THESIS

BUDAPEST UNIVERSITY OF ECONOMICS AND BUSINESS
FACULTY OF INTERNATIONAL MANAGEMENT AND BUSINESS
BSC INTERNATIONAL BUSINESS ECONOMICS
FULLTIME TRAINING
INTERNATIONAL BUSINESS DEVELOPMENT

TAXATION EFFICIENCY AND ECONOMIC DEVELOPMENT: A COMPARATIVE ANALYSIS OF KENYA, SOUTH AFRICA, AND NEW ZEALAND

Internal supervisor: Dr. Andrea Vallyon

By: Kenneth Koome Thiagetia

Budapest, 2025

Declaration on the confidentiality of the work

I, the undersigned...***Kenneth Koome Thiagetia***.... (Neptun code...***Q2DSFR***...), declare the following in connection with my dissertation (hereinafter work) entitled. ***Taxation Efficiency and Economic Development: A Comparative Analysis of Kenya, South Africa, And New Zealand***.

I declare that I have not infringed any other author's rights by uploading the work to the BUEB Repository of Degree Theses. I understand that the University does not check the existence of copyrights.

- I declare that the work is *(underline the relevant part)*
  - ☐ confidential
  - ☐ available for the public.
- I acknowledge that
  - ☐ in case of copyright infringement, the University temporarily restricts the availability of the relevant document for the period of clarification of the copyright infringement.
  - ☐ in case of copyright infringement, the relevant work will be immediately removed from the Repository by the Repository administrator.
  - ☐ if I declare my dissertation available to the public, the university will make the dissertation accessible on the Internet. My consent is a non-exclusive, unlimited authorisation in time, provided that my copyright is fully respected.

Place and date: ….... ***Budapest***......... ***2025.04. 26***..

Student Signature

Declaration of originality

l, the undersigned ...Kenneth Koome Thiagetia..........aware of my criminal responsibility, I declare that the facts and figures contained in my dissertation correspond to reality and that it describes the results of my own independent work.

The data used in the dissertation were applied taking into account the copyright protection.

No part of this dissertation has previously been used in other training at an educational institution during graduation.

I accept that my dissertation is subject to plagiarism control by the institution.

Budapest, 2025.04.26...

Student Signature

Table of Contents

List of Figures

INTRODUCTION

1.1 Chapter Overview

This chapter presents the actuality of the research, research methods applied, the hypotheses, the significance of the research, research questions, and objectives of the study. The main aim is to establish how the Kenyan tax system can be improved from its comparative analysis with South Africa's and New Zealand's.

1.2 Actuality of the study

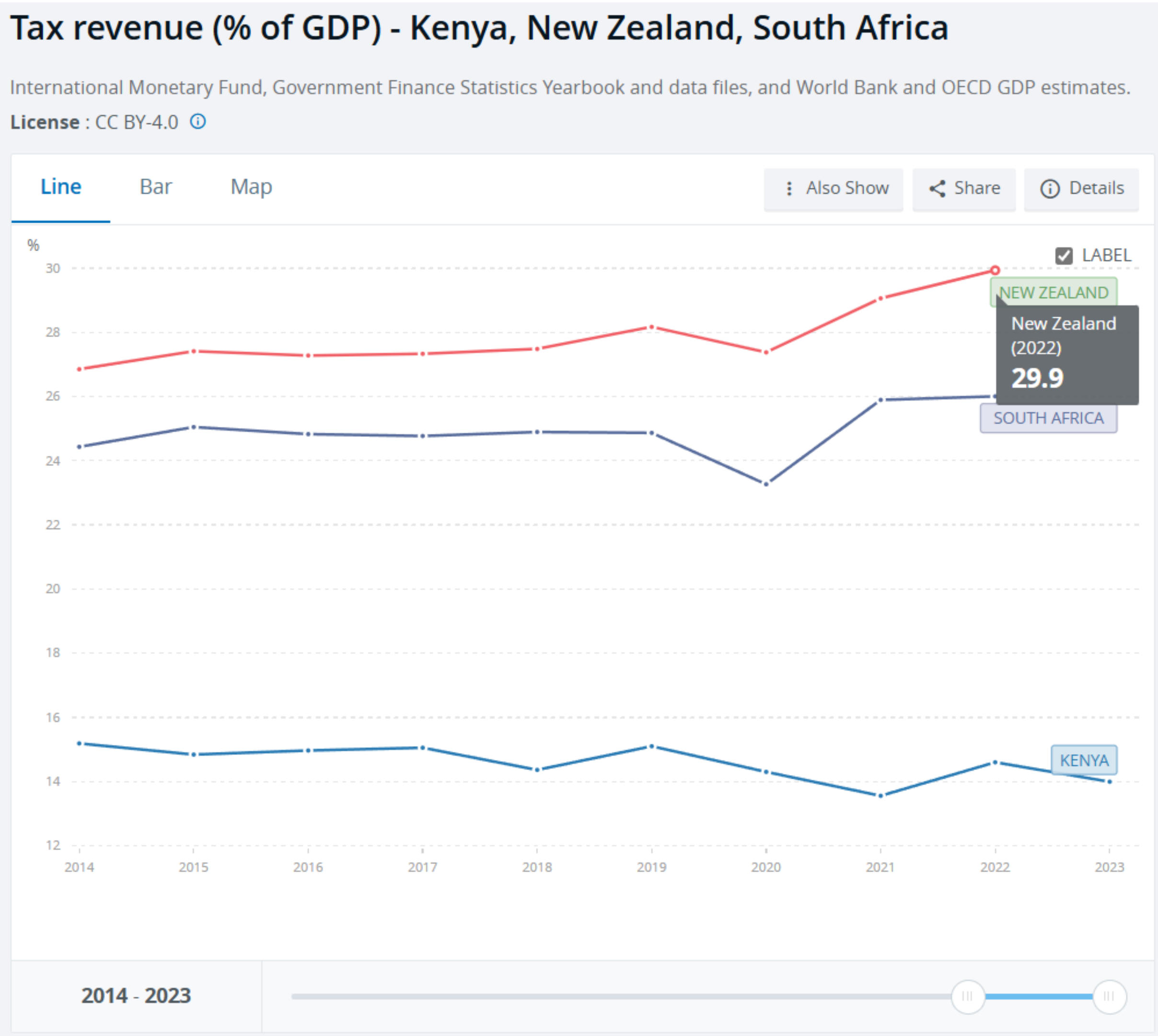
On the 25th of June 2024 the biggest demonstration in the history of Kenya was staged by the Gen Zs. The government of Kenya was almost overthrown during the uprising. The trigger for the demonstrations was what many termed as introduction of 'punitive taxes.' Many people felt and still feels that they get taxed too much but get too less back because of corruption and mismanagement of public funds. Amid all the chaos, I got curious about our tax system, and how it affects the economy. I realized that the government was not only facing opposition from the citizenry for increasing taxes but was also underperforming in revenue collections.

According to the Kenya Revenue Authority, the new taxes were meant to bring in people who had not been paying taxes. However, it was clear that some of the taxes that had been proposed were targeting people who were already paying taxes. For instance, there was a proposal to introduce motor vehicle tax. However, it was not clear how the government would separate those who are already paying taxes and own cars from those who do not pay any taxes but own cars. Another argument was that Kenya has one of the lowest tax-to-GDP (Gross Domestic Product) ratios compared to her peers. That is true considering that for instance in 2021, Kenya had a tax-to-GDP ratio of 13.6% compared to an average of 15.6% in Africa (OECD, 2023). Even worse, is that the ratio has been declining over the last decade, since its peak of 15.5% in 2014. Improvement measures have been implemented, which saw the ratio improve to 14% in 2023 (World Bank Group, 2023). This raises significant development questions, since the sustainable development goals identify that a tax-to-GDP ratio of at least 15% is needed to build a strong state.

After listening to several interviews and reading articles, I found that there were more challenges to our tax system. Some of these include inefficiency in tax collection, low compliance levels, huge informal sector, and unpredictable taxes. In this case, tax collection efficiency refers to the use of minimum inputs or tax collection expenditure to obtain maximum output or tax revenues ((Yolanda Ubago Martínez, 2022). The low compliance level is attributed to the complexity of the tax system. When the tax system is too complex, it gets not just hard to comply, but also expensive, especially for companies that process taxes both for themselves and their employees. Consequently, people end up looking for every opportunity to evade taxes. Having a huge informal sector means that many small businesses are not formally registered. Additionally, it is very hard to calculate the profits for these businesses, hence hard to tax. In Kenya, there are tax changes almost every year, to help the government achieve its targets for that specific year. This is done through what is commonly referred to as finance bill. A finance bill is a proposal to change tax laws and raise revenue for the government's budget. It includes tax incentives to boost the economy and updates to financial regulations for better enforcement and administration (Parliament of Kenya, 2020). This makes the tax system unpredictable. When the tax system is erratic, it makes it hard for investors to make investment decisions because of the uncertainty and the costs that come with regular tax reviews.

These are serious challenges considering the critical role that taxation plays in an economy. It is the main source of revenues for the government. With taxes, governments are able to provide essential public services like health care, education, security and social programs. Additionally, the government is able to redistribute wealth and reduce inequality especially by using progressive taxes. As result, people with more income pay more taxes. With this, governments can run programs aimed at bridging the wealth gap. Government also use taxation to stabilize the economy and spur economic growth by policies like incentives for the activities they would like to encourage.

Figure 1: Tax revenue as a percentage of GDP



Source: World Bank Group 2023

In an ideal situation, the tax-to-GDP ratio of a country should grow as the economy grows or at the very least, maintain the ratio. The general objective of this paper is to have a deeper analysis of the Kenyan tax system in comparison with the tax systems of South Africa and New Zealand, and from these come up with recommendations that can help improve the performance of the Kenyan tax system. As shown in *Figure 1*it the figure below, both New Zealand and South Africa are doing way better than Kenya in terms of tax collection as a percentage of GDP.

I have chosen South Africa particularly because its economic development level is close to that of Kenya. For both countries, the services sector contributed more than half of the GDP. The biggest sectors for both countries are manufacturing, industry and agriculture. The contribution of agriculture to the GDP is bigger in Kenya at 22% compared to South Africa’s 2%. The two countries are also in the same geopolitical region and face many similar social, environmental, and political issues. Very importantly is that South Africa also happens to have a significant informal sector, and it has been more effective at taxing them than Kenya.

Among the countries with the most competitive tax systems in the world, New Zealand is the closest to Kenya in terms of economic settings. It has the same sectors, with almost the same contributions to GDP like Kenya’s. Its sectors include agriculture, manufacturing, industry, and services. Just like Kenya, services make the most important sector, contributing more than half of the GDP. The tax system of New Zealand ranks very high, at position 3 in terms of overall competitiveness in the world (Tax Foundation, 2024). As a result, there are many lessons that we can get from New Zealand.

The three countries: Kenya, South Africa, and New Zealand fall under the Commonwealth tax law family, according to the comparative tax law. Countries within the same tax family have the same historical roots, which have influence on the system and underlying legal cultures of the countries. The three countries are also under the common law system. These laws similarities have been largely influenced by the time these countries were under the British rule before they gained independence. Each country may have implemented some new laws, but the underlying legal culture and system is the same. (Victor Thuronyi, 2016).

1.3 Research objectives

I. Tax collection efficiency.
   a. To identify and recommend efficient tax collection methods from South Africa and New Zealand that can be adopted by Kenya.

II. Tax Compliance.
   a. To propose strategies for the Kenya Revenue Authority (KRA) to enhance tax compliance, based on successful practices from South Africa and New Zealand.

III. Informal sector taxation.
   a. To derive solutions from South Africa's experience that can help Kenya effectively tax its large informal sector.

IV. Tax predictability
   a. To explore how the tax systems of South Africa and New Zealand ensure predictability and stability.

b. To recommend measures to make the Kenyan tax system more predictable for taxpayers and investors.

1.4 Research questions

I am seeking to answer the following questions from this research:

I. Tax collection efficiency.
   a. What lessons can Kenya learn from South Africa and New Zealand regarding efficient tax collection methods?

II. Tax Compliance.
   a. What strategies can the KRA learn from South Africa and New Zealand to enhance tax compliance among taxpayers

III. Informal sector taxation.
   a. What solutions can Kenya derive from the experience of South Africa on how to effectively tax its large informal sector?

IV. Tax predictability
   a. How do the tax systems of South Africa and New Zealand ensure predictability and stability, and what can Kenya adopt from these practices?
   b. How can the Kenyan tax system be made more predictable for taxpayers and investors?

