

## The Political Economy of Post-Colonial Taxation in Kenya, 1973 - 1995

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Mention the word tax and most people bristle with anger and frustration. Taxes surround you like a pack of hyenas that keep biting off a chunk of your money which ever way you turn. Income tax, land rent, rates, Value Added Tax, road licence, service charge-the list is endless. In fact, for many people, taxes are the highest annual personal expenditure. The total amount you pay in taxes may be higher than you spend on rent, transportation or food.

Manyara Kirago18

### Abstract

The Kenyan tax system as we find today is a British colonial legacy that was closely bound up with the development of the system of political governance and the maintenance of law and order. Besides, taxation helped transform a subsistence economy into one where money and a market system determined the exchange process. In short, the introduction of taxation changed the mode of exchange and the entire fabric of African society and reordered it to meet the needs of a capitalist economy. Independence in 1963 did not alter the parasitic nature of the colonial state. Subtle and opportunistic ways continued to be used to extract taxes from the peasants and the working class. GPT impoverished the poorest members of society who had no definite source of income. In 1973, after slightly more ten years of implementation, GPT was abolished altogether as a source of revenue for both the central and local government. It had been a brusque form of direct taxation on Africans. The abolition released the non-salaried from the payment of taxes, which basically was more burdensome to the poor than to the rich. But for those in paid employment, there was introduced a new form of 'pay-as-you-earn' (PAYE) system that taxed an individual's income according to how much one earned.

### Introduction

The French dictum during the 1789 revolution was that, he is not a citizen who does not pay taxes.<sup>19</sup> The conferment of citizenship therefore is important for the development of the fiscal state because it was through taxation that the exchange relationship between the citizen and the state was established. In other words, the power to impose a tax hinges on various factors inherent among them being citizenship, benefits, accountability and political freedom. The state-citizen relationship is such that the individual exchanges his duties which he performs in favour of the nation-state for his rights, which he expects and claims from it as a member of a political community.<sup>20</sup> In the case of Kenya this reciprocity between state and its citizens is an important aspect of the social contract, which transformed taxes after independence from forced impositions to voluntary contributions.

Following the abolition of Graduated Personal Tax (GPT) in 1973, attempts were made by the Kenya government to make tax payment more equitable and just. This had been necessitated by the fact that GPT was an unfair form of tax since it was more burdensome for the poor than the rich. For instance a millionaire would

<sup>18</sup> *Sunday Nation*, Lifestyle, 7 February 1999.

<sup>19</sup> Peter Ekeh, "The Public Realm and Public Finance in Africa" in Ulf Himmelstrand, Kabiru Kinjanjui and Edward Mburugu (eds.) *African Perspectives on Development: Controversies, Dilemmas and openings* (London: James Currey, 1994) p. 236.

<sup>20</sup> *Ibid.*

be paying the same tax as a poor person. Thus, it militated against the principle of least aggregate sacrifice. In addition, the tax was fixed without considering the fact that most peasants relied on subsistence farming and would not raise sufficient money to pay for their tax. In the words of Sir William Petty, that which angers men most is to be taxed above their neighbours.<sup>21</sup> Thus it came as a relief when it was replaced by a sales tax in 1974. This paper examines the political economy of taxation in Kenya after the abolition of GPT.

Throughout fiscal history, taxation has generally been both a political and economic decision. The importance of a political economy perspective arises from its ability to crystallise and articulate problems of general interest. Taxation in Kenya influenced the way the state, peasants and the working class interacted with the market. In addition, political economy has the distinction of intimate interaction with theory and practice. Echoing throughout the paper is Burke's objection to arbitrary and subjective taxation of people without their consent.<sup>22</sup> But in the contradictory nature of colonialism, taxation helped in the creation of the post modern colonial state, that is, Kenya. One of the defining characteristics of the colonial situation was that it involved the interaction of a conquering and dominating metropolitan power with an indigenous culture which was exploited economically. The result was an unequal exchange of wealth and power. <sup>23</sup> And that even with the demise of colonialism in 1963, tax collection continued unabated making the African people feel betrayed.<sup>24</sup>

