over the year with one of the most notable changes being the requirement to remit withholding income tax (WHIT) and withholding VAT (WHVAT) within 5 working days of payment.

Finally, we have made comparisons to the Tanzania Bankers Association (TBA) Total Tax Contribution Study. It is notable from the study, that while the Kenyan participants contributed 8.78% of all taxes paid in Kenya, participants from the Tanzania banking sector contributed 6.60%.

This means that compared to the Tanzania government, the Kenyan government is more reliant on the tax contribution of banks. Noteworthy, we were not able to make similar comparisons for other East African countries as the TBA is the only Banking Association in the East Africa region that has published a TTC report.

We hope that the results of this study will continue to inform the debate over the taxation of the banking sector, as well as provided an increased level of appreciation on the cost of tax compliance for the sector.

We thank the 43 Banks and Microfinance Institutions that participated in this study, the Kenya Revenue Authority (KRA) Statistics, Analytics and Reporting division, and the Kenya Bankers Association (KBA), all of whom provided crucial data for this report.

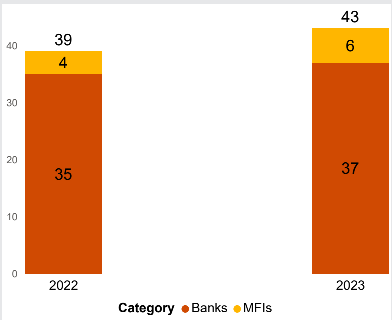
2 2023 Total Tax Contribution in summary

1. Survey participation

Forty-three (43) participants provided data for the study. This is an increase of 4 participants compared to 2022 and the highest participation ever since inception of the study.

37 of the study participants are commercial banks while 6 are microfinance institutions.

99% of the banking sector covered.



2. The Total Tax Contribution (TTC) of study participants increased by KES 8.99 bn in 2023 representing a 4.96% year-on-year increase

- The TTC of KES 190.26 bn consisted of:
  - KES 102.52 bn of taxes borne; and
  - KES 87.74 bn of taxes collected
- The TTC of KES 190.26 bn represents 8.78% of total government receipts in the government financial year ended June 2023.

8.78% of total government receipts[9]

TTC increased by **KES 8.99 bn (4.96%)** in 2023.

Total Tax Contribution of **KES 190.26 bn**

KES 102.52 bn Of taxes borne

KES 87.74 bn Of taxes collected

3. Whilst the taxes borne slightly dipped, the Total Tax Rate (TTR) for the study participants increased in 2023

The TTR is computed by dividing the taxes borne by study participants by the PBT of the study participants. The taxes borne mainly comprises Corporate Tax and Irrecoverable VAT.

TTR increased by 3.10 percentage points to 47.00% compared to 43.09% in 2022.This means that for every KES 100 of profit by the participating banks, KES 46.77 was paid to the government as taxes.

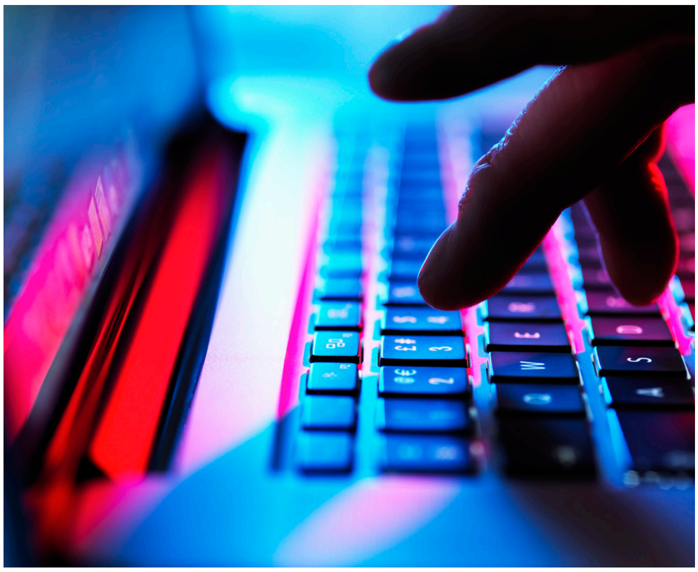
The 3.10 percentage point uptick is driven primarily by increase in irrecoverable VAT accompanied by a PBT decline of 9.00%.

Total Tax Rate for the study participants

47.00% 2023 TTR

43.09% 2022 TTR

3.10% Increase

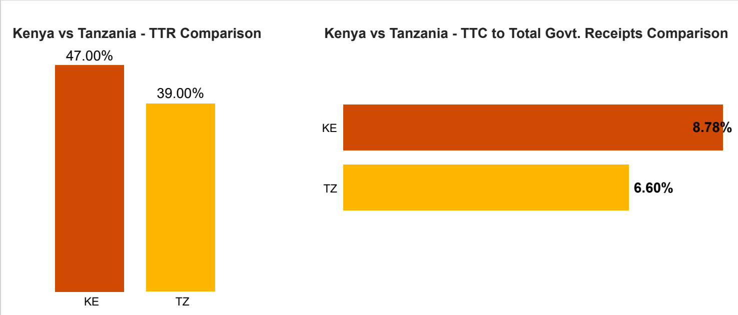


[9] Whilst all banks have financial years running from January to December, the government's year (fiscal year) runs from July to June. The data is however comparable as in both cases, a 12-month period is covered.

4. Comparison to Tanzania

We did a comparison of the tax contribution of the Kenyan banking sector to the tax contribution of the Tanzania Banking sector and noted the following:

- At 8.78%, the participating banks in Kenya contribute more to the total government tax revenues compared to the Tanzanian banks who contribute 6.60%. This means that compared to Tanzania, Kenya is more reliant on a fewer number of taxpayers to pay taxes.
- The Total Tax Rate (TTR) of participating banks in Kenya is 8.00% higher than that of Tanzanian banks' i.e., 47.00% versus 39.00%. The difference in the TTR between Kenya and Tanzania is mostly explained by higher levels of irrecoverable VAT in Kenya compared to Tanzania.



5. The banking sector continues to contribute significantly to total taxes collected in Kenya

Notable tax contributions by the banking sector[10] in 2023 include:

- 29.70% of Corporate Taxes (CT) in Kenya are paid by the banking sector;
- 59.45% of financial services Excise Duty in Kenya is collected by the banks;
- 7.79% of total PAYE in Kenya comes from banks; and
- 5.87% of total Affordable Housing Levy (AHL) - both borne and collected in Kenya was contributed by the banks.