1.5 Relevance of the study

The significance of this study lies in its potential to address critical inefficiencies within Kenya's tax system. By conducting a comparative analysis with the tax systems of South Africa and New Zealand, this research aims to identify best practices and recommend strategies that can enhance tax collection efficiency and compliance in Kenya. The study's findings will provide valuable insights for policymakers, enabling them to adopt effective tax policies and administrative practices that have proven successful in other contexts. This can lead to more efficient tax collection, increased revenue, and improved public service delivery.

Efficient tax systems are fundamental to economic development. By improving tax collection and compliance, the Kenyan government can expand its revenue base, which is essential for funding vital public services such as healthcare, education, and infrastructure. Enhanced revenue collection can promote economic growth and reduce income inequality, as the government can implement programs aimed at bridging the wealth gap. This study's recommendations will be instrumental in guiding the Kenya Revenue Authority (KRA) and other relevant agencies in their efforts to optimize tax administration and enforcement.

The issue of tax predictability is another significant aspect addressed by this study. Frequent changes in tax policies create uncertainty, which can deter investment. By recommending measures to make the Kenyan tax system more predictable, the study aims to enhance investor confidence and attract both foreign and domestic investments. A stable and predictable tax environment is crucial for fostering a conducive investment climate, which is essential for sustainable economic growth.

This research also contributes to the existing body of knowledge by providing a comparative analysis of tax systems in Kenya, South Africa, and New Zealand. Comparative studies are essential for understanding how different countries address similar challenges and what lessons can be learned from their experiences. The insights gained from this analysis will be valuable for academics, policymakers, and practitioners in the field of taxation and public finance.

Furthermore, the study's practical applications extend beyond theoretical contributions. The recommendations derived from this research can be directly applied by the KRA and other government agencies to improve tax compliance and reduce tax evasion. By adopting successful strategies from South Africa and New Zealand, Kenya can enhance its tax system's efficiency and effectiveness, leading to better compliance and a more robust tax system.

In summary, this study is significant for its potential to improve Kenya's tax system, support economic development, and contribute to the broader field of tax policy and administration. The findings and recommendations will provide a valuable resource for policymakers, practitioners, and researchers, ultimately supporting Kenya's economic growth and social well-being.

1.6 Research Methods

To accomplish this, I am going to rely on secondary data from credible organizations like the Kenya Revenue Authority, National Treasury and planning of Kenya, The World Bank Group Data and more. I will also use the existing literature. The research methods will involve literature review, document analysis, descriptive analysis, and case studies.

LITERATURE REVIEW

2.1 Chapter Overview

The literature chapter provides an in-depth examination of tax systems, focusing on their structure, administration, and theoretical foundations. It begins by defining taxation and distinguishing between direct and indirect taxes, highlighting the role of the Goods and Services Tax (GST) in simplifying tax systems. The review discusses the importance of efficient tax administration, emphasizing digitalization, data-driven approaches, and taxpayer engagement. The theoretical framework introduces the Laffer Curve, which suggests an optimal tax rate for maximizing revenue, and outlines seven principles of efficient taxation, including equity and predictability. The review also covers the roles and responsibilities of tax authorities in ensuring compliance and effective tax collection. Overall, the literature review provides a comprehensive understanding of tax systems and their administration, guiding the analysis and recommendations for improving tax efficiency and economic development.

2.2 Overview of Tax systems

Tax refers to mandatory levies imposed by the governments on individuals or entities (Britannica , (2025)). As opposed to other contributions, taxes are unrequited. There are some exemptions, like some parts of payroll taxes that are aimed at benefiting the taxpayer at retirement, cater for their medical bills or run some social security programs. Since there is a link between the taxes paid and the benefits received, these taxes are generally called contributions. Another distinction for taxes is that they are enforced by the government. Failure to comply can lead to punishment by the law. There are four main purposes of taxation: revenue(it is the main source of funds for the governments), redistribution(create a flow of resources from the rich to the poor), reprising(Imposed of products that the government want to discourage due to their harmful effects) and representation(a way of accountability to the public by the government) (Muhammad Aamir, 2011).

There are different ways of defining a tax system. In this case, I will go with the definition of the economist D.G Chernik, that a tax system is a “complex formation that includes interconnected subsystems: the taxation subsystem and the tax administration subsystem. The taxation subsystem is presented as a set of legislatively established taxes and fees that are paid by legal entities and natural persons to the state budget system. The tax administration covers the set of bodies, empowered by the state to exert control over the observance of tax obligations by legal entities and natural persons (Nazarov, 2016).” According to Adam Smith in his wealth of nations book, a sound taxation system should meet these four requirements:

Equity, certainty, convenience, and economy. On Equity, the tax burden should be proportionate to the income of the taxpayer. Certainty refers to the predictability, where people know what they will need to pay. Convenience is about ease and timing of filling taxes. The processes should be as easy and fast as possible. On the economy part, the government has the duty to ensure that they use the minimum possible resources to collect taxes. This ensures that there are enough funds left after collection to fund public expenditures and development projects (Kim, 2023).

The taxation subsystem has many forms of taxes and fees that vary according to the territories. These taxes are levied on income and wealth, goods and services, or on organizations (Esmaeel, 2013). Most of taxes are classified as either direct or indirect.

2.2.1 Direct Taxes

Direct taxes are those that are levied on the incomes and activities of the taxpayers and are paid directly to the government ((Taufik Abd Hakim, 2022). The amount of direct tax liability depends on the ability of the taxpayer measured using their income, consumption, or net wealth (Britannica , (2025)). Some of the forms of direct taxes are the following:

Income taxes: These includes individual income taxes and corporate income taxes. The individual income taxes are levied on the personal net total income. In determining the level of liability, the government may consider factors such as marital status, if the taxpayer has children, and other burdens that may affect their ability to pay taxes. Normally, there are tax brackets which specifies the rate of tax for each portion of the taxable income. One of the most common forms of individual tax incomes is the payroll taxes, which includes social security contributions from employees' compensations. Personal income taxes and the social security contributions are also called the labour taxes (Ilorca, 2010). For companies, the corporate tax is levied on their profits, capital gains, withholding taxes, and intercorporate dividends. Some countries may impose taxes on the capital and real estate of the company. All these taxes that could be associated with a company, whether directly or on their employees are called company taxes (Ilorca, 2010).

Capital gains tax is applicable both to natural persons and companies. This tax is charged on the gains made from the disposal of an asset. Disposal in this case is the transfer of the ownership of either a part of the asset or the whole asset. Some forms of disposal include sale, gifts, or exchange from which the owner makes some gain. Some transfer of ownership could however be exempted from this tax. For instance, the transfer of ownership between a couple is deemed to make no gain, hence exempted (Seely, 2010). The transfer of ownership after the death of the owner is not counted as capital gains. Instead, there is the inheritance tax that is charged on the person taking over the assets. Some countries may have an estate tax, which is levied on the entire estate left by the deceased. Some people may try to avoid the inheritance tax by transferring the ownership before death. However, to counter this, some governments have the gift tax, which is levied on transfers that exceed a certain threshold. Some countries also have the net worth tax, which levied on the total wealth of a person less their liabilities (Britannica , (2025)). Capital gains tax on companies are also called corporation tax. Another common form of direct taxation is the property tax. This tax is levied on the ownership of a property. The properties involved are immovable. These taxes are mostly charged by the local government, and they are among the easiest because the properties are immobile, and the location cannot be changed to avoid taxes (John Daley, 2015). There are many more forms of direct taxes in different territories, but these are the common ones.

Direct taxes are the most unpopular among the taxpayers because of the following reasons. The first one is that they cannot be shifted. Unlike in indirect taxes, the burden of paying direct taxes cannot be passed to another party. The second one is that they are inconvenient to the taxpayers. For Instance, the taxpayers may have to spend a lot of time preparing and submitting documents to prove their incomes, or to fill in the tax returns. Due to the unpopularity, some taxpayers try to evade these taxes. Governments and tax authorities treat tax evasion as criminal, and the consequences are dire (Esmaeel, 2013).

2.2.2 Indirect Taxes

Indirect taxation can be defined as "taxation imposed upon others than the person who is intended to bear the final burden" (Esmaeel, 2013). In simple, these are the taxes that companies pass to the final consumer. These taxes are indiscriminative of the income level of the taxpayers. Everyone who buys the product pays the taxes. You can only avoid them by not buying the item on which they are levied. The company collects the taxes and pays them to the government. Due to their indirect nature, and the fact that they are not included in the price tags, people do not feel them. They are also way easier for the government and tax administration authorities to collect. Some features that distinguish indirect taxes are: they are mostly taxed on consumption, paid indirectly, regressive in nature, have a broad base, can impact spending patterns (Corporate Finance Institute , n.d).

The main types of indirect taxes are VAT, excise duties, customs duties, and sales tax (Corporate Finance Institute , n.d). VAT is a general tax that is levied on all commercial activities involving the production and distribution of goods, and the provision of services. This tax is charged as a percentage of the price at every stage of the production and distribution process. To avoid double taxation, VAT is levied only on the value added at each stage. The registered trader is required to issue an invoice to the buyer indicating how much VAT they paid (European Commission, Taxation and Customs Union, n.d.). Excise duties are taxes charged on the use or sale of specific goods e. g alcohol and cigarettes. Governments use this tax as a mechanism to regulate the consumption of some products. Sales Tax is used as an alternative to VAT in some countries like the United States. This tax is levied on the retail purchase of goods and services on goods that are not tax exempt as a percentage of the final price (New York State,Department of Taxation and Finance, n.d.). What differentiates sales tax from VAT is that it is levied on the final product, unlike VAT which is levied and assessed at each level of production and distribution. Another alternative to VAT is the Goods and Services Tax (GST).

Custom duties are taxes imposed on goods when they are transported across international borders. These taxes are intended to control the flow of goods, hence protect the economy of the country, residents, jobs and local industries. Custom duties are charged depending on some factors like the value of the product, its weight and the country of origin. Some countries use ad valorem, which means that the tax is based on the value of the product (U.S. Customs and Border Protection, n.d.). Tariffs are a custom tax that is intended to protect the local industries from cheap foreign goods.

2.2.3 Goods and Services Tax (GST)

GST is a comprehensive indirect tax that is levied on each value addition and charged at the point of destination or sale for consumption. This tax combines many forms of local taxes like VAT, excise duties, sales and services taxes. Under this tax, different products and services have different rates of taxation according to the law. The key components of GST are taxable goods, taxable services, and input tax credit (ITC). The input tax credit applies where a business applies for credit on the taxes they paid on the inputs that were used to make the final product. By combining many forms of taxes, this makes the tax system simple. Additionally, it removes the cascading effects of VAT. Consequently, it is more transparent and reduces the tax burden for businesses, and the final price for consumers (Anand Nayyar, 2017). Additionally, implementation uses a robust IT infrastructure. Due to its simple nature and the robust IT infrastructure, GST is known to improve compliance. It is also cheaper to administer for the authorities. However, the initial implementation of this tax system is costly. At the beginning, it may affect small business, especially because of their low profits.

The built-in input tax credit among traders also incentivises tax compliance. As many businesses try to apply and benefit from the input tax credit, the cash economy is greatly diminished. Many businesses in the informal sectors also are encouraged to apply. As a result, the tax-base increase which in turn make the revenues collected by the government higher (Prof.Pooja.S.Kawle, 2017).

2.2.4 Tax Administration

The tax administration subsystem covers the set of bodies empowered by the state to ensure the observance of the tax obligations by entities and natural persons. This includes the management and governance arrangements of the tax bodies. Another important part of the tax system that falls within this subsystem is the tools, processes and systems that drive operational performance (International Monetary Fund, n.d.). One of the primary roles of the tax administration is to collect revenues for the government by processing tax returns, assessing tax liability, and collecting payments. In addition, tax administrations are responsible to provide information, assistance and guidance to the taxpayers. They also enforce tax laws and ensure that the taxpayers comply with the law. Other roles include; tax debt collection, providing expertise for tax policy development, cooperating with other countries for cross border taxation, collecting and managing tax data, digital transformation of the tools, processes and systems for improved efficiency and ease (OECD, 2024).