After independence in Kenya, various multitudinous ways and means were sought with the aim of raising government revenue. Among the most important was the re-enactment of the Income Tax Act of 1974, recasting the collection of customs and excise duties, the introduction of Value Added Tax (VAT) and the establishment of the all encompassing Kenya Revenue Authority (KRA) in 1995. All these measures were intended to harmonize and streamline tax collection to maximize revenue but without hurting the taxpayers. Taxation has been a powerful instrument to achieve governmental and societal objectives such as macro-economic stability, fiscal reform; structural adjustment programmes (SAPs) and equity. But while Kenyan policy makers attempt to pursue sound monetary policies a number of political improprieties have undermined such progress. This brings us to the issue of linking democracy, aid and what Morris Szeft has termed as >rent-seeking=, a euphemism for corruption.<sup>25</sup> Equally important, Kenya is not immune from the dominant economic power in a new game called globalization. In essence, the major goal of this chapter will be to examine closely how the Kenyan state has betrayed its taxpayers through corruption and other malaise. For after all tax policies should be geared towards promoting the well-being of the people.<sup>26</sup>

#### **The Kenya Income Tax Act of 1974**

Income tax is a direct tax derived from business income, employment income, rent income, dividends, interests and pensions among others.<sup>27</sup> These direct taxes have different rates. Among these taxes are Pay as You Earn (PAYE) corporation Tax, withholding Tax and Advance Tax. PAYE is a method of collecting tax at source from individuals in gainful employment. The employer deducts a certain amount of tax from his/her employee salary or wages on each pay days and then remits the tax to KRA. This prevents the employee from playing taxes at the end of the charge year and shifts the burden of responsibility to the employers.<sup>28</sup> The burden of this tax is, however, borne by a small segment of society which consists mainly of people employed in the formal sector or self-employed professionals. The tax does not extend to people employed in the informal sector neither does it reach the majority of farmers except for large scale commercial farmers. As a result Valued Added Tax was introduced to cast the tax net wide.

The first Income Tax Legislation was enacted in 1937.<sup>29</sup> It has, however, undergone a number of administrative and practical changes aimed at making it responsive to the changing needs of the economy. It has since become one of the major sources of government revenue. This ordinance remained in effect until 1952 when the Income

<sup>21</sup>Quoted from Simon James, *A Dictionary of Economic Quotations*, p. 176.

<sup>22</sup> Frank O'Gorman, *Edmund Burke: His Political Philosophy* (London: 1973) pp. 67-97

<sup>23</sup> Samir Amin, *Accumulation on a World Scale* (New York; 1974) vol. 1 Ch. 2.

<sup>24</sup> See George Ayittey, *Africa Betrayed* (New York: 1992).

<sup>25</sup>Morris Szeft, "Misunderstanding African Politics: Corruption and Governance Agenda", in *Review of African political Economy* Vol. 76, 1998, pp. 231-240.

<sup>26</sup>Steinmo, *Taxation and Democracy*, p. 10.

<sup>27</sup>[Http://www.revenue.go.ke/texti.html](http://www.revenue.go.ke/texti.html)

<sup>28</sup>Kenya Income Tax Act, p. 3.

<sup>29</sup>For current legislation on Income Tax see, Deloitte, Kenya Income Tax Act,1999, pp.2-76.

Tax management Act was enacted. This act laid down the basis of liability, assessment, collection and management. This act was repealed in 1958, and also in 1965. But a real break was achieved in 1973 when through an Act of a parliament, there was created an Income Tax Department with the sole responsibility for the provision for the charges, assessment and collection of Income Tax. This act came into force in January 1974.<sup>30</sup>

The personal income chargeable after 1974 was at minimum rate on the first, Kshs, 1 200 at 10 percent while those earning, Kshs 9 000 were charged at 70 percent. But from 1978 the maximum rate was reduced to 65 percent. In addition, a family relief was introduced to lighten the burden on those who were married and had to maintain their children.<sup>31</sup> But the biggest problem that faced the collection of income tax was the avoidance and evasion of tax. In many cases few people were assessed for tax payment while the farming community were in most cases not subjected to tax payment.<sup>32</sup> Upon the formation of Kenya Revenue Authority in 1995, the Income Tax department was absorbed as a part of KRA. The department is headed by a Commissioner of Income Tax who is responsible for assessment and the collection of Income Tax.