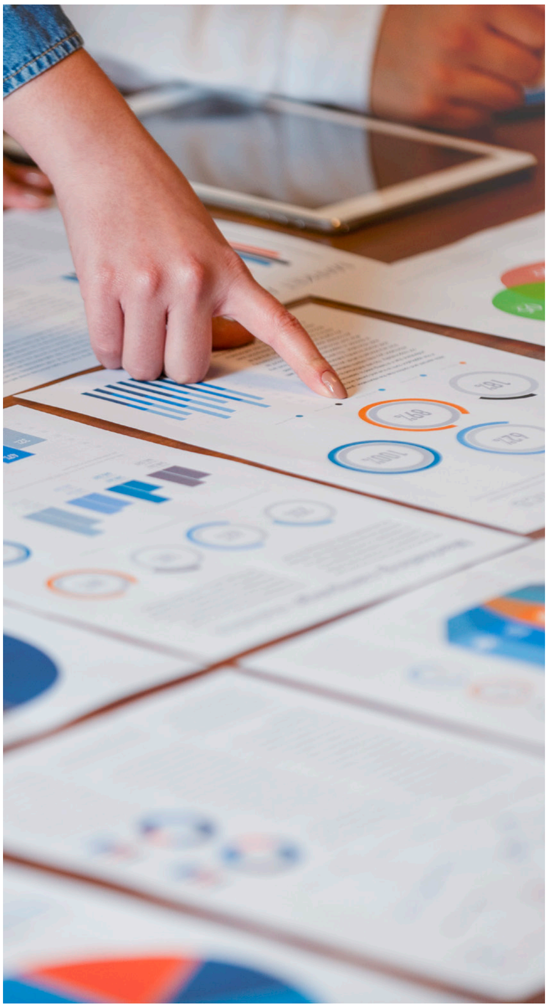
Key tax contributions in 2023

29.70%
Close to 30% of Corporate Tax contributed by the banking sector.

59.45%
of Excise Duty on Financial Services collected by the banks.

7.79%
of PAYE collected by the banking sector.

5.87%
of AHL in Kenya contributed by banks.



[10]KRA defines the banking sector to include Listed banks (44); SACCOs (16); Microfinance (7); Investment/Custodian banks (38); Others (47)-i.e., Bureaus, International Bank Corporations with Local Offices

6. Value distributed by the study participants

Every corporate organisation has three key stakeholders that it needs to distribute value to – the government in form of taxes, employees in forms of salaries and shareholders in form of dividends.

- 57.17% of the value distributed by the participating banks was paid to the government in form of taxes collected and borne.
- Employees and shareholders shared the remainder at 27.80% (employee emoluments) and 15.03% (dividends) respectively.

The government receives close to 60% of value created by banks in the form of taxes.

Value distributed (%)	2022	2023
Taxes (collected and borne)	57.05%	57.17%
Employee emoluments net of taxes	29.58%	27.80%
Dividends (net of taxes)	13.37%	15.03%
Total (%)	**100%**	**100%**

On average, banks file and make **42** payments each month with **3** employees dedicated to tax compliance on a full time basis.

7. Complexity and costs of tax compliance

As part of the study, we sought to understand the level of complexity of the tax compliance environment and accompanying costs. Key highlights include:

- On average, banks make 42 different payments each month. This is mainly due to the requirement to make withholding tax and withholding VAT payments within 5 working days.
- 58.14% of the study participants involve at least 3 permanent employees on tax compliance tasks on a full-time basis.
- 76.74% of the participants rated filing of tax returns as moderately complex with a rating of 3.2 out of 5.
- 39% of the participants suffered tax non-compliance penalty in 2023.
- Over 40% of the study participants suggested extension of the WHT and withholding VAT payment from 5 days to 7 days or 20th of the following month in order to reduce the administrative burden.

3 Purpose and outline of the study

Purpose of this study

The purpose of the study is to quantify the contribution made by the Kenyan Banking Sector and the trends in Total Tax Contribution of the sector over time. The study shows that the contribution by banks is broader than Corporate Tax, with People Taxes, Withholding Income Tax ("WHT"), withholding Value Added Tax ("withholding VAT"), irrecoverable Value Added Tax ("irrecoverable VAT") and Excise Duty, all adding to the total.

The data for this report was collected between March 2024 and May 2024.

Methodology

The study uses the Total Tax Contribution ("TTC") methodology designed by PwC. This framework provides a standardized methodology for companies to measure and quantify all the taxes and contributions that they pay.

The TTC framework is straightforward in concept, not tax technical and therefore relatively easy for stakeholders to understand. The framework makes a distinction between taxes borne by the company and taxes collected.

Taxes borne are the bank's own contribution in taxes that impact their results, e.g., Corporate Tax, irrecoverable VAT, VAT on imported services, withholding taxes borne and other taxes borne[11].

Taxes collected are those that the bank administers on behalf of the government and collects from others, e.g., income tax deducted under PAYE, withholding VAT, withholding tax collected, Excise Duty collected, and other taxes collected[12]. The taxes collected have an administrative cost for the bank and will invariably have an impact on the bank's operations. Taxes collected represent an additional responsibility and a compliance obligation for banks.

The results of this study provide information which would not otherwise be available in the public domain as this is not information companies are required to disclose in their financial reports.

Where we refer to data published by the Kenyan Government, the KRA and other sources, this is clearly indicated. Data received related to payments to the Kenyan public finances. No tax payments to foreign tax authorities were included.

PwC has anonymized and aggregated this data to produce the study results. PwC has used the data as provided by KBA members and has not verified, validated, or audited the data and cannot give any undertakings as to the accuracy of the study results.

Participation in the study

This study covers 43 banks and microfinance institutions representing 99% of market share from a net asset perspective in 2023.

References in the report to the term 'participating banks' means the 43 banks and microfinance institutions that participated in the study while references to the "banking sector" refers to the commercial banks, microfinance institutions and other financial institutions as defined by KRA[13].

43 banks participated in the 2023 study while 39 banks participated in the 2022 study. The 2023 data set is comparable to the 2022 data set given that in both years, participants represented over 97% of the market share from a Net Asset Perspective. All tier-one banks who control approximately 75% of the market share participated in both studies.