According to the Organization of Economic Co-operation and Development (OECD), many tax administrations are currently trying to implement reforms to keep pace with the changing external environments like digitalization of the wider economy and the technological advancements. With these trends, the expectations of the taxpayers on the tax administrations have been evolving (Lipniewicz R., 2017). Across the globe, tax administrations are coming up with ways to cope and take advantage of the opportunities presented by the digitalisation of the economies. Some of the top reforms are as follows:

Digitalisation: Most of the tax administrations are going digital, allowing people to fill returns online and pay online as well. Depending on the history and data available about the taxpayer, administrations are making it even easier for people by prefilling their tax forms using artificial intelligence. On this, the taxpayer only needs to check and correct the data where necessary and submit. In case of some doubts, many tax authorities have introduced virtual assistants to help with common questions to the taxpayers. In case there are some questions that may require personal attention, then the virtual assistant directs the taxpayer to the real humans responsible for assisting people who may be facing challenges. To make it convenient, tax authorities are also developing apps through which the taxpayers can easily file their returns or get the information they need on their tax liability. For continuous adaption and improvements, more and more tax authorities are opening their data to developers, so that they can continue coming up with innovations to enhance tax collections (Ihnatišinová, 2020).

Data driven approaches: tax administrations are more and more capitalizing on data and data to make decisions and improve their services. Many tax administrations are using data to identify taxpayers who are more likely to avoid paying taxes. With these findings, they can focus their attention on preventing and addressing noncompliance. In addition, tax authorities are also using data to target tax debts, which makes the collection of unpaid taxes easier and efficient. With the use of data, tax agencies are also able to detect tax gaps, which is an indication of the extent of noncompliance. As a result, they can come up with policies to address the gaps and in so doing, enhance compliance (Edidiong Bassey, 2022).

Engaging taxpayers: tax authorities are working to make it easier for people to understand and comply with their tax obligations using the techniques like taxpayer education programs. In this case, they provide tax educational resources to the citizens for free. On top of this, they are using sophisticated systems to get behavioural insights about the taxpayers, which they leverage to target the taxpayers and encourage compliance. To enhance organic compliance, some authorities are using taxpayer ratings to reward compliance (Ogungbesan, 2023).

Collaboration: Tax authorities are also collaborating with other government agencies and third parties to integrate tax registration into other government. In addition, they are also embedding tax services in the systems that the taxpayers use daily. Consequently, they are able to get majority of the citizens registered in the tax system. To ensure on one is left out, the tax administrations are coming up with systems that are accessible to all people including those with disabilities. There are programmes to also reach those without internet access (OECD, 2024).

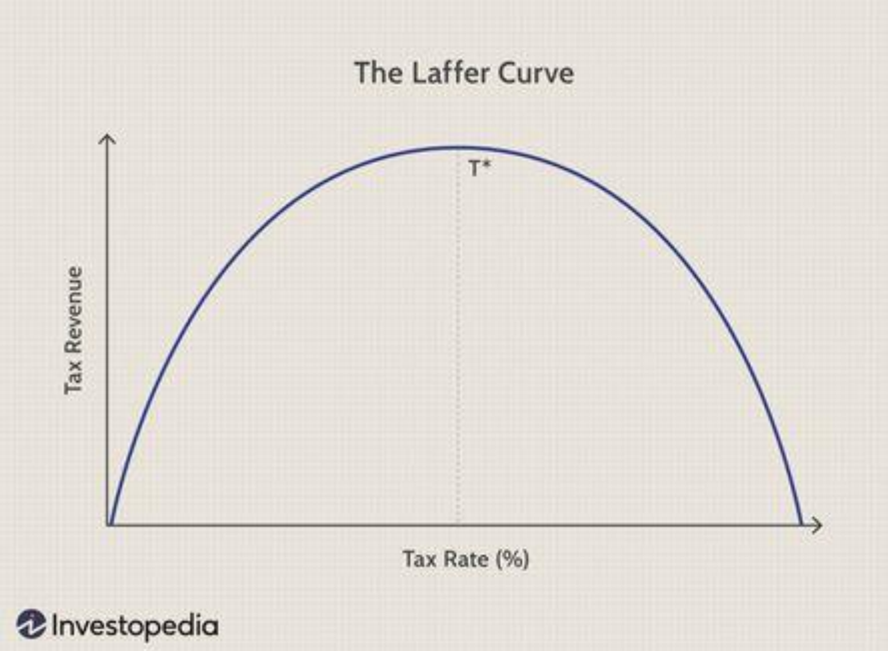
2.3 Theoretical Framework

When a new tax is introduced, it is likely to lead to price changes of inputs like labour and capital, and products. Consequently, there is a shift in the allocation of these inputs which in turn lead to distortion of the pretax efficient allocation of the inputs and products. There is also a likely unequal distribution of the tax burden among these resources. The third effect would be the uncertainty on how the new tax could affect the stability of the economy, savings and investments, which could affect the formation of capital and economic growth. The tax systems should be designed to avoid these negative effects, ensure productivity in revenue collection and enhance the ease of compliance (Shome, 2021). The theoretical framework of this paper is grounded on the principles of taxation efficiency and economic development. This framework will guide the comparative analysis of the tax systems of Kenya, South Africa, and New Zealand.

2.3.1 Laffer Curve Tax Theory

The Laffer Curve theory, developed by the American economist Arthur Laffer shows the relationship between tax rates and the tax revenues according to *Figure 2*. According to this theory, higher tax rates does not necessarily result to higher tax revenues. There is an optimum tax rate beyond which tax revenues begin to fall. According to this theory, under some circumstances, reducing tax rates could result in increased revenues. This works better if the rates are lowered but then spread over a wider range of items or products. According to this theory, there are two impacts of tax rate cuts. That is, arithmetic and economic. On the arithmetic impact, he states that every dollar in rate cuts decreases the economic stimulation by government spending by one dollar. On the economic theory he states that tax rate cuts increase the income for the taxpayers.

Figure 2: The Laffer Curve



Source: Investopedia 2024

As a result, they will spend the extra income, which will result to higher demand for goods and services and subsequently increase production and create more jobs.

2.3.2 The seven principles of taxation

There are seven principles of efficient taxation. The four canons mentioned earlier from Adam Smith's wealth of nations are in this list. The four includes: equity, certainty, convenience, and economy. The other principles that will help us in doing this comparative analysis are the benefit principle, diversity and economic goals.

Equity: The equity principle emphasizes on fairness in the tax burden distribution. There are two types of equity, that is, horizontal equity and vertical equity. Horizontal equity states that people with the same level of income or in the same position should have equal tax liability. The vertical principle is about the distribution of the tax burden among different income levels. According to this principle, the tax liability should be proportional and progressive. In other terms, the higher the income that a person has, the larger the percentage of tax burden. This ensures that people pay taxes according to their ability (Kabinga, 2016).

Certainty or predictability: According to Adam Smith, 'the tax which each individual is bound to pay ought to be certain, and not arbitrary.' This means that the tax code or system should not be changed every now and then. Instead, there should be stability. In case of changes, they should be in a context of general and systematic reform and carried out in a manner that ensures fairness and order in transition. This is very crucial to help businesses to plan their costs and tax liability in advance. Since businesses prefer tax stability, enhancing the predictability of the tax system is one of the things that attracts investors which among other factors could lead to economic growth (Britannica , (2025)).

Convenience or simplicity: This means that the tax system should be easy for the average taxpayer to understand. When people can easily calculate their tax obligations and pay seamlessly, the rate of compliance goes up. This reduces the burden for the tax administrators and ultimately increases the revenues. To achieve this, tax administrations have the duty to keep simplifying the processes and procedures of complying as much as possible. Some of the methods being used to achieve this includes digitalization of the tax filling processes, review and simplification of instructions among others (Olha Dmytryk, 2020).

The economy: This is also called the cost-effective principle. According to this principle, tax administrations should do their best ensure that the cost of collecting taxes is as low as possible. This involves the minimization of unnecessary costs for both the taxpayer and the administrators. Reducing these costs ensures that there are more resources left from the revenues for public services and other development programs of the governments.

The benefit principle: According to this principle, the level taxation should correspond with how much the taxpayers are benefiting from public services. The people who benefit more should pay more. This principle is deemed hard to implement, since many people who benefit from taxes like the sick, old and unemployed may not be able to pay. However, this principle works for some types of taxes like social security contributions and toll roads. Because of this, the people can directly benefit from their taxes.

Diversity: This principle is also called the broad-based tax principle. It emphasizes that the government revenues should be based on different types of taxes, and not reliant on only one tax. This ensures that the tax burden is distributed evenly across sectors and cushions the economy against economic shifts. This could be done by taxing some areas that have not been taxed or the emerging industries. Instead of charging high tax rate on a few products, the tax rate can be lowered but be taxed on a broad base. This reduces the incentives for tax evasion and provides fewer places to which people can escape when trying to evade taxes (Huzaima Bukhari, 2016).

Economic goals: Besides raising revenue for the government, taxes can be used for economic growth and stability. Depending on the economic situation, the government could adjust the tax liability of different actors to counter cyclical fluctuations in prices, production and employment. Some types of taxes like income taxes have a built-in flexibility, where they strongly respond to fluctuations in macroeconomic conditions. The government could be actively involved by actions like changing the tax rates during different economic situations to bring the counter-cyclical effect. For economic growth, the government could also implement programs like tax incentives that encourage businesses in certain sectors.

2.4 Backgrounds of the tax systems

In this section, the historical backgrounds of the tax systems of Kenya, South Africa, and New Zealand will be discussed. Additionally, an overview of these tax systems in the present will be discussed. This will include the structure and components of the tax systems, administration and enforcement, recent reforms and current challenges.

2.4.1 Background of Kenya's tax system

Taxation existed in Kenya since the precolonial period. In the precolonial error, the Kenyan society was socialist, with properties being owned communally. Taxes was paid in terms of tithes, where people would give 10% of their gains be it from agriculture or trade to those in charge. The tithes were then used to help the poor, who would not have enough to sustain themselves (Waris, 2008).

When Britain took Kenya as its colony, it introduced a tax system called Hut and Poll tax in 1897.The hut tax was imposed on all huts that were used as dwellings. To control evasion, especially by those who did not have huts, a flat poll tax was introduced on all people whether they had huts or not. Those who did not have money to pay the hut taxes became targets for forced labour. The main aim of the tax system was to support the British economy. This system disregarded the principles of taxation, with the colonial rulers using the principle: get maximum output with minimum input. Africans were encouraged to work for the colonial settlers to earn some money and pay taxes. There was criticism because of the ill intention of this taxation. With time, several amendments and new forms of taxes were introduced, including land tax, excise duties, custom duties, and graduated income tax (Opiyo, 2022).

After Kenya gained independence in 1963, it maintained the colonial tax system until the 1970s to provide support for the new administration. Many reforms were introduced in the 1970s to increase tax buoyancy and address economic shocks. Some taxes were dropped like graduated personal tax, and some new taxes were introduced like sales taxes, withholding taxes for non-residents, and property taxes. The rates on these taxes were raised and lowered at different points to address macroeconomic challenges (Tax Justice Network, 2009).

Since the 1980s, the population of Kenya has more than tripled, and the economy has grown more than 15-fold. This has led to urbanization and more need for public services. These changes necessitated more reforms in the tax system. Some of the major changes include digitization of most of the tax processes, replacement of sales tax with VAT in 1990, establishment of the Kenya Tax Revenue authority to administer taxes in 1995. With the current trends of digitization of the economy, the government introduced some other forms of taxes like the digital services taxes in 2021 to broaden the taxbase and increase revenues (Opiyo, 2022).

Despite these improvements in the tax system, Kenya still faces challenges with achieving its tax revenue potential. In a well-functioning tax system, the revenue growth should exceed the growth of real GDP. This has not been the case in Kenya, which indicates that our tax system is not buoyant (The national treasury and economic planning, Kenya, 2023). Some of the things that have been hampering tax efficiency are large informal sector, corruption, difficulties with taxing some online businesses, low compliance, tax incentives, and mismanagement of public resources. Because of lack of enough resources from the revenue collection, the government has resulted to borrowing to finance the budget deficits (Wawire, 2020).

2.4.2 Background of South Africa’s tax system

During the precolonial period, South Africa had many independent and self-governing communities, each with its own kind of contributions to help in the running of the communal affairs. Some of the forms of taxation included death duties, providing labor to the leaders occasionally when called upon, giving a part of the harvest or some herd (Ndlovu, 2017).