### **The impact of Sales and Value Added Tax (VAT)**

Sales tax had been introduced in Kenya after the recommendations of the International labour Organisation (ILO) mission which had visited Kenya in 1970. The mission was concerned with incomes and employment in Kenya. In support for its recommendation of sales tax the ILO mission had stated that,

... to counteract the effects of demand for imported goods there should be a progressive sales tax on luxury and semi-luxury goods both imported and domestically produced. A large number of goods could be brought within the scope of such a sales tax, including consumer durables, spirits, and cosmetics, canned and processed foodstuffs. This would provide the government with an important source of revenue. At the same time, it would improve the attractiveness of the export market, where sales would be exempted from this tax. A particular virtue of a progressive sales tax is that it is administratively simple and that there is less possibility of evasion than an income tax.<sup>33</sup>

The lowest tax rate was 10 percent and higher rates charged for different items. This led to a substantial increase of the price of targeted imports. Consequently, the prices of imported luxury items went up. But the prices of foodstuffs and agricultural inputs were generally exempted from sales tax.<sup>34</sup> At its commencement, Sales tax, import duties and excise duties together accounted for more than 90 percent of all indirect tax revenue. For instance one of the highest sources of revenue from imports was in the importation of oil which accounted for about 20 percent in 1977. Other categories which made a large contribution to the country's revenue was from motor cars and machinery which accounted for 31 percent of import duty revenue in 1977.<sup>35</sup> Other major sources of tax include the sale of are considered luxuries like beer, spirits and cigarettes. The culmination of Value Added Tax was a significant change from its predecessors.

Value Added Tax was first introduced in France some fifty years ago and has since been implemented in many countries.<sup>36</sup> VAT is a broad-based, indirect tax on the consumption of goods and services. VAT is a tax on consumer expenditure. It is a multi-stage tax, in that it is levied on all stages of a production and distribution chain. It was introduced in 1990 to replace Sales Tax. The principal rationale for replacing Sales Tax with V A T was that it had the potential to cover a wider range of goods and services.<sup>37</sup> Secondly, a value added tax provided a mechanism for businesses to deduct the tax on their inputs. VAT was introduced as a measure to increase government revenue through the expansion of the tax base which hitherto was confined to sale of goods

<sup>30</sup>Republic of Kenya, *Income Tax Act* (Nairobi: Government Printer, 1973) See also Deloitte, *Income Tax Act*. Cap 470.

<sup>31</sup>Arthur Hazelwood, *The Economy of Kenya: The Kenyatta era* (New York: Oxford University Press, 1979) p. 134.

<sup>32</sup>*Ibid.* p. 136.

<sup>33</sup>International labour Office, *Report of Inquiry on wages, incomes policy and development in Kenya*, (Geneva: ILO, 1971) p 250.

<sup>34</sup>*Ibid.*

<sup>35</sup>Arthur Hazelwood, *The Economy of Kenya*, p. 137.

<sup>36</sup>Amanda James, *VAT Demystified* (Pretoria: Southern Book Publishers, 1991) p.1.

<sup>37</sup>Deloitte and Touche, *The Kenya Value Added Tax Act, Cap, 476, 1999.*

at manufacturing level and at importation under Sales Tax system. VAT is levied on consumption of taxable goods and services supplied to Kenya or imported to Kenya. It is collected at designated points by registered persons who then remit it to the Commissioner. In this regard only registered persons can act as VAT agents in collecting and paying the tax since the tax is borne by the final consumer of goods and services.<sup>38</sup>

The basis for VAT charge is the registration of taxable businesses. These are people who supply taxable goods and services and are supposed to apply for VAT registration. They may be sole proprietors, partnerships, limited companies or corporations. Every trader is required to register with the VAT authorities to be able to charge VAT on all his taxable supplies of goods and services. Traders are expected to voluntarily apply for registration, but the Commissioner would register one compulsorily and retrogressively. This is usually from the date one became register able and a penalty of Kshs 100 000 imposed.<sup>39</sup> To qualify for registration a taxable turnover must be as follows:<sup>40</sup>

- (i) 12 months Kshs. 2 400 000
- (ii) 9 months Kshs 2 000 000
- (iii) 6 months Kshs 1 500 000
- (iv) 3 Moths Kshs 800 000