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[11]Other taxes borne constitute capital gains, stamp duty borne, customs, advance tax, import duty, Railway Development Levy, and Import Declaration Fees etc.
[12]Other taxes collected constitute: Stamp duty on negotiable instruments.
[13]KRA defines the banking sector to include Listed banks (44); SACCOs (16); Microfinance (7); Investment/Custodian banks (38); Others (47)-i.e., Bureaus, International Bank Corporations with Local Offices

4 Total Tax Contribution of Study Participants

This section highlights the tax profile of the 43 participating banks from a taxes borne and taxes collected perspective.

The 43 participating banks reported taxes borne of KES 102.52 bn and taxes collected of KES 87.74 bn, making a Total Tax Contribution of KES 190.26 bn.

The banking sector's contribution to government receipts continues to be substantial. In 2023, the Total Tax Contribution (TTC) of the participating banks accounted for 8.78% of all the taxes collected by the government[14]. This remains a significant contribution given that this contribution is made by 43 taxpayers against a background of approximately 6.4 million[15] active taxpayers in the country. The ratio of the TTC to the total government receipts decreased slightly from 8.93% in 2022 to 8.78% in 2023. This is because total government receipts grew at a faster rate than TTC of the participating banks.

Compared to 2022, total tax borne decreased slightly in 2023 by 0.74% while total tax collected increased by 12.51%.

Figure 4 – below shows the study participants' contribution to total government receipts.

Description	2022 (KES bn)	2023 (KES bn)	YOY Increase
Total Tax Borne	103.28	102.52	(0.74%)
Total Tax Collected	77.99	87.74	12.51%
Total Tax Contributed	**181.27**	**190.26**	**4.96%**
Total government receipts[16]	2,030	2,166[17]	6.70%
% of participating banks TTC relative to total government receipts	8.93%	8.78%	(0.15%)

Tax revenue to GDP ratio in Kenya in 2022/2023 was 14.3%[18]. Of the 14.3%, 1.83% was contributed by the 43 banks who participated in this study. This means that 12% of the tax to GDP is contributed by only 43 taxpayers. This points to continued reliance by government on only a few taxpayers operating in highly regulated and compliant sectors like the banking sector.

The sector's tax to GDP ratio remained steady at 1.83% in 2023 compared to 1.84% in 2022 while the contribution by the participating banks to total taxes collected in Kenya decreased by a marginal 0.15% in 2023 relative to 2022. This perhaps indicates that the taxes of the banking sector are reaching a level where they cannot be optimised further.

The TTC profile of the participating banks[19] (as summarised below) shows that Corporate Tax made up 38.39% of the TTC in 2023 and is the most significant tax contribution banks make to government receipts. This is followed by People Taxes Collected[20] which represented 16.44% of the TTC. WHT Collected represented the third largest component of the TTC constituting 15.39%.

[14]Government's financial year runs from July to June while banks' run from January to December. Both periods run for 12 months and therefore the statistics are comparable.
[15]The 6.4 million active taxpayers used in 2023 report was reported in FY21/22. At the point of publishing our 2023 report, we did not have the official number of active taxpayers relating to FY22/23.
[16]The government year runs from July to June while that of banks runs from January to December. Both calendars cover a 12-month period
[17]https://kra.go.ke/images/publications/ANNUAL-REVENUE-PERFORMANCE-FY-2022-2023-1372023-Final-Version.pdf
[18]https://www.treasury.go.ke/wp-content/uploads/2024/02/2024-Budget-Policy-Statement.pdf
[19]'Participating banks' means the 37 banks and 6 microfinance institutions that participated in the study
[20]People Taxes include PAYE, NSSF, NHIF and Fringe Benefits Tax and Affordable Housing Levy.

Corporate Tax, which accounted for almost 40% of the TTC, is heavily influenced by macro-economic factors that affect profitability. The government's reliance on Corporate Tax paid by the banking sector continues to reflect OECD's proposition that developing countries have a high proportion of Corporate Taxes as a percentage of total revenues compared to developed countries. According to the OECD Corporate Tax Statistics report[21], Corporation Tax revenues in Africa (30 jurisdictions) were 19.3% of overall tax receipts in 2020, demonstrating the importance of Corporate Tax revenues in developing economies.

Figure 5 – below shows the corporate tax revenues as a percentage of total tax revenues.

Description	Africa	Asia and Pacific	Latin America	OECD
Corporate Tax revenues as a share of total tax revenues	19.3%	18.8%	15.6%	9.0%

Three of the top four contributors of Total Tax Contribution relate to taxes collected as opposed to taxes borne. This highlights the critical role that the banking sector plays not only as a government tax collection agent, but also in generating economic activity that leads to collection of the taxes through aspects such as payment of salaries and engagement with suppliers. Further, this is also indicative of the fact that the sector is highly formalised and regulated, both of which promote tax compliance.

Figure 6 - The TTC profile for participating banks

Description	2022		2023	
	Amount in KES (Bn)	% Make-up	Amount in KES (Bn)	% Make-up
Corporate Tax borne	87.71	48.39	73.05	38.39
People Taxes Collected	24.22	13.21	31.27	16.44
WHT Collected	26.56	14.49	29.28	15.39
Excise Duty Collected	22.90	12.49	23.81	12.51
Irrecoverable VAT Borne	8.28	4.52	15.08	7.93
WHT Borne	2.96	1.62	5.35	2.81
VAT on imported services borne	2.98	1.62	4.88	2.56
People Taxes Borne	0.49	0.27	2.71	1.43
WH VAT Collected	3.64	1.99	2.39	1.26
WH VAT Borne	1.35	0.74	1.45	0.76
Others[22] Collected	1.89	1.19	0.99	0.52
Total	**181.27**	**100.00**	**190.26**	**100.00**

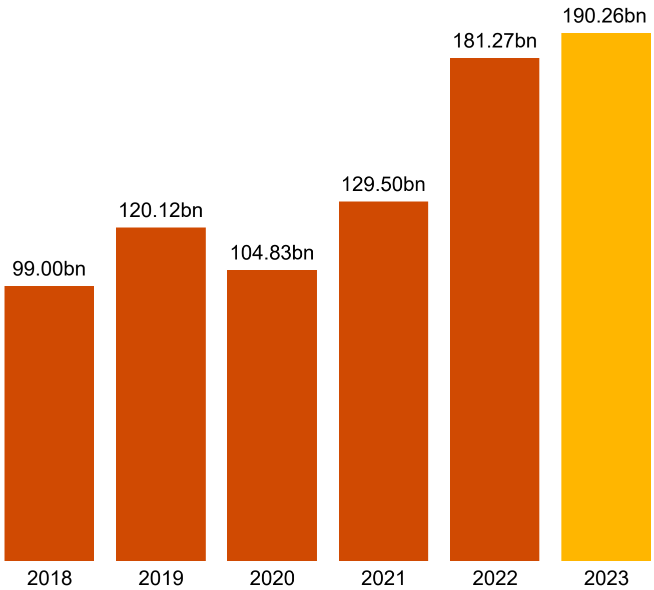
[21]https://incp.org.co/wp-content/uploads/2023/11/Corporate-Tax-Statistics-2023-OCDE.pdf

[22]Others include other taxes collected (NEMA levies, stamp duty collected, and net VAT paid, and other taxes borne (capital gains, stamp duty borne, customs, import fees and levies, advance tax, and property taxes.