During the colonial period, taxation was introduced to raise revenues for the colonial government, control excessive cattle rearing by native South Africans, force them to work in the farms of the colonial settlers and mines. Just like Kenya, the hut tax was introduced on every house that was inhabited by the native South Africans. The colonial settlers were exempted from the direct taxes. These taxes were changed overtime to cater for the changing demand for labor. However, in 1914, income tax was introduced, and for the first time, colonial settlers were also directly taxed. Throughout the colonial era, most of the taxes were collected from the native South Africans because they were the majority, but only a fraction of the revenue collected was used to benefit them. For the colonial settlers, tax was intended to be as equitable as possible, but for the native Africans, it was regressive, and with other motives besides revenue collection as mentioned earlier. With time, more and more taxes were added to the native South Africans, including native general tax, education tax, tank tax, dog tax, grazing tax, and compound tax. To ensure compliance, there was a pass system, which limited those who had not paid taxes from leaving their jurisdictions. There was also a welfare program that was established by the government to help the poor. More than 90% of the assistance was directed to the colonial settlers who were deemed poor by the state. Even worse is that, only native South Africans were jailed for non-compliance. There was no jail term for the other communities. From the 1960s to 1990, there was the introduction of technology in the tax system. In this era, the government started collecting taxes directly from the salaries of those who were employed. To increase revenue, the government also introduced the General Sales Tax (GST). However, taxation continued being progressive for the colonial settlers and regressive for the natives. Until this point, the tax system was simply seen and used as a mechanism of exerting control and frustrating the natives, implementing segregation (apartheid), and protecting the colonial settlers. Due to this level of unfairness, decolonization of other countries in Africa and around the world, there was international pressure and growing internal resistance for the South African government to abolish apartheid.

During the transition from Apartheid, the tax system became one of the most important tools of correcting the historical injustices. The first step was the removal of the hut and poll taxes. Other important reforms included the replacement of General sales tax with VAT, decreasing the corporate tax rate, and introduction of secondary company taxes. Considering the high level of taxation that was already in South Africa, the ANC democratic government did not have much room for new taxes. Therefore, they focused on implementing the principles of taxation efficiency and changing the perception of the tax system by the citizens to improve compliance. Another major reform was the introduction of e-filling, which allows South Africans to fill their taxes online. In 1997, the two commissions that had been administering taxes, that is, Inland Revenue and Customs and Excise were joined, leading to the formation of the current day South African Revenue Service (SARS). The SARS is currently the institution that oversees tax administration. These reforms and others saw more people, especially the natives, gain confidence in the tax system. Consequently, there was a growth in the people registering to pay taxes (Ndlovu, 2017).

Despite these improvements, South Africa still faces some challenges. Some of them include, large informal sector which is hard to tax, narrow taxpayer base where 49% of the revenue comes from less than 4% of the population, taxing high-net worth citizens and companies who have huge political influence and keep negotiating for exemptions, risk of many high-net worth citizens moving their capital to other countries that are seen as tax havens, and low morale among the citizens who feel that the government is not responsible enough to protect their taxes (Gwaindepi, 2023).

2.4.3 Background of New Zealand's tax system

So far it is clear that Kenya and South Africa have a lot in common in their histories. The pre-colonial community settings and taxes, the colonial taxation, and reforms in the post-colonial era. Additionally, Kenya and South Africa are middle income countries, with Kenya having a lower middle-income status and South Africa an upper middle-income status.

New Zealand has a completely different story. It is a developed economy or a high-income country. Its colonization was also different. While the colonization of Kenya and South Africa involved exploitation and forced labor, New Zealand had most of the population being settlers and was treated as a part of the British government, with legislation and tax revenues aimed at developing the country. The earliest formal taxation recorded was in 1840s and through 1860s, which mostly included custom duties or tariffs especially on the imports of tobacco and alcohol, and later sugar. At this point, the revenues were very low, estimated at 4% of the GDP. In the 1860s, the government borrowed to finance the war, and the first direct taxes were imposed to help repay the debts. The main taxes at this point were death taxes and stamp duties. In 1877, land tax was introduced for unimproved lands. This tax was replaced with property tax in 1879, which took into consideration land, property, other possessions and even cash in bank accounts. All this time, the indigenous people or Māori, were exempt of land and property taxes, because they owned very small shares of land.

In 1882, some taxes were introduced on Māori who had land near towns to increase the revenues. Many people were unhappy with the property taxes, so the government introduced income taxes in 1891 for people who were earning more than 300 pounds per annum. This replaced the property tax. Income taxes were also levied on company profits. During the World War the government tried to collect more revenues and make taxes more equitable by introducing progressive rates, with the highest tax rate jumping from less than 7% in 1914 to almost 44% by 1921. The income tax rates were revised several times depending on the economic conditions and needs.

In 1930, there was a depression, and the government introduced the poll and flat taxes to help the unemployed. In 1933, the sales tax was introduced at 5%. In 1939, social security fund was introduced as a continuation of the unemployment emergency fund. In 1948, the government collected surplus in revenues and decided to introduce a tax rebate of 10 pounds for every taxpayer. There was also a benefit for those who had children. The tax system was considered to favor families during this time. By 1950, the tax to GDP ratio had grown to 26%.

Pay as You Earn was introduced in 1958. From this point, the tax was deducted from the salary before it ever got to the taxpayer. Unlike in the early period where total tax was calculated and paid at the end of the year, PAYE was deducted every two weeks. Tax on dividends was also introduced as the 'black budget'. This was however corrected in the 1980s with the introduction of the imputation credit to avoid double taxation on company earnings.

In the 1960s, the economic growth of New Zealand was lower than its peers, and so the government sought to use taxes to boost growth. Therefore, incentives were introduced on agriculture, tourism and exports. With time, there were subsidies and exemptions, all meant to boost economic growth. However, many businesses found loopholes for tax evasion in these incentives, making a fall in the company tax revenues by the 1980s. Many people who had some forms of businesses were able to evade tax and pay nothing or very little, while employed taxpayers bore much of the burden because they could not evade. There was also a fiscal drag, where the tax brackets were not revised and people's earnings increased and crossed to the next tax brackets. This led to higher tax burden. With the inflation, the middle class was losing their purchasing power.

By this point, the tax revenues to GDP ratio had reached 30%. Personal Income Tax was at 66% for top earners. To address the challenges of tax evasion and huge burden, the government sought to broaden the tax base and reduce the income tax rate. They called this 'shift from high rate, narrow base to low rate, broad base.' The approach to achieve this was indirect taxes. As a result, the Goods and Services Tax was introduced at 10% in 1985. The plan was to reduce the income tax from 66% to 48% for the top earners. There was a dispute over this, and an agreement was reached on a two-steps scale income tax, with 24% tax on any individual income below 30,000 dollars and 33% tax on any further income. The corporate income tax was also reduced from 45% for resident companies and 50% for nonresident companies to 33% for all companies. Most of the incentives were also dropped. With these and other reforms, there was reduction in loopholes for tax evasion, and trust in the tax system was restored. In 1999, the new government revised taxes for top earners to 39%. By 2006, the tax to GDP ratio was at 36.5%.

According to OECD, New Zealand taxpayers' tax burden is above average. It is classified as one of the simplest, but competitive tax systems in the world. Since the 1980s, its tax to GDP ratio has been at least 30%.

2.5 Overview of the Tax Systems

An overview of these tax systems in the present will be discussed. This will include the structure and components of the tax systems, administration and enforcement, recent reforms and current challenges.

2.5.1 Overview of Kenya's tax system

The current tax system of Kenya is comprised of several types of both direct and indirect taxes. For the direct taxes, Kenya has only the income tax. This involves the personal income tax and corporate income tax. The personal income tax is levied on the sources of income for the individual, which may include salaries, dividends, interests and others. For companies and individual persons that employ some people, they are required to tabulate the tax liability of their employees, deduct it directly from the salaries and remit it to the Kenya Revenue Authority. This tax deducted by employers is called Pay as You Earn (PAYE). This also includes any employee benefit exceeding 5,000 Kenya Shillings (KES). Those who are self-employed are required to calculate their tax liability depending on the income they make in Kenya, and also remit it to KRA. The income tax bads looks as shown in *Figure 3.*

Figure 3: Income Tax Individual Tax Rate.

Monthly Pay Bands (Ksh.)	Annual Pay Bands (Ksh.)	Rate of Tax (%)
On the first kShs. 24,000	On the first KShs. 288,000	10
On the next KShs. 8,333	On the next KShs.100,000	25
On the next KShs. 467,667	On the next KShs. 5,612,000	30
On the next KShs.300,000	On the next KShs. 3,600,00	32.5
On all income above KShs. 800,000	On all income above KShs. 9,600,000	35
Personal Tax Relief		
KShs. 2,400.00	KShs. 28,800.00	

Source: KRA 2025.

Since 2020, each individual taxpayer in Kenya has a tax relief of 2,400 KES per month. Before the pandemic, the tax relief was 1408 KES. The tax relief was raised to cushion Kenyans from the economic impacts of the Covid 19 pandemic. Therefore, a person earning 24,000 KES with a tax liability of 10% pays nothing because the tax relief cancels the tax liability out. The tax bands have been revised severally since the pandemic, but those earning less than 24,000 KES have still been exempt from paying taxes. According to a report by the national treasury and economic planning of Kenya, this personal income tax relief that exempted some taxpayers completely from tax liability resulted in the erosion of the tax base. They also say that the tax bands are narrow and should be expanded to enhance progressivity (The national treasury and economic planning, 2023).

The corporate income is charged on any earnings of a company that are made within Kenya. Currently, the tax rate stands at 30% for resident companies, and 37.5% for non-resident companies. The taxes are remitted in instalments on the 4th, 6th, 9th, and 12th months of the company's financial year. For those persons or companies that deal in agriculture, they are allowed to pay their taxes in two installements per financial year, with the first installments accounting for 75% and the second one 25% of the total tax payable. There are some special tax rates for companies in areas that the government wants to encourage investments and growth. Among them is special export zones, where all the companies operating in these zones are tax exempt in their first 10 years, pay 25% in the next 10years, and then start paying 30% subsequently. Companies listed on the Naironi Stock Exchange also only pay 25% on their first 5 years. Companies operating in the special economic zones pay 10% in their first 10 years, 15% in the next 10 years, and then the normal 30% for the subsequent years. For companies operating carbon exchange markets or specialized in shipping, they pay only 15% corporate income tax in their first 10 years, before starting to pay the normal tax rates (Waceke, 2024).

As started earlier, one of the main challenges in Kenya's tax system is the informal sector. So far, the government tries to tax this sector using the presumptive and turnover taxes.

Presumptive taxes is charged on businesses whose annual turnover does not exceed 5 million KES. The rate is 15% of the amount paid for the business permit to the county government. For businesses with a turnover of between 1 million and 50 million KES, the government applies the turnover tax, which 1% of the turnover. Businesses eligible for turnover taxes are exempt for VAT, to make compliance easier.

Income tax is the main source of revenue for the government of Kenya, with personal income tax contributing the major share. On average, the tax burden on Kenya individual tax payers stand between 30% and 35%. Studies by the Kenya Revenue authorities also reveal that Kenya's corporate income tax is above the average for both the whole of Africa and the world (The national treasury and economic planning, 2023). The average corporate income tax rate in Africa is 27.97%, while the statutory average for the whole world is 23.37% or 25.43 when weighted by GDP (Tax Foundation, 2022). The other forms of direct taxes in Kenya include capital gains tax, witholding tax, and advance tax (Kenya Revenue Authority, n.d.).

The main forms of indirect taxes in Kenya include VAT, excise duties, custom duties, fees and levies on imported goods. Any business or individual who makes taxable supplies of 5 million KES ($37000) or more is required to register with the commissioner of domestic taxes for VAT. The supplies are classified as either zero rated, exempt or standard rated. The VAT taxes are based on destination. Therefore, the rate for exported goods is 0%. Zero rated goods are those whose VAT is set at 0, and people or businesses can claim any input taxes they may have paid. The includes exports, some agricultural products and medical supplies. Tax exempt supplies are those that are deemed basic like food, educational materials, and bank accounts. No tax is expected to be paid on them, and do not qualify to claim input tax. Standard rated goods are those that are charged at the current VAT rate, which stands at 16%. For imported goods, VAT is collected at the point of import. The taxpayer in this case is the business and they are expected to account for the tax and pay it to Kenya Revenue Authority.

The next form of indirect tax is excise duties. This tax is levied on excisable goods manufactured in Kenya or imported and supplied in the country. Apart from contributing to revenue collection, this tax is also used to curb the adverse impacts that could result from the goods on which it is levied. The excise tax base is usually narrow. Like VAT, excise duty on imports is collected at the point of importation. Goods exported from Kenya are exempt from excise duties.