There are other cases of traders without turnover limits but still have to register to pay VAT. Among these are traders dealing with jewellery, pre-recorded music, saw millers, motor vehicle dealers, electronic appliances dealers, accounting services firms, legal services and estate agents among others. Consequently, once a person has been registered, he is required to charge, collect and account for VAT on all his taxable operations and remit the tax to the Commissioner. In addition, traders are legally bound to submit monthly returns containing details of tax on goods charged to his customers and tax suffered on goods and services suffered by his suppliers.<sup>41</sup>

Equally important all registered traders have some basic rights. Among these include the right to a refund where Input tax exceeded output tax, to get a refund over bad debts and to request for reconsideration of an assessment. In short, taxpayers expect to be treated fairly and with equity and be given assistance in understanding their legal obligations. Indeed deregistration as a VAT holder is possible in the case of lack of taxable supplies, death, insolvency, goods becoming non taxable, change of trading names and legal incapacitation.<sup>42</sup>

In short, the Value Added Tax has revolutionised the tax system in Kenya. No one is no longer immune from taxes. The general effect of this tax has been to broaden consumption tax in order to cover a wider group of consumers. VAT is borne by the consumer as an integral component of the cost of purchases. This is, however, an indirect tax since the consumer is generally unaware of the tax. The tax initially covered all manufactured goods. Over time it has extended to cover all professional services such as legal, accountancy, surveying, consultancy and conference services. Exempted are medical and veterinary services.<sup>43</sup>

### **Customs, Excise duty and Corporate tax**

Customs and Excise Duty was first introduced in Kenya in 1923. It has since then continued to be a major source of government revenue. The major aim of the customs duties has been to protect infant industries from harmful effects of international competition. The concept of projecting infant industries dates back to the colonial period. The white settlers had agitated for the protection of their newly established industries. One of the first Customs Duty measures introduced by the colonial administration was essentially meant to protect the newly established beer factory from imported beers. In the process, one of the intended outcomes of Customs duty was to encourage local production of items attracting prohibitive duties. This also helped discourage importation of all nonessential goods.<sup>44</sup> And in the process employment opportunities were generated and another class of taxpayers mooted.

<sup>38</sup><http://www.revenue.go.ke/texttv.html>, p.1

<sup>39</sup>*Ibid.*

<sup>40</sup>*Ibid.*

<sup>41</sup>*Ibid.*

<sup>42</sup>*Ibid.*

<sup>43</sup>Ngotho wa Kariuki, "The Role of Taxation in Transformation of an Agrarian Barter Economy to a Capitalist Monetary economy, p. 15.

<sup>44</sup>*Ibid.*

As indicated in previous chapters, corporate or company taxation was introduced in Kenya in 1937 together with income tax. Companies were taxed on all business income from wherever they derived. A corporation tax rate was set at 10 percent and was meant to encourage companies to reinvest their profits. In fact the taxation of companies was administered through the Income Tax Act. This covered the taxation of individuals in employment as well as taxation of partnership profits and business income of sole proprietors. Companies in Kenya have enjoyed a preferential tax treatment to companies that were locally incorporated. Among these were insurance, mining and petroleum companies that were taxed at preferential rates.<sup>45</sup>

In order to encourage the establishment of industries, the government in 1987/88 financial year reduced duty on imported raw materials and capital goods. Incentives were also given to new industries located outside the main urban centres of Nairobi and Mombasa. As a result in 1990 Export Processing Zones (EPZs) were established in Athi River, a small town outside Nairobi. Companies opening up businesses in EPZs were given a tax holiday for ten years. During this period these firms pay no corporate taxes. In the next ten years these companies would pay tax at 25 percent of profits.<sup>46</sup>

### **The Kenya Revenue Authority**

From 1990 onwards there was a major reorganization and strengthening of the fiscal and tax management divisions with Ministry of Finance especially the treasury. First, was the introduction of a Personal Identification Number (PIN). All taxpayers had to have PINs which had to be produced in order to make transactions. Among these included vehicle registration, purchase of insurance policies and business registration. The system was aimed at bringing more people into the tax net and thereby spreading the tax portfolio. Second, in 1992 the government offered amnesty to all taxpayers who declared their true income or sources of income which they had hidden in the past.<sup>47</sup> During the same period the Road Toll Tax was abolished. This was an indirect tax paid by all motorists irrespective of what roads they used. This was replaced by a fuel tax that was easy to collect from the oil dealers than from road tolls. The turning point was the decision to establish the Kenya Revenue Authority.