Total Tax Contribution of participating banks over the period 2018 to 2023

A summary of the Total Tax Contribution of study participants over the period 2018 to 2023 is presented below.

Figure 7 – Year on year Total Tax Contribution for the participating banks (2018 - 2023).



In 2021, the Total Tax Contribution of the study participants relative to 2020 increased by 23.59%. The increase was driven by a substantial jump in Corporate Tax, Excise Duty collected, and withholding tax collected - all on account of the economic recovery witnessed in 2021 as a result of reopening of most sectors of the economy following the complete shutdown witnessed in 2020 as a result of the Covid-19 pandemic.

In 2022, the study participants recorded a 39.94% year-on-year growth in Total Tax Contribution of study participants - from KES 129.50 bn in 2021 to KES 181.27 bn in 2022. The 39.94% year on year growth was driven by a 48.39% increase in Corporate Tax due to a growth of 263.35% in 2021 balance of tax paid in 2022. This growth in balance of tax was primarily driven by an 85.17% increase in profitability in 2021 relative to 2020. Further, the 39.94% growth was also driven by 60.13% increase in Excise Duty as a result of increase in volume of mobile money financial transfers.

In 2023, the Total Tax Contribution of the study participants maintained an upward trajectory recording a growth of 4.96% to hit KES 190.26 bn. The 4.96% growth was majorly driven by growth in irrecoverable VAT, WHT borne, and People Taxes collected which grew by 82.19%, 80.50% and 29.13% respectively. The growth for irrecoverable VAT and WHT borne can be directly attributed to an increase in the operating expenses of the banking sector which grew from KES 316.68 bn in 2022 to KES 396.71 bn, representing a 25.27% growth.

The growth in the above-mentioned categories was somewhat offset by a decline in Corporate Tax from KES 87.71 bn in 2022 to KES 73.05 bn in 2023 – representing a 16.72% year on year decline. This decline can be majorly attributed to a 76.49% decrease on balance of tax payments (a form of Corporate Tax), a 28.99% decline in the fourth Instalment Tax payments (another form of Corporate Tax) and a 11.49% increase in exempt income. Please see further details on page 15.

Total Tax Contribution – 6-year trend for participating banks

Figure 8 – Total Tax Contribution of participating banks between 2018 and 2023

Description	Tax Borne/ Collected	2018	2019	2020	2021	2022	2023	Total
Corporate Tax	Tax Borne	38.61	51.20	43.73	49.48	87.71	73.05	**343.78**
People Taxes Collected[23]	Tax Collected	-	-	-	-	-	31.27	**31.27**
WHT Collected	Tax Collected	18.32	16.52	17.34	22.99	26.56	29.28	**131.01**
PAYE[24]	Tax Collected	19.21	18.86	17.87	21.94	23.00	-	**100.88**
Excise Collected	Tax Collected	8.42	13.60	8.32	14.30	22.90	23.81	**91.35**
Irrecoverable VAT	Tax Borne	6.83	9.85	9.32	7.81	8.28	15.08	**57.17**
WHT Borne	Tax Borne	1.56	2.69	2.36	2.43	2.96	5.35	**17.35**
VAT on imported services	Tax Borne	1.36	1.85	1.85	3.11	2.98	4.88	**16.03**
People Taxes Borne[25]	Tax Borne	-	-	-	-	-	2.71	**2.71**
WHT VAT collected	Tax Collected	-	-	0.90	2.90	3.64	2.39	**9.83**
Withholding VAT borne	Tax Borne	2.87	2.24	0.94	1.07	1.35	1.45	**9.92**
Others	Tax Collected	1.98	3.30	2.20	3.50	1.89	0.99	**13.86**
Total Tax Contribution		**99.16**	**120.12**	**104.83**	**129.52**	**181.27**	**190.26**	**825.16**

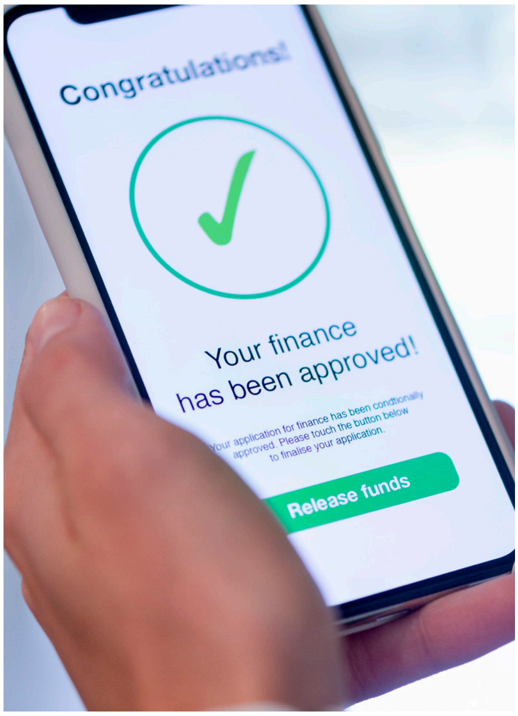
*The above data is in KES 'bn

Excise Duty collected by the study participants increased from KES 8.42 bn in 2018 to KES 23.81 bn in 2023 representing a growth of 182.92% over the five-year period. This is largely attributable to an increase in non-interest income such as fees and commissions as a result of banks offering more diverse financial products especially through digital channels that attract Excise Duty.

There have also been a number of Excise Duty related tax disputes that have been adjudicated by the Courts which have provided clarity and brought in more categories of fees and commissions income within the ambit of Excise Duty.

Irrecoverable VAT increased in 2018 to 2023 from KES 6.42 bn to KES 15.08 bn representing a growth of 120.78%. This can largely be attributed to an increase in the operating expenses of the banking sector in order to support the increase in the volume and value of banking transactions as well as increased investments in technology as more and more banking products shift to digital platforms.