Custom duties are levied on emports and exports. The tax rate are calculated either based on ad valorem or an existing rate depending on which one is higher. Since Kenya is a member of some organization like the East African Community (EAC) and the Common Market for East and Southern Africa (COMESA), goods from member countries of these organizations are given a lower or preferrential import duty. Import duty is levied on goods depending on their classification. The classes include raw materials and capital, semi-finished goods, and finished goods. Raw materials and capital are duty free. Semi-finished goods attract some duty, while finished goods have the highest rate. Some goods are deemed sensitive if the same are being produced in Kenya, hence get very high duties to protect the locally produced ones. As discussed earlier, the government has lower corporate income taxes for companies operating in the special economic zones, export processing zones, and those in some industries like the assembly of automobiles. Additionally, the government is trying to support these businesses also by making all imports to the export processing zones free from VAT, import duty, excise duty and any fees or levies. However, if these companies supply their products within Kenya, the taxes apply (The national treasury and economic planning, 2023).

Imported goods from outside the EAC community, and intended to be used at home could also attract the Import Declaration Fee and the Railway Development Fees. However, goods imported by some diplomats and institutions could be free from these taxes.

Other taxes and levies in Kenya include: Stamp duty, road maintenance levy, petroleum development levy, ant-adulteration levy, export levy, national social security fund levy, environmental levy.

The Kenya Revenue Authority (KRA) is the government agency mandated to administer taxation in Kenya. They are responsible for all the administrative activities concerning taxation, which may include registering new taxpayers, assessing tax liabilities, collecting the taxes, providing tax education, ensuring the systems used to calculate tax liabilities and pay are working among others. County governmets also collect taxes at the county level.The KRA however, is under the national treasury and planning ministry. The national treasury and planning ministry is responsible for developing tax policies in Kenya, and accounting for the revenues collected. They propose tax measure to the parliament, which then passes them (The national treasury and economic planning, 2023).

The government of Kenya has taken significant steps in trying to enhance its tax efficiency. So there, there has been heavy investment in the digital infrastructure of the tax system to make the processes as seamless as possible. One such investment is the iTax system, where businesses and individuals can simply calculate their tax laibility and make payments. Another recent change is in the digital services tax. To make this tax simpler, the government has introduced the significant economic presence tax (SEP tax) on companies providing digital services in Kenya at a rate of 3% of the turnover (Waceke, 2024). To ensure that every businesses contributes to the tax revenue, the governmet has also introduced the minimum tax. This applies to any business that is not eligible for the other types of taxes. According to this tax, the businesses must pay 1% as tax of their turnover, whether they make profit or not (Kenya Revenue Authority, 2020).

To provide more personalized help to the taxpayers, the Kenya Revenue Authority is classifying the tax payers into two core functional areas. The large and medium size customers will be one functional core, while the small and micro customers will be another core functional area. With this employees can focus on providing specialized and more personalized assistance. In addition, they are introducing a new system modernization department that will be responsible for integrating the best technology in the system. This is meant to focus on using data analytics to improve the efficiency of the system.

2.5.2 Overview of South Africa's Tax System

South Africa's taxation system also has both direct and indirect taxes. The taxes that are applicable in South Africa include: income tax, dividends tax, air passanger tax, capital gains tax, diamond export tax, skills development levy, unemployment insurance fund, donations tax, estate duty, securities transfer tax, transfer duty, VAT, fuel taxes, environmetal levies, plastic bag levy, electricity generation levy, incandescent bulb levy, CO2 motor vehicle emissions levy, tyre levy, health promotion levies (South African Revenue Service, 2024).

Majority of the tax revenues are derived from income taxes. The income taxes include personal and corporate income taxes. Corporate income taxes are levied on the income of resident companies regardless of whether the income was made within South Africa or not, and on any income made within South Africa by non-resident companies. For both resident and non resident companies with an income above South African Rand (R or ZAR) 550,000 ($29,518), the income tax rate is flat at 27%. It was reduced in 2023 from 28%. For small businesses with incomes below R550,000, there are different reduced rates. On the first R95750, the tax rates is zero. For the subsequent amount untill R365,000, the rate is 7%, and 21% for the income between R365,000 and R550,000. For the very small businesses, moreso the informal sector, the government uses turnover presumptive tax. The rate is between 0% and 3% of the total turnover (South African Revenue Service, 2024). South Africa also has a special economic zone and charges a reduced tax rate on 15% on the companies that operate within it. Other taxes related to corporate income are the withholding taxes on royalties, interest and dividends, and donations tax.

The individual income tax rates in South Africa are as shown in the *Figure 4*. The lowest tax rate is 18% for those earning R237,100 annually, and the highest is 45% for any income above R1,817,004. There are rebates for all taxpayers depending on their age. The taxpayers under the age of 65 years gets the primary rebate of R17,235. For those between 65 and 75 years, there is an additional rebate of R9,444. People who are above 75 years are considered elderly, and gets an additional rebate of R3,145. The main objective of the rebate is to reduce the tax burden of the taxpayer. If the taxpayer's liability is equal to or less than the rebate, then they pay nothing. There is not tax refund it a taxpayer's liability is less than the rebate.

Figure 4: South Africa's Tax brackets.

Taxable income (R)	Rates of tax (R)
1 – 237 100	18% of taxable income
237 101 – 370 500	42 678 + 26% of taxable income above 237 100
370 501 – 512 800	77 362 + 31% of taxable income above 370 500
512 801 – 673 000	121 475 + 36% of taxable income above 512 800
673 001 – 857 900	179 147 + 39% of taxable income above 673 000
857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000

Source: SARS 2025

In addition to raising revenues, customs duties are used to protect the county against dumping, regulate trade and protect local industries. South Africa is a member of South African Customs Union (SACU) and provides preferential treatment to goods from this union and other territories with which it has agreements with. The skills and development tax is meant to fund skills development in the workforce. The tax stands at 1% of the total payroll. Companies with less than R500,000 in payroll are exempt. The funds collected are used as grants to help companies cater for their employee's skills development. The unemployment tax is meant to provide temporary relief to those who become unemployed or are unable to work due to sicknesses or maternity reasons. The rate is 2% of the payroll amount paid to employees. The employer contributes 1% and the employee 1%.

VAT is levied on consumption in South Africa, and is destination based. Therefore, exports are zero rated. Just like in Kenya, South Africa has three classifications for VAT. Zero rated, exempted, and standard rated. Basic food items and exports are zero rated. Some goods and services like educational materials, financial services, and residential accommodation are exempted from VAT. Any person or business that makes taxable supplies of more than R 1 million in a financial year is required to register for VAT. Small business that makes taxable supplies above R50,000 can voluntarily register for VAT. The businesses collect VAT and pay it to SARS. The VAT standard rate is 15%.

Tax in South Africa is administered by the South African Revenue Service (SARS). SARS is under the ministry of finance. The national treasury is responsible for advising the minister for finance and designing tax instruments. These tax instruments are then added over to SARS who do the administrative duties. There is the office of the Tax Ombuds (OTO), which impartially handles complaints by the taxpayers against the SARS (National Treasury, South Africa, 2021).

To enhance revenue collection and improve efficiency, South Africa has shifted it taxation system to online using the eFilling system, where individuals and businesses can easily calculate their tax liability, file returns, and make payments. SARS has also started deploying artificial intelligence, data science and machine learning to make tax compliance as seamless as possible and automate detection of non-compliance. The aim is to ease compliance and make non-compliance difficult and costly. To make this achievable, SARS is focused on hiring talents with the much-needed data and artificial intelligence skills while also reskilling their existing workforce.

The aim of SARS is to encourage voluntary compliance. To do this, they are focused on the employees practicing the highest standards of integrity and professionalism, and doing their best to swiftly address taxpayer concerns to inspire confidence. One of the steps taken is to make SARS as independent and autonomous as possible. Consequently, SARS can deal with all taxpayers objectively, regardless of their position in the government. This helps to enhance fairness and win credibility. Additionally, they want to ensure that taxpayers are aware that they are continuously monitored, and that non-compliance will surely be detected. They are doing this by sending instant notifications to taxpayers once they detect any form of non-compliance and give the taxpayers time to comply.

To make non-compliance hard, they are coming up with policies that ensure that the cost of noncompliance is higher than the likely benefit of non-compliance. With the increased use of artificial intelligence, the employees are more involved in handling the detected cases. According to SARS, public perception of corruption in the government, especially the use of taxpayer's money could influence voluntary compliance. While they cannot influence the executive use of public money, serious government attempts in curbing corruption, as that may affect their effectiveness (SARS, 2020). Due to the increasing use of social media, SARS is also focused on improving its engagements and communication on social media with the taxpayers.

On taxing the informal sector, SARS has faced considerable challenges but also made significant progress. Some of the strategies being used is the use of presumptive turnover tax of 0%-3% to make is easy and simple to comply. SARS is also doing an education drive to educate the informal businesses on the benefits that accrues to them if they register like qualifying for government grants, getting VAT credits, eligibility for tenders and business loans. To enforce this, tax registration has been made a requirement for most of the business and administrative activities.

To enhance the predictability of the tax system for businesses, is shifting from the annual tax policy reviews to the mid-term budget policy Statement (MTBPS), where they provide the tax outlook for a period of three years. Within that period, only minimal and very necessary changes are made. As a result, businesses and individuals can be certain of what their obligations are likely to be.

2.5.3 Overview of New Zealand's tax system

New Zealand's tax system is known as one of the simplest and most transparent in the entire world. More than 90% of the tax revenue comes from income taxes and Goods and Services Tax (GST). The remaining revenues comes from both resident and non-resident withholding taxes, excise duties, fridge benefits tax, and others (Inland Revenue, New Zealand, 2017).

The income tax includes both individual and corporate income taxes. The personal income tax system of New Zealand is considered flat, with taxpayers getting to the marginal income tax rate at only 1.2 times the average wage in the country. Additionally, New Zealand does not have payroll taxes like social security unlike other countries. There is a saving and retirement scheme, but it is optional and voluntary. The policy for the income taxes in New Zealand is low-rate, broad-base. With this policy, the government and the Inland Revenue have tried to reduce exemptions and tax reliefs. No person with a taxable income is exempted from paying taxes. However, there is a work for families program, that supports those who have dependent children with tax credits. As shown in the *Figure 5*, the lowest tax rate is 10.5% and the marginal tax rate is 39%. Personal income taxes are levied on salaries, job benefits, interests, self-employment earnings, rental incomes and any income made abroad. In case of people with additional sources of income apart from their taxes, they are required to pay the secondary tax. There is a separate table showing the tax rates for secondary incomes. The rates are relatively the same as the primary tax rates

Figure 5: Personal income tax rates in New Zealand.

From 1 April 2025

For each dollar of income	Tax rate
0 - $15,600	10.5%
$15,601 - $53,500	17.5%
$53,501 - $78,100	30%
$78,101 - $180,000	33%
$180,001 and over	39%

Source: Inland Revenue 2025

The standard corporate income tax rate is 28%. In New Zealand, there is no turnover tax. All businesses, whether small or big pay the standard rate on their incomes. However, there is a special lower tax rate of 17.5% on businesses owned and operated by Māori. Māori are the indigenous New Zealanders. This is meant to support the communities to develop economically (Inland Revenue, New Zealand, n.d). For dividends, there is the imputation credit that ensure that the profits of companies are not double taxed after they are distributed to the shareholders (Inland Revenue, New Zealand, 2017).

The main indirect tax in New Zealand is the Goods and Services Tax. The standard rate on goods and services stands at 15% of the value added to the products at different stages of production and distribution. The aim of GST is to simplify the tax system by bringing most of the consumption taxes under one name. The 15% rate is considered low in New Zealand, hence the low-rate, broad-base policy. As a result, the government goes with the least exemptions possible.

In this GST, there are still three categories, which include zero rated, GST exempt and standard rated goods and services. Some of the zero-rated products are exports, some financial services, and land transactions. Most the GST exempt goods are residential rentals, donated funds, and rare metals. Unlike other countries, New Zealand charges GST on government transactions, including the funding of different departments. Businesses are required to register as GST vendors once their annual supplies cross the NZD 60,000 limit (Inland Revenue, New Zealand, n.d).

Excise duties are levied on tobacco, alcohol or fuel that is consumed in New Zealand, whether imported or locally produced. The excise rates vary according to the type of products. These products are exempt from excise duties if they are exported from New Zealand. Custom duties are also levied on imports that exceed NZ 1000. There is a duty estimator, where people easily calculate their duty even before import to know how much they will have to pay. GST applies to all the goods whether they have customs duty or not. New Zealand does not have stamp duty or capital gains tax. Tax could only be levied if a person sells their property within less than 10 years since they got it (New Zealand Customs Service, 2025).

The Inland Revenue is mandated by the New Zealand law to administer taxes. It collects the taxes, ensure that the systems are working, supports the taxpayers to comply and other administrative roles. The treasury advice the government on tax policy. There is the tax counsel office to help the taxpayers in the interpretation and application of the tax laws.