In introducing legislation to create the KRA, the Minister of Finance stated that:

The modernisation of the taxation system has been aimed at creating a more effective fairer, and more economically efficient system ... This year we expect to exceed our target set out in Sessional Paper Number 1 of 1986 of Revenue reaching 24 cent of GDP ... The tax system has been getting fairer by broadening the base and bringing more Kenyans into the net who have the capacity to pay while lowering the burden on those who have been bearing too heavy a load ... The tax system has been promoting a more efficient economy. It has lowered rates, reducing them on savings and investment, and restructured the tax system to support an export led economy.<sup>48</sup>

The KRA was established on 1<sup>st</sup> July 1995 by an act of parliament. Its establishment was the culmination of a long process of attempts to streamline tax collection in Kenya that had been going on since 1990. The authority was charged with the responsibility of collecting revenue on behalf of the government. The board draws its membership from both the public and private sectors. The chief executive of authority is the Commissioner General. The KRA is charged with the purpose of assessment, collection, administration and enforcement of laws relating to revenue.

The KRA was set up as an autonomous body and is divided into four operational divisions. These are Income tax, VAT, Customs and Excise and Road and Transport Division. Each division is headed by a commissioner with the exception of Road Transport Division which is headed by the Registrar of motor vehicles. The KRA is charged with affecting the economy in the following areas.<sup>49</sup>

(i) To administer and to enforce written laws or specified provisions of written laws pertaining to assessment,

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<sup>45</sup>*Ibid.*

<sup>46</sup>*Ibid.* p. 22.

<sup>47</sup>Ngotho wa Kariuki, pp.14-22.

<sup>48</sup>Quoted from Ngotho wa Kariuki, p.22.

<sup>49</sup><http://revenue.go.ke/testin.html>, pp1-3.

collection and accounting for all revenues in accordance with these laws

- (ii) Advise on matters pertaining to the administration or and the collection of revenue under written laws.
- (iii) Enhance efficiency and effectiveness of tax administration by eliminating bureaucracy, procurement, promotion, training and discipline.
- (iv) Eliminate tax evasion by simplifying and streamlining procedures an improving tax service and education thereby increasing the rate of compliance.
- (v) Promote professionalism and eradicate corruption amongst KRA employee by paying adequate salaries that enables the institution to attract and retain competent professionals of integrity and sound ethical morals.
- (vi) Restore economic independence and sovereign pride of Kenya by eventually eliminating the perennial budget deficits by creating organizational structures that maximise revenue collection.
- (vii) Ensure protection of local industries and facilitate economic growth through effective administration of laws relating to trade.
- (viii) Ensure effective allocation of scarce resources in the economy by effectively enforcing tax policies thereby sending the desired incentives and shift signals throughout the country.
- (ix) Facilitate distribution of income in socially acceptable ways by effectively enforcing tax laws affecting income in various ways.
- (x) Facilitate economic stability and moderate cyclic fluctuations in the economy by providing effective tax administration as an instrument of the fiscal and stabilization policies.
- (xi) Be a watchdog for the government agencies (such as Ministries of Health, Finance, etc.) by controlling exit and entry points to the country to ensure that prohibited and illegal goods do not pass through Kenyan borders.<sup>50</sup>

Considered against the backdrop of tax evasion practices the KRA had increased its revenue collection from Kshs 50 billion in 1995 to Kshs billion in 1999. In fact right from 1995 KRA was able to collect 82 percent tax in the country annually. Tax evasion was incidentally not by ordinary citizens but by business magnates and corporate organisations.<sup>51</sup> Incidentally, these reforms were undertaken under the supervision of the World Bank. Through the guidance of the World Bank, a number of fundamental changes were implemented in the fiscal structure. These according to Michel Chossudovsky tended to undermine domestic production both on demand and supply sides. In addition, he argues that the introduction of VAT and changes in the structure of indirect taxation invariably led to a greater tax burden for the lower-and middle-income groups. And while domestic producers are subjected to government taxes foreign capital enjoys generous tax holidays as a means of attracting foreign investment which in Kenyan parlance implies bribing government officials.<sup>52</sup>

### **Pilfering the Public and Rent-seeking**

According to George Ayittey, Kenya offers a sad story and a scenario too often repeated in many African countries. Kenya used to be highly respected in by other African nations. It was one of the rare African edifices of prosperity, order and stability-an enviable exception to the cupidity, mismanagement, and violence that have afflicted much of the continent.<sup>53</sup> Kenyans stagger under a heavy load weight of multiple taxes, which ended up in the pockets of the wealthy ruling class while tax-funded services in the public sector are in deep crisis. The infrastructure, health care systems and education and educations have disintegrated.<sup>54</sup> So what went wrong in Kenya?