Since 2018, Corporate Tax borne by the study participants has increased from KES 38.61 bn in 2018 to KES 73.08 bn in 2023 reflecting the sector's increased profitability over the five-year period.



[23]The study did not track People Taxes Collected in the 2018 to 2022 study. People Taxes Collected include PAYE, NHIF, employee NSSF, employee Affordable Housing Levy and Fringe Benefit Tax recovered from employees by the banks.

[24]PAYE has not been tracked separately in the 2023 study. It is included in the People Taxes Collected.

[25]The study did not track People Taxes Borne in the 2018 to 2022 study. People Taxes Borne include employer Affordable Housing Levy, employer NSSF, Fringe Benefits Tax not recovered from the employees.

5 Analysis of the Total Tax Contribution of the Participating Banks

This section discusses the tax profile of the 43 participating banks from a taxes borne and taxes collected perspective.

Profile of taxes borne and taxes collected

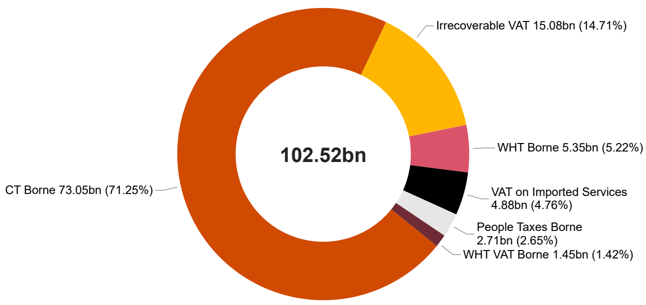
Overview of taxes borne

Taxes borne are those whose financial impact is directly borne by the taxpayer. They are a cost to the businesses as these taxes directly affect a taxpayer's profitability. The participating banks bore taxes amounting to KES 102.52 bn in 2023, a 0.74% decline from the KES 103.28 recorded in 2022.

The dip in taxes borne was driven by a 16.72% decrease in Corporate Tax – the largest component of taxes borne – from KES 87.71 bn in 2022 to KES 73.05 bn in 2023. However, the effect of the 16.72% decrease in Corporate Tax on the taxes borne was offset by an increase in other taxes borne as set out below:

- A 82.19% increase in irrecoverable VAT – from KES 8.28 bn in 2022 to KES 15.08 bn in 2023.
- A 80.50% increase in WHT borne – from KES 2.96 bn in 2022 to KES 5.35 bn in 2023.
- A 63.75% increase in VAT on imported services from KES 2.98 bn in 2022 to KES 4.88 bn in 2023; and
- A 7.33% increase in withholding VAT borne - from KES 1.35 bn in 2022 to KES 1.45 bn in 2023.

Figure 9 – Taxes borne profile for Participating Banks



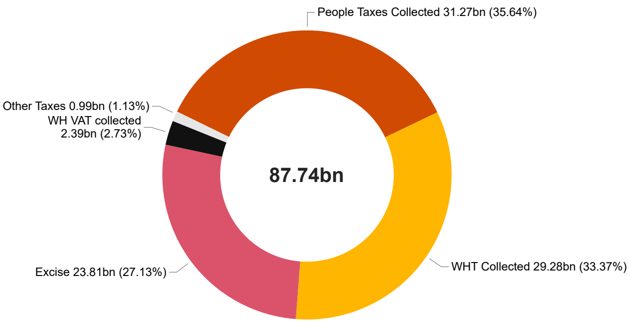
Overview taxes collected

Taxes collected are transactional taxes that the bank administers on behalf of the government and collects from others. The taxes collected have an administrative and compliance cost for the bank and will invariably have an impact on the bank's operations. Taxes collected represent an additional responsibility with accompanying compliance obligation and compliance costs for banks.

The participating banks collected taxes amounting to KES 87.74 bn in 2023, a 12.51% increase from the KES 77.99bn recorded in 2022.

This increase is largely driven by a 25.76% increase in PAYE collected from KES 23 bn collected in 2022 to KES 28.93 bn in 2023, the introduction of the Affordable Housing Levy (AHL) and a 10.25% increase in WHT collected from KES 26.56 bn collected in 2022 to KES 29.28 bn in 2023.

Figure 10 – Taxes collected profile for participating banks



Analysis of taxes borne

This section analyses the taxes borne by the 43 participating banks.

Corporate Tax

Despite a 16.72% decline in Corporate Tax borne by the participating banks in 2023, the sector contributed KES 75.08 representing 28.59% of total government Corporate Tax receipts.

The decline in Corporate Tax payments from KES 98.55 in 2022 to KES 75.98 Bn in 2023 can be attributed to:

- A 76.49% decline in the balance of tax payment (a form of Corporate Tax) for 2022 paid in April 2023. The balance of tax decreased from KES 18.76 bn in 2022 to KES 4.41 bn in 2023. This was expected as the Instalment Taxes (another form of Corporate Tax) for 2022 were paid based on 2021 profits which had grown by 85.17% in 2021 relative to 2020. This points to overestimation of 2022 Instalment Taxes. An overestimation of Instalment Taxes ultimately leads to reduced balance of tax payments in the subsequent year, in this case, 2023.
- A 28.99% decline in the fourth Instalment Taxes paid in December 2023.
  By the fourth quarter of the financial year, most banks are able to estimate their annual profitability and therefore are able to compute their fourth instalment tax payments based on actual annual performance. Improved profitability therefore translates to a higher fourth instalment taxes especially if the first, second and third Instalment Tax payments were overestimated. Conversely, depressed profitability leads to lower Instalment Taxes. The banking sectors profitability declined by 9.24%[26] in 2023 which positively correlates to the decrease in fourth instalment taxes.
- The banking sector's profitability declined even as the credit advanced by the commercial banks to the private sector increased by 13.9%[27]. The decline in profitability can be attributed to the growth in interest expense which grew by 52.82% from KES 183.69 bn in 2022 to KES 280.72 bn in 2023. This was driven by the increase in interest expense triggered by an increase in the Central Bank Rate (CBR) in 2023 as the average CBR in 2022 was 7.67% and the average CBR in 2023 was 10.25%[28]. Further, the decline in profitability can also be explained by the 31.55% growth in gross non-performing loans in 2023 relative to 2022.