To enhance the progressivity of the tax system and reduce income inequality, New Zealand has several social welfare programs, where the government transfers some money to the residents. One such program is the already mentioned working for families tax credit. Other programs are working age welfare, New Zealand superannuation, and the accommodation supplement.

The government has divided the incomes of the people into deciles. According to reports, the top decile pays more than 35% of all the income tax revenue. The bottom four deciles pay less than 20% of the revenue. The government ensures that these lowest deciles get majority of the cash transfer. As a result, individuals in these brackets receive more money transfers from the government than the tax that they pay. This way, the government not only enhances equality in the tax system but also redistributes wealth (Inland Revenue, New Zealand, 2017).

Despite the great progress and recognition in New Zealand's tax simplicity and efficiency, there are still challenges. According to OECD report, the current tax system in New Zealand is doing very well in tax collections, but not very effective in stimulating economic growth. The tax system also faces some challenges with non-compliance and fraud. In 2024, there was a revenue alert by the commissioner on the rise of use of electronic tools to suppress sales data on the point of sale. According to the Inland Revenue, these are ways for tax evasion and money laundering.

The government and the Inland Revenue are taking some measures to address these challenges and simplify the tax system even further. One of such big steps is that they have automated their customers' tax payable assessments, where it is automatically filled and sent to the customers sometime before the filling period. The customers check if everything is accurate and pay. More than 88% of the people reported that the assessments sent to them were accurate. This also allows those who need specialized help to reach out to the Inland Revenue in time. Additionally, they are using social media advertisements to send the most important communication to the taxpayers on what they may need to do. To ensure that those who need help get it fast, the Revenue authority has also prioritized adding more personnel to help the taxpayers who may need specialized help, and asking them about their feedback on the experience so that they can improve. To build trust, the Inland Revenue has also been going out to the taxpayers and engaging with them and trying to help. They are also partnering with organizations that the residents trust, like the social development organization in their activities to help connect and build trust. Whenever there are communities that face challenges like natural disasters, the Inland Revenue has prioritized going for the rescue of the people and trying to help them in their hardest moments. As a result, people can connect with them based on trust. Due to this, the Inland Revenue has managed to get new taxpayers registered and helped those facing challenges. (Inland Revenue, New Zealand, 2023).

With the fast-advancing technology, new risks are rising, especially on tax compliance from digital businesses. Some of the methods they are using to address this includes a requirement for digital platform operators to report to the tax authority on how much income those who use their platforms are making. They are also working with the other OECD countries on a framework to get the data on the trading of cryptocurrencies. So far, crypto sales are treated and taxed as personal property in New Zealand. They are also introducing a reporting requirement, where payment service providers provide data on electronic sales. The Inland Revenue then compares with what the taxpayer reported to see if they align. Dealing with digital activities requires a cooperation and information sharing between many countries. The Inland Revenue authority is tightening its standards on confidentiality, accuracy and timeliness so that it can be on the required standards for information sharing with other countries. (Inland Revenue, New Zealand, 2023).

In addition, they are upgrading the technology and systems that their forensic department use to deal with the rising digital fraud risk. They also want to keep people feeling that they are being monitored, and the consequences of non-compliance could be dire by publishing the popular cases related to tax non-compliance. For those taxpayers that are found to be non-compliant, the Inland Revenue tries to help them settle their tax debt as early as possible to avoid the accumulation of tax payable, which could become impossible to settle with time.

Finally, to the Inland Revenue is also working closely with the enterprises through annual surveys and intelligence agencies to get their opinions on the tax policies. The feedback they get is factored into the new initiatives.

RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter outlines the research methodology used to analyze and compare the tax systems of Kenya, South Africa, and New Zealand. The methodology includes the research design, data collection methods, and data analysis techniques employed to achieve the research objectives and answer the research questions.

3.2 Research Methodology

The research design for this study is a comparative case study approach. This design is particularly suitable for analyzing the tax systems of Kenya, South Africa, and New Zealand, as it allows for an in-depth examination of each country's tax structure, administration, and policy outcomes. By comparing these three countries, the study aims to identify similarities and differences, providing valuable insights into best practices and areas for improvement.

To achieve a comprehensive analysis, the study relies solely on secondary data collection methods. This approach ensures that the research is grounded in existing knowledge and credible sources. The data collection involves a thorough literature review, document analysis, and the use of descriptive statistics.

The literature review encompasses a wide range of sources, including peer-reviewed academic journals and books. These sources provide existing knowledge on the tax systems of Kenya, South Africa, and New Zealand, including previous studies, theoretical frameworks, and comparative analyses. Additionally, official government reports from credible organizations such as the Kenya Revenue Authority (KRA), National Treasury and Planning of Kenya, South African Revenue Service (SARS), and Inland Revenue Department (IRD) are collected. These reports offer detailed information on tax policies, revenue collection, and administrative practices. Credible online sources, such as the International Monetary Fund (IMF), World Bank Group Data, and other reputable organizations, are also utilized to gather data and analyses on tax systems and economic indicators.

Document analysis plays a crucial role in this study. Policy documents and legislative texts related to tax laws and regulations in Kenya, South Africa, and New Zealand are analyzed to understand the legal framework and policy environment governing taxation in each country. Annual reports from tax authorities and government agencies are examined to gather data on tax revenues, compliance rates, and administrative efficiency.

Statistical data is collected to assess the performance of each tax system. This includes data on tax revenues, compliance rates, and economic indicators such as GDP growth, income distribution, and investment levels. The analysis of these economic indicators helps evaluate the impact of tax policies on economic development.

The study employs both qualitative and quantitative data analysis techniques to interpret the collected data. Qualitative analysis involves content analysis of government reports, academic literature, and credible online sources to extract relevant information and insights on the tax systems of the three countries. Key themes and patterns related to tax administration, compliance, and policy effectiveness are identified. Quantitative analysis uses descriptive statistics to summarize and describe the quantitative data collected from official sources. This includes measures of central tendency (mean, median) and dispersion (standard deviation).

Ethical considerations are paramount in this study. The research adheres to ethical guidelines to ensure the integrity and credibility of the findings. Efforts are made to minimize bias and maintain objectivity throughout the research process, ensuring that the findings are based on accurate and reliable data.

To illustrate the impact of different tax policies, the study includes case studies of specific tax reforms or initiatives in each country. These case studies provide practical examples of how tax policies have been implemented and their outcomes. In Kenya, the study examines recent tax reforms aimed at improving compliance and revenue collection, such as the introduction of electronic tax registers and the expansion of the tax base. In South Africa, the analysis focuses on initiatives to enhance tax administration efficiency, such as the use of technology in tax collection and the implementation of taxpayer education programs. For New Zealand, the study explores the impact of the country's simplified tax system and transparent tax policies on compliance rates and economic stability.

By employing these research methods, the study aims to provide a comprehensive and systematic analysis of the tax systems in Kenya, South Africa, and New Zealand. The findings will highlight the strengths and weaknesses of each system and offer recommendations for improvement, ultimately contributing to the enhancement of Kenya's tax system and supporting sustainable economic development.

RESULTS AND DISCUSSION

4.1 Chapter Overview

Chapter 4 of the thesis compares the tax systems of Kenya, South Africa, and New Zealand, highlighting similarities and differences. It discusses corporate tax rates, informal sector taxation, technology use, and tax predictability. The chapter concludes with recommendations for improving Kenya's tax system, focusing on efficiency, compliance, informal sector engagement, and enhancing tax predictability.

4.2 Kenya vs South Africa

Kenya and South Africa share similarities in their tax systems, influenced by their colonial histories, reliance on direct and indirect taxes, and digitalization efforts. Both face challenges with taxing large informal sectors and low compliance levels. Key differences include corporate tax rates, approaches to informal sector taxation, independence of tax authorities, technology use, and tax predictability.

4.2.1 Similarities Between the Tax Systems of Kenya and South Africa

Kenya and South Africa share several similarities in their tax systems, stemming from their historical backgrounds, tax structures, administration methods, and the challenges they face.

Historically, both countries' tax systems were significantly influenced by their colonial pasts. During the colonial period, taxes such as hut and poll taxes were introduced to raise revenues for the colonial governments and control the native populations. This historical context has shaped the evolution of their tax systems over time.

In terms of tax structure, both Kenya and South Africa rely heavily on direct taxes, including personal and corporate income taxes. These taxes are progressive, with different tax brackets for individuals and flat rates for corporate taxes. Additionally, both countries utilize indirect taxes such as VAT, excise duties, and customs duties as major sources of revenue. VAT in both countries is destination-based, with classifications for zero-rated, exempt, and standard-rated goods.

The administration of taxes in Kenya and South Africa is managed by their respective revenue authorities: the Kenya Revenue Authority (KRA) and the South African Revenue Service (SARS). These agencies are responsible for tax collection, administration, and enforcement. Both countries have made significant strides in digitalizing their tax systems to improve efficiency and compliance. Kenya uses the iTax system, while South Africa employs the eFilling system.

One of the major challenges faced by both countries is the taxation of their large informal sectors. To address this, they use presumptive taxes to simplify compliance for small businesses. Additionally, both countries struggle with low compliance levels, which are attributed to the complexity of their tax systems and public perception of government corruption.

Kenya and South Africa also offer special tax rates and incentives to encourage investment and economic growth. Both countries have special economic zones where businesses benefit from reduced tax rates. Furthermore, they provide tax reliefs and rebates to reduce the tax burden on individuals, particularly those with lower incomes.

In terms of technology, both KRA and SARS are leveraging artificial intelligence and data analytics to enhance tax compliance and detect non-compliance. This use of advanced technology is aimed at making tax administration more efficient and effective.

These similarities highlight the common challenges and strategies in tax administration between Kenya and South Africa, providing a basis for comparative analysis and potential lessons for improvement.

4.2.2 Differences between the Tax Systems of Kenya and South Africa

This section only focuses on some of the major differences which can be used to help Kenya improve its tax system. The first difference is in the corporate income tax.

Corporate Income Taxation: Kenya's corporate income standards at 30% while that of South Africa is at 27%. South Africa lowered its corporate income tax from 28% to 27% in 2023. This is a strategy to spur economic growth. According to the Tax Foundation, 'corporate income tax is the most harmful tax to economic growth'. When this tax is lowered, it leaves more money for companies to invest and grow. As these companies invest, they employ more people, and as more people get disposable income, economic activity increases. Many international companies prefer to set their offices and regional headquarters in countries with lower corporate tax rates. Additionally, lower corporate income encourages many businesses that could be either avoiding registration or evading taxes to comply. The increase in spending and economic activity from people and companies because of less corporate tax stimulates economic growth.

Informal Sector: Kenya is trying to get the informal sector registered by making a KRA certificate a requirement for government grants, tenders, VAT credits and business loans. South Africa on the other hand has these benefits but has also launched an education campaign for the informal sector to educate them on the importance of registering for taxation, like getting VAT credits, which can really improve their competitiveness. In addition, South Africa does not tax any income below R 95,750 even if they register.

Independence of the tax authorities: In Kenya, KRA still remains to be an agent of the national treasury. On the other hand, South Africa is trying to make the SARS autonomous and independent especially after the state capture. This will make improve its image and credibility among the taxpayers and help them to equally apply tax enforcement on all people including those in power and the high-net-worth individuals. When the citizens trust that everybody is treated equally in the tax system, this can boost the voluntary compliance.

Technology: Kenya has is establishing a department, whose mandate will be to deal with data analytics and modernization of the system. On the other hand, South Africa is investing in AI to continuously monitor the data of taxpayers and send instant notifications to them in real time if there are any discrepancies.

Compliance: South Africa is trying to make people feel monitored by the real-time artificial intelligence analysis and notifications, which discourages non-compliance. Additionally, they are collaborating with other stakeholders to make the cost of noncompliance heavier than the likely benefit. Accordingly, it will not be attractive for people to not comply.

Tax predictability. The tax laws are revised every year in Kenya using the Finance Bill or act. That has also been the case in South Africa, but they are shifting to the Mid-Term Budget policy statement, which ensures that significant changes to the tax laws can always be done only after three years. This will make it easier for businesses to plan for taxes.

4.3 Kenya vs New Zealand

Kenya and New Zealand share similarities in their tax systems, including reliance on direct and indirect taxes, progressive personal income taxes, and digitalization efforts. Key differences include New Zealand's use of GST versus Kenya's VAT, advanced AI technology in New Zealand, and distinct approaches to taxing digital services and engaging taxpayers.