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<sup>50</sup>[Http://www.revenue.go.ke/testin.html](http://www.revenue.go.ke/testin.html).

<sup>51</sup>*Daily Nation*, 8 December 2000.

<sup>52</sup>Michel Chossudovsky, *The Globalization of Poverty: Impacts IMF and World Bank Reforms*, p. 64.

<sup>53</sup>George Ayittey, *Africa Betrayed*, p. 182.

<sup>54</sup>*The Kenyan Socialist*, 23<sup>rd</sup> March, 1998, pp. 1-4.

Ayittey offers a partial answer. He believes that the heart of the matter is incompetent leadership and the establishment of defective political and economic systems in post-colonial Africa. Consequently, there has emerged what he considers as centralized vampire or a mafia state, created to enrich elites and isolate them from the mass of the people. The means of enrichment is statism itself - ownership by the state and thereby by implication the rulers of the day who squander the nation's resources and in the words of Ayittey, the chief bandit is the head of state itself.<sup>55</sup> The argument here is that African leaders have developed patrimonial control over a country's resources for patronage purposes.

On the other hand, David Himbara has described post independent Kenya as a period marked by profound contradictions.<sup>56</sup> That while local capital maintained its progress and steadily increased its capacity in almost all areas of industry; on the other hand, the state apparatus regressed. The new institutions created after independence were hopelessly ineffective.<sup>57</sup> The first instance of pilfering and misuse of public funds were cited as far as far as 1963 as shown in the table below:

#### Funds unaccounted for by National Ministries

Fiscal Period	Amount in Kshs
1963/64	9 600 000
1971/72	90 000 000
1974/75	435 000 000
1979/80	1 500 000 000
1984/85	2 900 000 000
1986/87	6 500 000 000
1980/90	15 700 000 000

Source: David Himbara, *Kenyan Capitalists, the State and Development*, p. 121.

These unaccounted funds for public funds reflect the level of the pilfering of public funds which according to John Githongo is looting of public funds on a grand scale.<sup>58</sup>

Between 1963 and 1990 the amount of money lost amounted to Kshs 15 696 400 000. This was indeed a colossal amount of money which could have transformed the social and economic life of the tax payers. In fact according to Himbara these lose do not include failure by government departments to collect taxes and losses made by state corporations.<sup>59</sup> But the country's economy was still strong until 1973 when it faced the world oil crisis which led to debt accumulation. Thus during the 1960s and 1970s Kenya's political economy was one of optimism

<sup>55</sup>George Ayittey, *Africa in Chaos*, p. 24. He considers Sese Seko Mobutu of former Zaire to have been chief bandit and kleptocrat.

<sup>56</sup>For an excellent introduction to the history of post independent corruption in Kenya, see David Hombre, *Kenyan Capitalists, the State and Development* (Boulder, Colorado: Lynne Reiner, 1994) pp.115-155..

<sup>57</sup>*Ibid.* p.115.

<sup>58</sup>John Githongo, "Corruption as a Problem in the Developing World: Effects on the Economy and Morale" Paper read at the Seminar against corruption at the Department of International Development Cooperation, Ministry of Foreign Affairs of Finland, 2 March 2000. See [http://global.finland.fi/uutiset/corrupt\\_kenya.htm](http://global.finland.fi/uutiset/corrupt_kenya.htm).

<sup>59</sup>David Himbara, *Kenyan Capitalists, the State and Development*, p. 21.

