National Taxpayers Association
pesa zetu, haki yetu

THE POTENTIAL AND JUSTIFICATIONS FOR TAXING WEALTH IN KENYA

NOVEMBER 2024

About the National Taxpayers Association

The National Taxpayers Association (NTA) is an independent, non-partisan organization that promotes good governance in Kenya through citizen empowerment, enhancing public service delivery, and partnership building.

Since 2006, NTA has implemented programs aimed at strengthening government service delivery performance and enhancing accountability through monitoring the quality of public services and management of public funds.

Published by:
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EXECUTIVE SUMMARY

Successive governments of the Republic of Kenya have striven to enhance Domestic Resource Mobilisation (DRM) and address growing economic disparities. Several tax measures introduced by the government have either broadened the tax net, introduced new tax types and to some extent targeted the taxation of wealth albeit in the form of taxing capital gains. This report, building on a previous study by the National Taxpayers Association (NTA) in 2022, examines the potential for implementing a focused wealth tax regime.

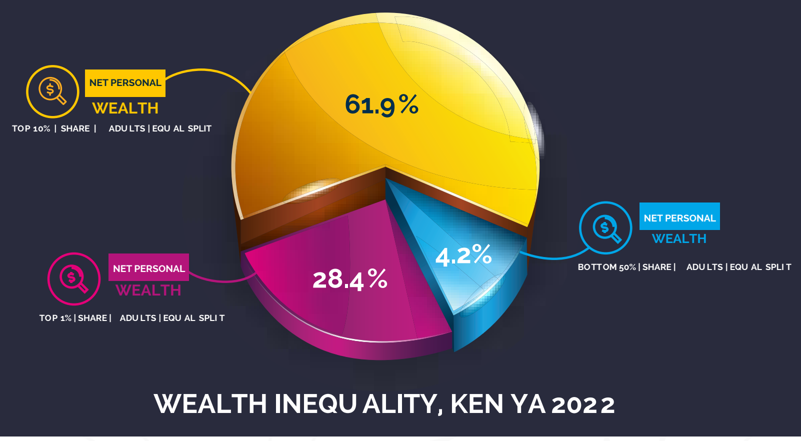
To inform this examination, this report analyses the insights gathered from key stakeholders, including interviews conducted during NTA's 2022 study with individuals, corporations, revenue authority officials, treasury officials, and other experts. The analysis undertaken here provides valuable perspectives on the current tax landscape and potentials for wealth taxation in Kenya, serving as a foundation for developing an effective and contextually appropriate wealth tax system for the country. When based on understanding existing approaches to taxing forms of wealth, guiding constitutional principles, and international best practices, a well-designed wealth tax regime could significantly contribute to Kenya's eco-social development goals without overburdening the broader population and impacting household savings.

Key Findings:

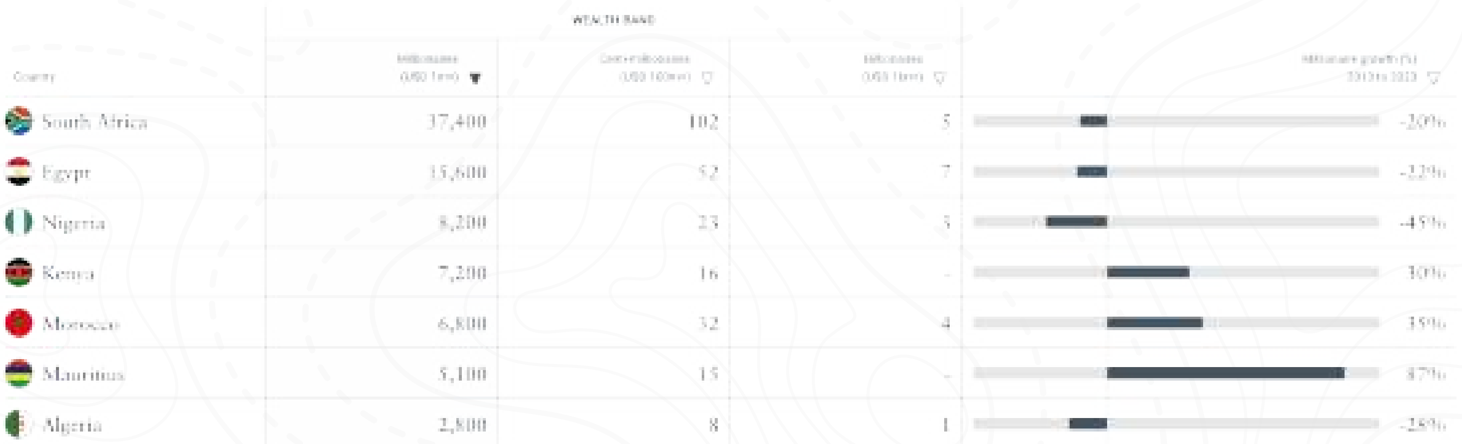
1. **Constitutional Alignment:** The National Tax Policy (Sessional Paper No. 02 of 2023) is anchored in the 2010 Constitution of Kenya, particularly Article 201 which outlines the principles of public finance. The Policy emphasises principles such as equity, fairness, and the fair sharing of the tax burden (Section 1.5). While the Policy does not explicitly mention a wealth tax, these constitutional principles and policy guidelines could potentially provide a framework for considering such a tax. Specifically, the Policy aims to 'promote investment and enhance regional and international trade' while also seeking to 'enhance compliance with tax and customs legislations' (Section 1.4). It emphasises the need for a tax system that ensures 'equity and fairness' by treating 'equally all taxpayers placed in similar circumstances (horizontal equity), and treat differently those placed under different circumstances (vertical equity)' (Section 1.5). The Policy also calls for 'transparency and accountability' in the tax system, including enhanced disclosure of information on revenues collected and tax expenditures (Section 1.5). Any proposal, therefore, for a wealth tax would need to demonstrate how it aligns with these existing constitutional and policy principles. It would also need to go through the proper channels of policy development, public participation, and legislative processes as outlined in the document.