[26]https://www.kba.co.ke/state-of-the-banking-industry-report/
[27]https://www.knbs.or.ke/wp-content/uploads/2024/05/2024-Economic-Survey.pdf
[28]https://www.centralbank.go.ke/rates/central-bank-rate/

- An 11.49% increase in interest income from government securities. A significant component of government securities held by banks constitutes infrastructure bonds and interest on infrastructure bonds is currently tax exempt.

Figure 11 - Corporate Tax paid by the study participants (2019 - 2023)

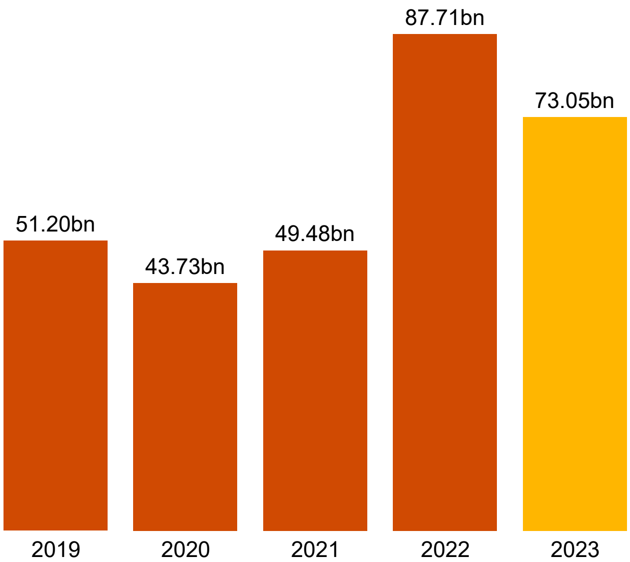
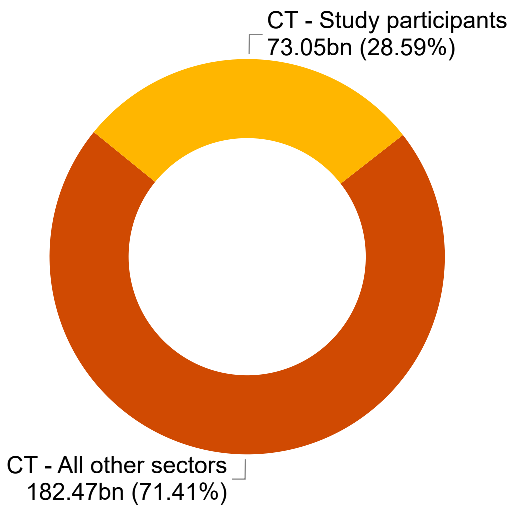


Figure 12 – Corporate Tax borne by the study participants as a percentage of total government corporate tax receipts



Despite the decline in Corporate Tax borne between 2022 and 2023, 43 participants in this study still contributed almost 30% of all Corporate Tax in Kenya in 2023 signifying the government's continued reliance on the banking sector for Corporate Tax receipts.

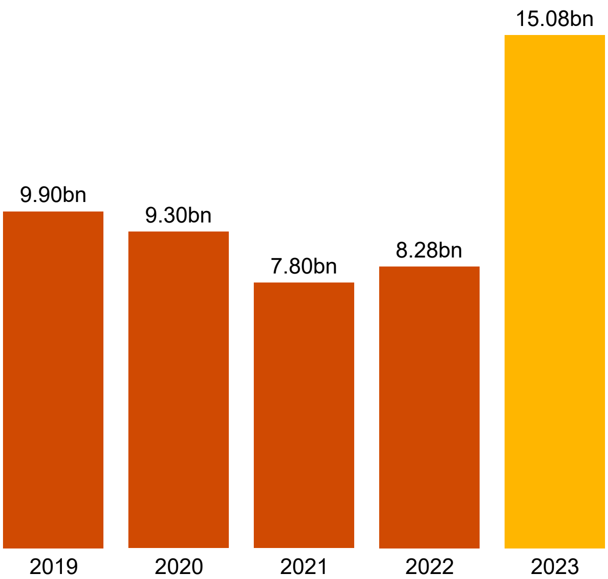
Irrecoverable VAT

Irrecoverable VAT was the second highest component of the taxes borne.

Irrecoverable VAT arises because banks are unable to claim input VAT incurred on their purchases as financial services are VAT exempt. In 2023, KES 15.88 bn in irrecoverable VAT was borne by the participating banks. This represents year-on-year growth of 82.19%.

This growth was majorly driven by a 25.27% growth in the banking sector's operating expenses amid robust investment in information technology and cyber security[29] as banks move more and more of their products to digital delivery channels. Increase in total operating expenses was also driven by the depreciation of the Kenya shilling in 2023 which lost about 20% of its value against the US Dollar[30]. This is because a portion of expenses are paid to overseas suppliers in foreign currency.

Figure 13 – Irrecoverable VAT borne by the participating Banks (2019 – 2023)



Other taxes borne

Other taxes borne by the participating banks such as VAT on imported services, withholding tax and withholding VAT borne on grossing up payments maintained an upward trajectory which was aligned to the increase in operating expenses for the banking sector as well as the depreciation of the KES relative to other major currencies. This led to an increase in operating expenses which in turn led to an increase in other taxes borne. This is because a portion of banks operating expenses are paid in foreign currency to non-resident suppliers.

Analysis of taxes collected

People Taxes Collected

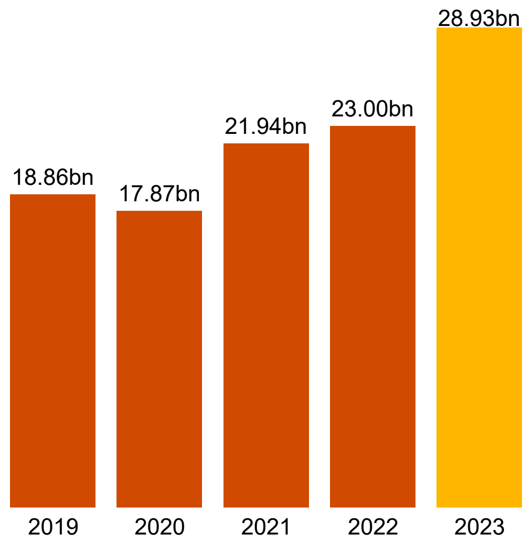
People Taxes collected represents the biggest component of the total taxes collected, with PAYE making up 92.51% of the People Taxes Collected. Other People Taxes Collected include employee Affordable Housing Levy, employee NSSF and NHIF.