But beginning from the 1980s Kenya has undergone various financial and budgetary deficits. Among these are high taxes, rampant inflation, runaway government expenditures, unstable currencies and high level corruption.<sup>60</sup> It is estimated that in 1989 Kenyans has stashed more than \$ 5 billion in foreign banks; an amount that was greater than the country's \$ billion foreign debt.<sup>61</sup> In addition, the ruling class have used the government revenue to appease or purchase support of various social groups. This has been done through exorbitant taxes, steep hikes in excise duties on imports, gasoline, and marketing boards.<sup>62</sup> Consequently, those areas that have suffered are the provision of services such as education, health and infrastructure among others. All these problems were caused by a fiscal deficit due to inflation, foreign debt, declining world market prices for export commodities such as coffee, tea and tourism revenues and the suspension of donors' aid in 1992. Compounding all these problems were due to ineffective taxing systems, increased state expenditures particularly for political campaigns and outright filching of state funds.<sup>63</sup>

According to Rok Ajulu, Kenyatta's death in 1978 gave rise to the emergence of kleptocratic ruling elite which manifested itself in the slide to personal rule by the government, kleptocratic excesses, and the decline of personal freedoms, violations of human rights and ultimately a systematic debasement of political and economic life.<sup>64</sup> All these Ajulu blames on what he terms as skewed mechanism for wealth accumulation in the form of rent-seeking. These are achieved through the appropriation of public resources, allocation of businesses and trading premises and kickbacks from multinational corporations.<sup>65</sup> There are numerous examples of financial scams that have led to the collapse of banks, inflation to rise and the exchange rate to decline. The impetus for corruption is often political and it happens under the direction or with the acquiescence of the dominant political players. It often involves, for example financing fictitious projects and using public revenues to award enormous contracts to individuals who never supply goods or the services. A good example was the 1993 Goldenberg scandal. This has been considered as the biggest fraud case since independence in 1963. It involved a businessman by the name of Kamlesh Pattni, who devised a scheme in which he purportedly exported gold and diamonds worth UK, 10.4 million in preferential export compensation, though Kenya is not a producer of either gold or diamonds.<sup>66</sup> Through this scam the government lost billions of shillings under the pretext of exporting non-existent export shipments. In this way, tax payer's money was used to prop of individuals connected with the ruling elite.

### Conclusion

The objective of this article has been to examine the radical taxation policy changes that were introduced in Kenya between 1973 and 1995. In 1974 the much hated colonial poll tax that had been disguised as a Graduated Personal Tax (GPT) was abolished and replaced by a consumer sales tax. This was followed by the introduction of VAT which is a consumer tax. But despite all these measures, Kenya in the 1980s and 1990s witnessed a myriad of economic problems among them deteriorating living standards of the people through, corruption, rent-seeking and kleptocracy. But the cliché remains constant. Death and taxes are inescapable. Indeed, according to Franklin Roosevelt, taxes, after all, are the dues that we pay for the privileges of membership in an organised society. In sum corruption in Kenya has undermined economic, social and political developments. It has exacerbated the weakening of vital institutions of governance. As a result the political economy of Kenya as in other African countries has been characterized by high levels of poverty and deprivation, continued marginalization of the mass of the people, endemic political instability, kleptocracy, unmanageable external debts and continued economic and financial dependence on foreign aid particularly the Bretton Wood institutions. These institutions advocate a strategy which prioritises the opening up of economies to global market forces and limited government intervention in the running of the economy.

<sup>60</sup>World Bank, 1982, p.2.

<sup>61</sup>George Ayittey, *Africa Betrayed*, p. 235.

<sup>62</sup>George Ayittey, *Africa in Chaos*, p. 178.

<sup>63</sup>Angelique Haugerud, *The Culture of Politics in Modern Kenya*, (Cambridge: Cambridge University Press, 1995) pp.34-35.

<sup>64</sup>Rok Ajulu, *Kenya's 1992 Election and its Implications for Democratisation in Sub-Saharan Africa* (Braamfontein: The Foundation for Global Dialogue, 1997) pp. 8-9.

<sup>65</sup>*Ibid.* For a complete analysis of the concept of rent-seeking see, James Patrick Gunning, *Understanding Democracy: An Introduction to Public Choice* (Taiwan: Nomad Press, 2000).

<sup>66</sup>David Himbara, *Kenyan Capitalists, the State and Development*, p. 130. See also Makau Mutua, "Scandal that could topple Kenya's Shaky Democracy" *The Boston Globe*, 17 June 2000.



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