2. **Current Fiscal Landscape:** While Kenya has made strides in taxing aspects of wealth through Capital Gains Tax, property taxes, and luxury item duties, a comprehensive approach to taxing accumulated wealth is lacking.

3. **Wealth Concentration:** Data from the World Inequality Database for Kenya (2022) shows **significant wealth concentration in Kenya, with the top 10% owning 61.9% of net personal wealth, while the bottom 50% owns just 4.2%.**



4. **Number of HNWI in Kenya:** The Africa Wealth Report 2024 estimated that there are **7,200 high-net-worth individuals (HNWIs) in Kenya.** A targeted wealth tax on 7,200 HNWI could generate substantial revenue.



Country	[illegible]	[illegible]	[illegible]	[illegible]
South Africa	37,400	102	5	-20%
Egypt	15,600	52	7	-22%
Nigeria	8,200	23	3	-45%
Kenya	7,200	16	-	30%
Morocco	6,800	32	4	35%
Mauritius	5,100	15	-	87%
Algeria	2,800	8	1	-25%

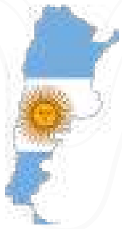
5. **Revenue Potential:** We estimate that a progressive tax system can have the potential to yield around **$781** million annually based on the following **proposed structure of 3 tiers** (table 1) to taxing the wealth of HNWI.

Table 1: Proposed Tiers

Wealth Bracket (Tiers)	Proposed Tax Rate	Estimated Number of Individuals	Assumed Average Wealth	Estimated Tax Revenue
$1M - $3M	1.5%	5,700	$2M	$171M
3M - $100M	3%	1,500	$10M	$450M
>$100M	5%	16	$200M	$160M
TOTAL		**7,216**	**$781M**	

6. **International Trends:** Global momentum towards wealth taxation, including in developing countries like Argentina, Burundi, Colombia, and Uruguay, offers valuable lessons for the approach Kenya can take.

Argentina



Use a progressive rate structure for a one-time wealth tax

Burundi

Introduce a wealth tax targeting real estate wealth, with the tax applying from the acquisition of a third building onwards.

Colombia

Regularly update asset valuations and challenges in taxing hard-to-value assets like unlisted businesses.

Uruguay

Set a threshold at an appropriate level to target the truly wealthy as part of a long-standing annual net wealth tax.

7. **Administrative Readiness:** The Kenya Revenue Authority's (KRA) ongoing efforts to strengthen capacity building within its Premier Tax Office (PTO) to understand financial planning and wealth management strategies of HNWI demonstrates proactive steps towards enhanced tax administration for the wealthy.

8. **Stakeholder Perspectives:** Interviews conducted in NTA's 2022 study with taxpayers, KRA officials, and tax experts revealed a complex landscape of concerns and opportunities, emphasising the need for fairness, transparency, and effective administration in taxing HNWI and in considering a potential tax on wealth.