4.3.1 Similarities Between the Tax Systems of Kenya and South Africa

Kenya and New Zealand share several similarities in their tax systems, which can be observed in their tax structures, administration methods, and approaches to enhancing tax compliance and efficiency. Both countries rely on a combination of direct taxes, such as personal and corporate income taxes, and indirect taxes, including VAT in Kenya and GST in New Zealand. Personal income taxes in both countries are progressive, with different tax brackets for individuals, while corporate income tax rates are significant, with Kenya's rate at 30% for resident companies and New Zealand's at 28%.

Indirect taxes are also a key component of the tax systems in both countries. Both systems classify goods and services into zero-rated, exempt, and standard-rated categories.

The administration of taxes in Kenya and New Zealand is managed by their respective revenue authorities: the Kenya Revenue Authority (KRA) and the Inland Revenue Department (IRD). These agencies are responsible for tax collection, administration, and enforcement. Both countries have made significant strides in digitalizing their tax systems to improve efficiency and compliance.

Both KRA and IRD leverage advanced technology to enhance tax compliance and detect non-compliance. Kenya's iTax system allows taxpayers to calculate their tax liability and make payments online, while New Zealand's automated assessments simplify the tax filing process for individuals and businesses. Both countries use data analytics to improve tax administration and compliance.

Kenya and New Zealand have mechanisms to provide tax reliefs and rebates to individuals, particularly those with lower incomes. Kenya offers tax reliefs to cushion taxpayers from economic impacts, while New Zealand has social welfare programs such as the Working for Families tax credit, which supports families with dependent children.

Additionally, both countries offer special tax rates and incentives to encourage investment and economic growth. Kenya has special economic zones with reduced tax rates for businesses, while New Zealand provides a lower tax rate for businesses owned and operated by Māori to support indigenous communities.

4.3.2 Differences between the Tax Systems of Kenya and South Africa

There are many differences between the tax systems of Kenya and New Zealand from the literature review. However, in this section the most significant differences that could help in improving the tax system of Kenya are discussed.

GST and VAT: Kenya uses VAT alongside several other forms of indirect taxes. New Zealand on the other hand uses GST, which combines many other indirect taxes and applies one standard indirect tax. This tax is intended to simplify the tax system and enhance compliance. Unlike the VAT, GST has the input tax credit to avoid the cascading effect in the taxation system. This reduces the tax burden and improves the price competitiveness of businesses. In the GST system, New Zealand uses the low-rate broad-base rule, where they have the least exemptions but with a lower taxation rate. Things like basic food, unprocessed agriculture products and inputs, government transfers, medical supplies and educational materials are exempted in Kenya's VAT but not exempted in New Zealand's GST.

Technology: As seen earlier, Kenya is setting up a department to specialize on data analytics and modernization of the taxation system. New Zealand on the other hand, has applied artificial intelligence since 2023 to automatically calculate tax liability for the taxpayers and send it to them before the tax period. This is done based on the data provided. Most of the calculations are accurate and people just pay. For those whose incomes or sources have changed, they then reach out to update their information.

Digital products and services tax: To deal with the rise of online marketplaces, Kenya is using the significant economic presence tax (SEP), to tax all companies providing digital services in Kenya. It has been hard to tax those who work on those platforms for Kenya. For New Zealand, they have introduced a law that requires the providers of these online platforms to provide the data of the incomes of the residents who use these platforms to do businesses. As a result, they can easily get the taxable incomes of these traders and know their accurate earnings. For those using cards to pay, there is also a new law that requires the payment service providers to provide the sales data of businesses. The Inland Revenue then can compare if the data provided aligns with what was provided by the taxpayer. This requires cooperation with other countries sometimes and international companies. Consequently, the tax authorities need to establish the highest standards on the protection of data.

Taxpayer engagement: KRA has the Tender Wema program where it engages with the community and helps in advancing corporate social responsibility activities to build trust with the citizenry. The Inland Revenue also has the same kind of program but has also started partnering with the most trusted organizations and brands in the communities to build relationships with the people. This makes it easier to meet the people, provides a stage for better brand visibility and more credibility.

4.4 Recommendations

4.4.1 Tax collection efficiency

1. Lower the corporate income tax rates. As we have seen in the overviews, Kenya's corporate income tax rate is the highest among the three countries. Additionally, it is higher than both the global average and the African continent average. Lowering the corporate tax will leave more money for the businesses to spend and invest. Additionally, it attracts foreign companies that are seeking to establish their regional offices in low tax territories. Additionally, this could be an incentive for businesses that could be avoiding taxes or registration due to high taxation. The growth of the local businesses and others foreign companies could lead to higher employment and increased economic activity and consequently economic growth.

2. Adopt Goods and Services Tax: To simplify the indirect tax system, Kenya should adopt the goods and services tax. Unlike the VAT, this tax will help to remove the cascading effect on the taxes paid. This is important to reduce the burden on businesses. The input tax credit is also an incentive for businesses to register under this system. It is challenging to implement at the beginning due to the technology needed. However, once it is implemented, it is easier to administer, simpler for the taxpayers, and more transparent. This makes it easier to for businesses to comply.

3. Apply the low-rate broad-base policy. Kenya has a lot of exemptions on taxes. To improve the revenue collection, the government should consider lowering the current 16% and then spreading it to as many products as possible. With a lower rate, the impact on prices will not increase drastically, but the revenue could be more due to the broad base.

4. Work with the providers of digital platforms to get the income data of those working online. In addition to the Significant Economic Presence Tax, the government of Kenya can enact a law that requires the owners and providers of online digital platforms to give the data of the earnings of those who do businesses on those platforms in Kenya. As a result, KRA can have the accurate earnings of those doing online businesses, and tax them accordingly.

4.4.2 Compliance

1. Make KRA autonomous and independent. Voluntary compliance is the best in taxation. Taxpayers are more likely to comply when they feel that there is fairness in the tax administration. Any perception of political interference damages trust has the opposite effect. Therefore, KRA should be set as an autonomous agency to enforce compliance on all the parties regardless of their position or influence.

2. Manage public finances appropriately and fight corruption. Though this is not under KRA, it is clear from the case of South Africa that perception of corruption greatly demotivates

people from paying taxes. People want to be sure that their finances will be used for public good. As stated earlier, the main reason for the resistance of the 2024 finance act was people feeling that they were being taxed too much while the government wasn't doing enough to fight corruption. To change this perception and stimulate voluntary compliance, the government needs to show people that they are making efforts to fight corruption and that their funds are safe.

3. Deploy artificial intelligence to ease compliance. Use artificial intelligence to leverage the taxpayer's data to autofill their tax returns forms and send them the tax assessment for checking and payment. The message should be clear that they should either change the data in the system themselves or reach out to KRA if the tax assessment is not correct. When taxation becomes that convenient, people will more likely comply. Sending the message will also be a reminder for people to fill their returns.

4. Let people feel that they are being monitored. Use artificial intelligence to monitor people's filling of tax related forms and send instant notifications if there are discrepancies detected. With this, the taxpayers will know that any noncompliance activities are likely to be detected.

5. Make laws that make the cost of tax noncompliance heavier than its benefits. This will discourage those who would like to intentionally fail to comply. To make it even better, KRA can follow and post the consequences faced by those who were caught not complying with taxation.

6. Deal with outstanding tax debts early. As time goes, unsettled tax debts become harder to pay. At some point, they become unmanageable for the businesses. To avoid the build up of tax debts and even the fall of businesses due to huge debts, KRA should give a priority to ensure that tax debts are settled soonest possible.

7. Partner with trusted brands in engaging with the taxpayers in the communities to build trust. In addition to carrying out some corporate responsibilities, KRA can partner with some of the brands that are very popular and trusted in events. During these events, the staff can focus on helping those who could be having issues regarding taxation and getting new people who may not have been registered to register. The engagement should not be intrusive to the people but instead focus on helping them as much as possible. This will help in building trust.

4.4.3 Informal sector

1. Launch a campaign to educate the informal sector on the importance of registering. Some of the businesses operating informally don't know how they can benefit from registering with KRA apart from paying taxes. The campaign should focus on tax registration incentives for small businesses like VAT credit, qualifying for government grants and tenders, better prospects for business loans.

2. Make an income threshold below which small businesses are not taxed even if they are registered. This will encourage the small businesses, especially those that could be afraid of the turnover tax, which does not consider whether they are profitable or not. This could also

help those small businesses to grow while they are confident that they are compliant with the government's regulations.

4.4.4 Tax predictability

Make the intervals for tax law changes longer. Instead of the current annual changes of tax laws through the finance bills, the government can adopt a plan to make comprehensive tax changes after a longer period. They can adopt a plan like the South Africa's Midterm-Term Budget Policy Strategy. This helps to a stable business environment and allows businesses to forecast their tax liabilities and plan accordingly. Minor changes can still be done before the period lapses.

CONCLUSION

This comparative analysis of the tax systems in Kenya, South Africa, and New Zealand has provided valuable insights into how Kenya can enhance its tax system to improve efficiency, compliance, and economic development. This study aimed to address four key research questions related to tax collection efficiency, tax compliance, informal sector taxation, and tax predictability.

Regarding tax collection efficiency, Kenya can draw valuable lessons from the methods employed by South Africa and New Zealand. South Africa's decision to lower its corporate income tax rate from 28% to 27% demonstrates that reducing corporate tax rates can stimulate economic growth by allowing businesses to retain more capital for investment and expansion. This approach can attract foreign companies seeking favorable tax environments, thereby boosting economic activity and employment. Similarly, New Zealand's implementation of the Goods and Services Tax (GST) simplifies the tax system by consolidating multiple indirect taxes into a single tax, reducing the cascading effect and making compliance easier for businesses. Adopting GST and implementing a low-rate, broad-base policy could significantly enhance Kenya's tax collection efficiency.

To improve tax compliance, Kenya can adopt several strategies from South Africa and New Zealand. South Africa's use of artificial intelligence to monitor taxpayer data and send real-time notifications of discrepancies can help ensure that taxpayers feel monitored and are more likely to comply. Additionally, making the Kenya Revenue Authority (KRA) autonomous and independent, similar to South Africa's efforts with the South African Revenue Service (SARS), can improve public trust and voluntary compliance. New Zealand's approach of sending automated tax assessments to taxpayers based on their data simplifies the tax filing process and encourages compliance. These measures can make tax compliance more convenient and transparent for Kenyan taxpayers.

Kenya can derive effective solutions for taxing its large informal sector from South Africa's experience. South Africa's education campaign to inform informal businesses about the benefits of tax registration, such as qualifying for government grants and VAT credits, can be replicated in Kenya. Additionally, setting an income threshold below which small businesses are not taxed, even if they are registered, can encourage more informal businesses to register without the fear of immediate tax liability. This approach can help integrate the informal sector into the formal economy, increasing the tax base and improving revenue collection.

To ensure tax predictability and stability, Kenya can adopt practices from South Africa and New Zealand. South Africa's shift to the Mid-Term Budget Policy Statement, which provides a tax outlook for three years, can help businesses plan their tax liabilities and investments with greater certainty. New Zealand's transparent and simplified tax system, with minimal exemptions and a broad tax base, can serve as a model for Kenya to create a stable and predictable tax environment. By providing a clear and consistent tax policy, Kenya can enhance investor confidence and attract both domestic and foreign investments.

Based on the comparative analysis, the following recommendations are proposed to improve Kenya's tax system: Lower corporate income tax rates to stimulate economic growth and attract foreign investment; adopt the Goods and Services Tax (GST) to simplify the indirect tax system and enhance compliance; implement the low-rate, broad-base policy to increase tax revenues without significantly impacting prices; work with digital platform providers to obtain income data of online businesses for accurate taxation; make KRA autonomous and independent to improve public trust and voluntary compliance; deploy artificial intelligence to ease compliance and monitor taxpayer data in real-time; launch an education campaign to inform the informal sector about the benefits of tax registration; set an income threshold below which small businesses are not taxed to encourage registration; and adopt a longer interval for tax law changes to ensure tax predictability and stability.

By implementing these recommendations, Kenya can enhance its tax collection efficiency, improve compliance, effectively tax the informal sector, and create a predictable tax environment. These measures will contribute to sustainable economic development and better public service delivery in Kenya.