In 2023, People Taxes Collected[31] summed to KES 31.27 bn representing 16.44% of the sector's total tax contribution of the study participants. This significant figure underscores the sector's role both as a major employer operating in a highly regulated and compliant sector.

PAYE, the biggest proportion of the People Taxes Collected increased from KES 23 bn in 2022 to KES 28.93 bn in 2023 representing a 25.78% year-on-year increase. PAYE increase was mainly driven by an increase in the marginal PAYE rate from 30% to 35% for top earners starting July 2023. Noteworthy, the banking sector employs highly skilled and highly paid labour which continues to inform the sector's high contribution to PAYE[32].

[29]https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/69043552_2023%20Annual%20Report.pdf
[30]https://www.bloomberg.com/news/articles/2023-12-06/kenya-central-bank-chief-says-currency-depreciation-overdone
[31]People Taxes Collected include PAYE, NHIF, employee NSSF, employee Affordable Housing Levy and Fringe Benefit Tax recovered from employees by the banks.
[32]KNBS Economic Survey 2023

Figure 14 – PAYE Collected by participating banks (2019 - 2023)



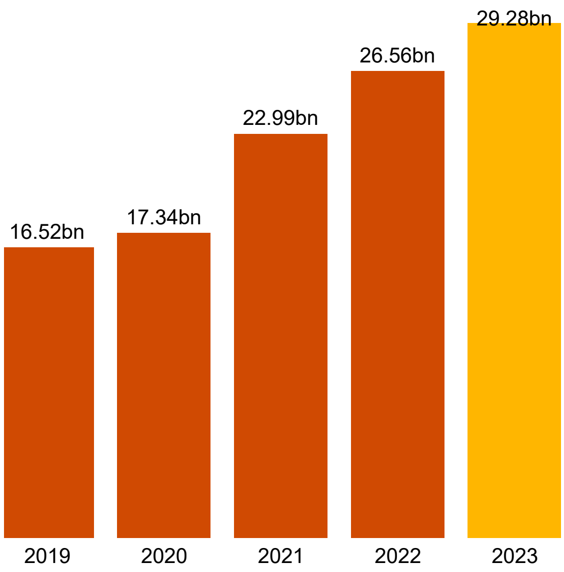
Other people taxes collected include NHIF, employee NSSF and employee AHL. AHL was introduced by Finance Act, 2023 effective July 2023. The half year banking sector's contribution to AHL stood at KES 1.62 bn representing 5.87% of total AHL mobilised by the government.

WHT Collected

WHT represents the second largest component of taxes collected. WHT Collected grew from KES 26.56 bn in 2022 to KES 29.28 bn, a 10.25% year-on-year growth. The WHT is primarily determined by the interest paid to deposit holders and other providers of debt financing.

In 2023, interest expense increased sharply by 42.71% from KES 152.95 bn in 2022 to KES 218.26 in 2023[33] tremendously boosting the WHT collected on interest. This was supported by the increase in the CBR rate from 8.75% in January 2023 to 12.50% in December 2023[34], a move made by CBK to curb inflation.

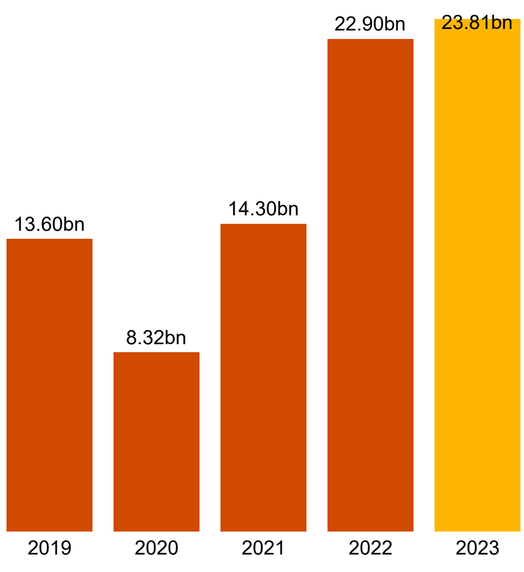
Figure 15 – WHT Collected by the participating banks (2019 - 2023)



Excise Collected

The year 2023 saw a rate reduction in financial services Excise Duty, from 20% to 15% on fees charged for money transfer services by banks and financial institutions. Notwithstanding the reduction in the Excise Duty rate, the Excise Duty collected by the participating banks increased from KES 22.9bn to KES 23.8bn. This was mostly driven by the increase in the volume of digital transactions on the backdrop of growth in mobile phone financial services. The adoption and utilization of mobile phone financial services in Kenya experienced a growth rate of 1.67% in 2023 to reach a total value of KES 788.35 bn[35].

Figure 16 – Excise Duty Collected by Participating Banks (2019 - 2023)



[33]https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/69043552_2023%20Annual%20Report.pdf
[34]https://www.centralbank.go.ke/rates/central-bank-rate/
[35]https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/69043552_2023%20Annual%20Report.pdf

6 Value distributed by the study participants

"Value distributed" consists of the sum of taxes paid, employee emoluments and incentives and dividends paid to shareholders. These categories of persons - government, employees, and shareholders - represent the key stakeholders in any corporate organisation.

The government received the largest proportion of the value distribution by the participating banks in 2023 at 57.17 % (in the form of taxes collected and borne), followed by employees (in the form of employee emoluments) at 27.80% and lastly shareholders at 15.03% (in the form of dividends). The government remained the greatest beneficiary with a share of 57.17%.

Figure 18 – below shows the value distribution by the study participants.

Value distributed (%)	2022	2023
Taxes (collected and borne)	57.05%	57.17%
Employee Emoluments (net of taxes)	29.58%	27.80%
Dividends (net of taxes)	13.37%	15.03%
Total (%)	**100%**	**100%**

7 Total Tax Rate of Participating Banks

Total Tax Rate ("TTR") is the ratio of all taxes borne as a percentage of Profit Before Tax ("PBT") and is therefore a measure of the cost of all taxes borne relative to profitability.

On an overall basis, the TTR of participating banks was 47.00%. This means that for every KES 100 of profit by the participating banks, KES 47 was paid to the government as taxes.

The TTR in 2023 increased from 43.09% in 2022 to 47.00% in 2023. The 3.10%% increase in the TTR was driven by a 8.99% decline in PBT of the participating banks – from KES 239.70 bn in 2022 to KES 218.14 bn in 2023. The increase in TTR is further supported by the fact that the taxes borne declined by 0.74% which is a much lower rate than a decline in PBT of 8.99%.