Bibliography

Inland Revenue, New Zealand (2017). *The New Zealand tax system and how itcompares internationally.* [Online]
Available at: https://www.ird.govt.nz/-/media/project/ir/home/documents/about-us/who-we-are/our-minister/the-new-zealand-tax-system-and-how-it-compares-internationally.pdf

Anand Nayyar, I. S. (2017). *A Comprehensive Analysis of Goods and Services Tax.* [Online]
Available at: https://www.researchgate.net/profile/Anand-Nayyar/publication/323007997_A_Comprehensive_Analysis_of_Goods_and_Services_Tax_GST_in_India/links/5b8a6bcf4585151fd140c393/A-Comprehensive-Analysis-of-Goods-and-Services-Tax-GST-in-India.pdf?origin=journalDetail

Britannica (2025). *Britannica Money.* [Online]
Available at: https://www.britannica.com/money/taxation#ref584578-1

Corporate Finance Institute (n.d). *Indirect Taxes.* [Online]
Available at: https://corporatefinanceinstitute.com/resources/accounting/indirect-taxes/

Edidiong Bassey, ,. E. M. A. O. (2022). *A conceptual framework for digital tax administration - A systematic review.* [Online]
Available at: https://www.sciencedirect.com/science/article/pii/S0740624X22000909

Esmaeel, E. S. (2013). *The impact of direct-indirect taxation on consumer.* [Online]
Available at: https://d1wqtxts1xzle7.cloudfront.net/31561464/B03620813-libre.pdf?1392430591=&response-content-disposition=inline%3B+filename%3DIOSR_Journal_of_Engineering_IOSR_JEN.pdf&Expires=1741441085&Signature=RA~TjuP0dBek57rwHR-mxlU5R6897uTHneVltRQMZU3~afK9gYfgyIjA

European Commission, Taxation and Customs Union (n.d).. *Taxation and Customs Union.* [Online]
Available at: https://taxation-customs.ec.europa.eu/taxation/vat/vat-directive/how-does-vat-work_en

Gwaindepi, A. (2023). *Taxation in Africa since colonial times.* [Online]
Available at: https://www.aehnetwork.org/wp-content/uploads/2023/10/Abel-Gwaindepi-Taxation-in-colonial-Africa-2.pdf

Huzaima Bukhari, D. I. H. (2016). *TOWARDS FLAT, LOW-RATE,BROAD AND PREDICTABLE TAXES.* [Online]
Available at: https://primeinstitute.org/wp-content/uploads/2022/09/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf

IGI Global Scientific publshing (2019). *Tax System.* [Online]
Available at: https://www.igi-global.com/dictionary/financial-systems-reforms-in-western-balkans-countries/68174

Ihnatišinová, D. (2020). *shs-conferences.* [Online]
Available at: https://www.shs-conferences.org/articles/shsconf/pdf/2021/03/shsconf_glob20_02022.pdf

Ilorca, S. T. (2010). European Union Direct Taxes. *European Union Direct Taxes,* Volume 145, p. 11.

Inland Revenue, New Zealand (2023). *Finding those who are not paying their fair share (2023).* [Online]
Available at: https://www.ird.govt.nz/about-us/publications/annual-corporate-reports/annual-report/annual-report-2023/collecting-new-zealands-revenue-is-what-were-here-to-do/finding-those-who-are-not-paying-their-fair-share

Inland Revenue, New Zealand (2023). *Revitalising our work in communities.* [Online]
Available at: https://www.ird.govt.nz/about-us/publications/annual-corporate-reports/annual-report/annual-report-2023/collecting-new-zealands-revenue-is-what-were-here-to-do/revitalising-our-work-in-communities

Inland Revenue, New Zealand (n.d). *Income tax for Māori authorities.* [Online]
Available at: https://www.ird.govt.nz/income-tax/income-tax-for-businesses-and-organisations/income-tax-for-maori-authorities

International Monetary Fund (n.d).. *Tax and Customs Administration.* [Online]
Available at: https://www.imf.org/en/Topics/fiscal-policies/Revenue-Portal/Tax-and-Customs-Administration#coretaxcustoms

Joel Slemrod, C. G. (2014). Tax systems. Volume 223, p. 10.

John Daley, B. C. (2015). *Property Taxes.* [Online]
Available at: https://grattan.edu.au/wp-content/uploads/2015/07/826-Property-Taxes.pdf

Kabinga, M. (2016). *Principles of Taxation.* [Online]
Available at: https://taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice_and_Poverty/Introduction/05_Principles.pdf

Kenya Revenue Authority (2020). *GUIDELINES ON MINIMUM TAX.* [Online]
Available at: https://kra.go.ke/images/publications/Minimum-Tax-Guidelines.pdf

Kenya Revenue Authority (n.d).. *File & Pay.* [Online]
[https://www.kra.go.ke/individual/filing-paying/types-of-taxes/paye].

Kenya Revenue Authority (n.d).. *Taxation for Societies.* [Online]
Available at: https://www.kra.go.ke/business/societies/paying-taxes/societies-types-of-taxes

Kim, K. (2023). *New light on Adam Smith's view of taxation via the concept of equity.* [Online]
Available at: https://www.tandfonline.com/doi/abs/10.1080/09672567.2023.2225869

Lipniewicz R. (2017). *Tax administration and risk management in the digital age.* [Online]
Available at: https://yadda.icm.edu.pl/baztech/element/bwmeta1.element.baztech-6b858338-304c-467a-ad98-046813285fc7

Muhammad Aamir, A. Q. A. N. S. H. K. I. K. S. B. (2011). *Determinants of Tax Revenue: A Comparative Study of Direct taxes and Indirect.* [Online]
Available at: https://d1wqtxts1xzle7.cloudfront.net/76660656/21-libre.pdf?1639745384=&response-content-disposition=inline%3B+filename%3DDeterminants_of_Tax_Revenue_A_Comparativ.pdf&Expires=1741105310&Signature=geHsdt294WCh-apkME3vUY58xsB27TxEa4zNmGnfrJ57pymkIYvm68JaBCA

National Treasury, South Africa (2021). *ECONOMY AND FINANCE.* [Online]
Available at:
https://www.gcis.gov.za/sites/default/files/09%20Economy%20and%20Finance%202021-22.pdf

Nazarov, V. N. (2016). Tax System: The Concept and its Legal Content. In: Moscow: Look Academic Publishers, p. 2197.

Ndlovu, T. (2017). *Fiscal Histories of Sub-Saharan Africa: the Case of South Africa.* [Online]
Available at: https://southafrica.fes.de/fileadmin/user_upload/publications/Fiscal-Histories-240817-1.compressed.pdf

New York State,Department of Taxation and Finance (n.d).. *Department of Taxation and Finance.* [Online]
Available at: https://www.tax.ny.gov/bus/st/stidx.htm

New Zealand Customs Service (2025). *Duty and allowances.* [Online]
Available at: https://www.customs.govt.nz/personal/duty-and-gst/duty-and-allowances

OECD (2023). *Revenue Statistics in Africa 2023,* s.l.: OECD.

OECD (2024). *Tax Administration 2024,* Paris: OECD.

Ogungbesan, S. S. (2023). *STAKEHOLDERS' ENGAGEMENT AS A STRATEGY FOR OPTIMIZING VOLUNTARY TAX COMPLIANCE: A CASE STUDY OF THE NIGERIAN TAX ADMINISTRATION.* [Online]
Available at: https://cdn.unicaf.org/websites/unicaf/wp-content/uploads/2024/06/Samuel-Sunday-Ogungbesan-FINAL-thesis.pdf

Olha Dmytryk, O. M. (2020). *ECONOMIC PRINCIPLES OF TAXATION: PROBLEMS OF DEFINITION AND EMBODIMENT IN THE TAX LEGISLATION OF UKRAINE AND THE EUROPEAN STATES.* [Online]
Available at: https://cyberleninka.ru/article/n/economic-principles-of-taxation-problems-of-definition-and-embodiment-in-the-tax-legislation-of-ukraine-and-the-european-states

Opiyo, E. (2022). *EVOLUTION OF KENYAN TAXATION SYSTEM..* [Online]
Available at: https://www.researchgate.net/profile/Edwin-

Opiyo/publication/360289757_EVOLUTION_OF_KENYAN_TAXATION_SYSTEM_Author/links/626d7bf0c42af62fe2e2b576/EVOLUTION-OF-KENYAN-TAXATION-SYSTEM-Author.pdf

Parliament of Kenya (2020). *Parliament of Kenya.* [Online]
Available at: http://www.parliament.go.ke/sites/default/files/2020-06/Analysis%20of%20the%20Finance%20Bill%202020.pdf

Prof.Pooja.S.Kawle, P. (2017). *GST: An economic overview: Challenges and Impact ahead.* [Online]
Available at: https://d1wqtxts1xzle7.cloudfront.net/53554703/IRJET-V4I4674-libre.pdf?1497696747=&response-content-disposition=inline%3B+filename%3DGST_An_economic_overview_Challenges_and.pdf&Expires=1742076928&Signature=RIUJEgNrAFbfptEmlLK1L9-4CplV2Nq3HS6cNvMi5EVEaAviB

SARS (2020). *STRATEGIC PLAN.* [Online]
Available at: https://www.sars.gov.za/wp-content/uploads/Enterprise/Strat/SARS-Strat-24-SARS-Strategic-Plan-2020-2021-2024-2025-11-May-2020.pdf

Seely, A. (2010). *Capital gains tax : background history.* [Online]
Available at: https://www.shareradio.co.uk/media/8678/cgt-background-history.pdf

Shome, P. (2021). *Principles of Taxation.* [Online]
Available at: https://link.springer.com/chapter/10.1007/978-3-030-68214-9_6

South African Revenue Service (2024). *Taxation in South Africa.* [Online]
Available at: https://www.sars.gov.za/wp-content/uploads/Ops/Guides/Legal-Pub-Guide-Gen01-Taxation-in-South-Africa.pdf

Taufik Abd Hakim, A. A. K. J. D. R. G. N. L. S. Z. (2022). *Impact of direct and indirect taxes on economic development: A comparison between developed and developing countries.* [Online]
Available at: https://www.tandfonline.com/doi/full/10.1080/23322039.2022.2141423#abstract

Tax Foundation (2022). *Corporate Tax Rates around the World.* [Online]
Available at: https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2022/

Tax Foundation (2024). *International Tax Competitiveness Index 2024.* [Online]
Available at: https://taxfoundation.org/research/all/global/2024-international-tax-competitiveness-index/

Tax Justice Network (2009). *Taxation and State Building in Kenya: Enhancing Revenue Capacity to Advance Human Welfare.* [Online]
Available at: https://taxjustice.net/cms/upload/pdf/Kenya_1004_TJN_Spreads.pdf

The national treasury and economic planning, Kenya (2023). *NATIONAL TAX POLICY.* [Online]
Available at: https://www.treasury.go.ke/wp-content/uploads/2024/05/7.05.-2024-National-

Tax-
Policy.pdf#:~:text=The%20key%20challenges%20identified%20in%20the%20tax%20system,international%20taxation%3B%20lack%20of%20guidelines%20for%20treaty%20nego

The national treasury and economic planning (2023). *NATIONAL TAX POLICY.* [Online]
Available at: https://www.treasury.go.ke/wp-content/uploads/2024/05/7.05.-2024-National-Tax-Policy.pdf

U.S. Customs and Border Protection (n.d).. *Customs Duty Information.* [Online]
Available at: https://www.cbp.gov/travel/international-visitors/know-before-you-visit/customs-duty-information

Victor Thuronyi, K. B. B. K. (2016). *Comparative Tax Law.* Second Edition ed. Alphen aan den Rijn: Kluwer Law International B.V.

Waceke (2024). *Understanding Kenya's Tax System: What Every Business Owner Should Know.* [Online]
Available at: https://www.businessradar.co.ke/blog/2024/09/05/understanding-kenyas-tax-system-what-every-business-owner-should-know/

Waris, A. (2008). *Taxation without Principles: a Historical analysis of the Kenyan Taxation System.* [Online]
Available at:
file:///C:/Users/thiageti/Downloads/Taxation_Without_Principles_A_Historical.pdf

Wawire, N. H. W. (2020). *Constraints to Enhanced Revenue Mobilization and Spending Quality in Kenya.* [Online]
Available at: https://www.cgdev.org/sites/default/files/PP163-Enhanced-Revenue-Kenya-Full.pdf

World Bank Group (2023). *Tax revenue (% of GDP) - Kenya, New Zealand, South Africa.* [Online]
Available at:
https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?end=2023&locations=KE-NZ-ZA&start=2014&view=chart

World Bank Group (2023). *World Bank Group Data.* [Online]
Available at: https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=KE

Yolanda Ubago Martínez, P. P. A. Z. A. (2022. Tax collection efficiency in OECD countries improves via decentralization, simplification, digitalization and education. *Tax collection efficiency in OECD countries improves via decentralization, simplification, digitalization and education*, March.