Looking forward, it is expected that TTR will continue to grow in 2024. This will mostly be driven by the requirement that for a business expense to be deductible for income tax purposes, that expense must be supported by a valid tax invoice generated from the electronic tax invoice management systems (eTIMS).

Given the low[36] uptake of eTIMS, we can expect increases in Corporate Tax as a portion of banks' expenses will not be deductible for virtue of banks' suppliers not onboarding on eTIMS.

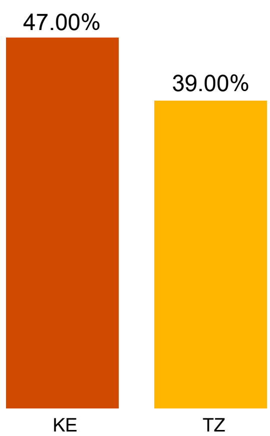
Figure 19 – below shows the TTR for the study participants

Description	2022 (KES bn)	2023 (KES bn)
Corporate Tax	87.71	73.05
Irrecoverable VAT	8.28	15.08
Other taxes borne	7.30	14.39
Total taxes borne	**103.28**	**102.52**
Profits Before Tax (after exceptional items) of participating banks	239.70	218.14
Total Tax Rate (TTR)	**43.09%**	**47.00%**

The TTR of participating banks in Kenya in 2023 was 47.00% compared to that of Tanzanian banks which was at 39%[37].

This TTR difference can mostly be explained by higher levels of irrecoverable VAT in Kenya compared to Tanzania.

Figure 20 – below shows Kenya's and Tanzania's TTR comparison



[36]https://www.businessdailyafrica.com/bd/economy/half-of-businesses-snub-transactions-on-kra-s-etims-platform--4614144#:~:text=Latest%20KRA%20data%20show%20that,targeted%20stay%20off%20the%20radar.
[37]https://www.pwc.co.tz/assets/pdf/total-tax-contribution-report-2024.pdf

8 Cost of Compliance

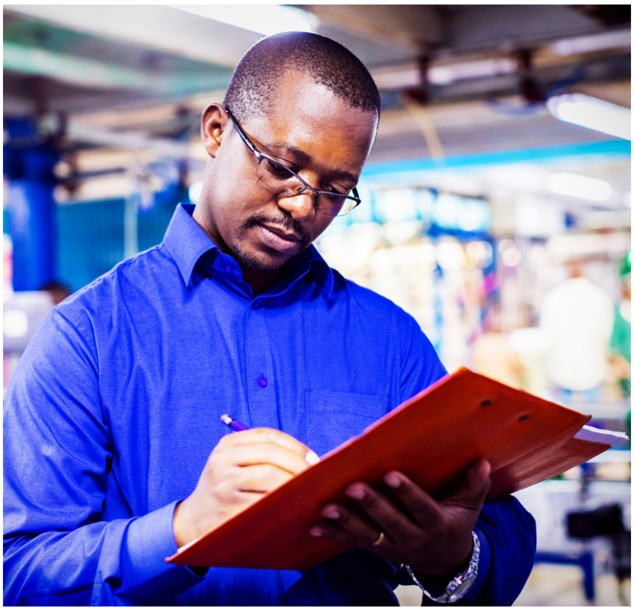
This year, we sought to collect data on the cost of compliance following changes to the tax administration landscape in 2023, such as the introduction of a 5 working day window to remit both WHT and withholding VAT.

58.14% of the study participants involve at least 3 permanent employees on tax compliance tasks on a full-time basis. Assuming a 150-hour working month for each employee, this translates to 450 hours per month. This is significant as the Paying Taxes Report by PwC in 2019 reported that the average Kenyan company took 14.95 hours a month (179.5 hours annually) in 2019 for compliance[38]. This point towards more complex tax laws, increased burden of compliance, and the substantial administrative workload involved.

According to the study participants, 42 tax payments are made each month. This is largely as a result of the new requirement to file and pay WHT and withholding VAT within 5 working days. This is substantial as the average tax payments each month was 25 in 2019[39], reflecting the substantial increase in the administrative burden.

Despite these efforts, the complexity of filing tax returns remains a challenge, with 76.74% of the respondents asserting that filing returns is moderately difficult. Penalties are a common issue, with 39% of respondents incurring fines due to compliance issues.

To mitigate some of the above challenges and manage costs, respondents suggest extending the WHT and withholding VAT payment period from 5 days to 7 days or to the 20th of the following month. This extension would provide more time for accurate and timely payments as well as reduce tax compliance costs as a result of a reduction in man hours.



58.14%

of the study participants involve at least 3 permanent employees on tax compliance tasks on a full-time basis.

[38]PwC Paying Taxes Report: 2019
[39]PwC Paying Taxes Report: 2019

9

Glossary

Term	Definition	Term	Definition
Total tax collected	Taxes that the company administers on behalf of government and collects from other taxpayers as an agent of government	**Corporate tax (CT)**	The main tax on a company's profile
Participating Bank	37 banks and 6 microfinance institutions that participated in this study	**Banking Sector**	KRA defines the banking sector to include Listed banks (44); SACCOs (16); Microfinance (7); Investment/ Custodian banks (38); Others (47)- i.e., Bureaus, International Bank Corporations with Local Offices
Total tax borne	A company's own contribution in taxes	**Irrecoverable VAT**	VAT that a taxpayer incurs but is not offset against output VAT
Total Tax Contribution	The sum of taxes borne, and taxes collected	**Excise duty**	A tax paid on certain categories income earned by financial service providers
Value distributed	Payment made by a corporate entity to its key stakeholders-government, employees, and shareholders	**Withholding taxes**	An income tax withheld on certain kinds of qualifying payments such as management fees, royalties, and interest
Net assets	Total assets minus total liabilities	**Withholding tax borne**	Withholding tax incurred by the company making payments of the above qualifying payments that it does not pass on the supplier
KRA	The Kenya Revenue Authority	**Pay as You Earn (PAYE)**	A tax withheld from the employment income of the company's employees
KBA	The Kenya Bankers Association	**VAT on imported Services**	This is the VAT accounted for on imported services
People Taxes Collected	PAYE, employee Affordable Housing Levy, NHIF, and employee NSSF	**Withholding VAT**	The tax withheld from VAT charged to the company
Total government receipts	This is a summation of all taxes collected by the government as reported by KRA, excluding agency collections	**People Taxes Borne**	Fringe Benefits Tax, Employer Affordable Housing Levy, and Employer NSSF

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