RECOMMENDATIONS:

1. **Targeted Approach:** Design the wealth tax to focus exclusively on HNWIs, setting a high threshold to exempt the majority of Kenyans especially household and individual savings on which tax has previously been paid. Consider a proposed tiered system with rates of 1.5% for wealth between $1-3 million, 3% for $3-100 million, and 5% for wealth exceeding $100 million.

2. **Comprehensive Asset Base:** Include a wide range of assets in the tax base, building on existing frameworks for property (real and intellectual) and financial asset taxation.

3. **Valuation Mechanisms:** Develop robust valuation methods, drawing on international best practices and enhancing existing systems for real estate and financial assets.

4. **Phased Implementation:** Adopt a gradual approach, starting with enhanced data collection and HNWI identification, progressing to a full wealth tax regime over several phases.

5. **Capacity Building:** Invest in the KRA's capabilities, particularly in asset valuation, data analytics, and international tax cooperation.

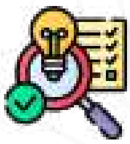
6. **Legislative Framework:** Develop robust legislation that aligns with constitutional principles and existing tax laws, ensuring clear definitions of taxable wealth and enforcement mechanisms.

7. **Reframing Wealth Tax as Solidarity Taxes:** Based on stakeholder input from the National Treasury and Kenya Revenue Authority (KRA), adopt the language of 'solidarity taxes' instead of 'wealth tax' in policy discussions and public communications. This reframing aligns more closely with Kenya's cultural values and national ethos, as expressed in the National Tax Policy. The term 'solidarity tax' emphasises collective responsibility and shared burden, which resonates with the policy's principles of equity and fairness (Section 1.5). It also aligns with the policy's goal to 'institutionalise progressive tax culture' (Section 1.4f). Using 'solidarity tax' instead of 'wealth tax' can reduce potential political resistance by framing the tax as a contribution to national development rather than a punitive measure on wealth.

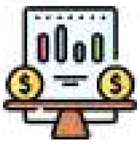
8. **Public Engagement:** Communicate the rationale and benefits of the wealth tax to build public support and enhance compliance. Link the tax to tangible improvements in public services.

9. **International Cooperation:** Strengthen participation in global initiatives for tax transparency and information exchange to address offshore wealth and tax evasion.

CHALLENGES TO ADDRESS:



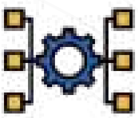
1. **Identification and Tracking of HNWIs:**
   - Accurately identifying the reported 7,200 millionaires and 16 centi-millionaires in Kenya
   - Developing robust systems to track wealth accumulation and transfers over time
   - Addressing issues of privacy and data protection while ensuring transparency



2. **Valuation Complexities:**
   - Accurately valuing diverse asset types, especially non-liquid assets like real estate, art, and private businesses
   - Dealing with fluctuating valuations of assets like stocks or cryptocurrencies
   - Establishing standardised valuation methods that are both fair and efficient

3. **Capital Flight and Tax Avoidance:**
   - Preventing capital outflows as HNWIs seek to avoid the new tax
   - Addressing sophisticated tax avoidance strategies employed by wealthy individuals
   - Strengthening international cooperation to track offshore assets

4. **Political Resistance:**
   - Overcoming opposition from affected wealthy individuals who may have significant political influence
   - Navigating potential legal challenges to the implementation of the tax



5. **Integration with Existing Tax Structures:**
   - Harmonising the new tax with current income, property, and capital gains taxes
   - Avoiding double taxation while ensuring comprehensive coverage

6. **Administrative Capacity:**
   - Enhancing KRA's capabilities in areas such as HNWI profiling, asset valuation, and data analytics
   - Implementing robust IT systems to manage the complexity of wealth tax administration

7. **Public Trust and Transparency:**
    - Building public confidence in the fair administration of the tax
    - Ensuring transparency in how the additional revenue is utilised for national development

8. **Compliance and Enforcement:**
    - Encouraging voluntary compliance among HNWIs
    - Developing effective enforcement mechanisms for non-compliant individuals
    - Balancing enforcement with the need to maintain a positive investment climate

By leveraging Kenya's strong fiscal policy foundation, learning from global best practices, and addressing stakeholder concerns, a carefully crafted wealth tax can be a powerful tool in achieving equitable economic growth and sustainable development. This approach aligns with Kenya's Vision 2030 goals and can significantly enhance the country's fiscal position without placing undue burden on the majority of citizens.

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ACKNOWLEDGEMENTS

The National Taxpayers Association (NTA) of Kenya is pleased to present this comprehensive report on the potential and justifications for taxing wealth in Kenya. This study represents a crucial step in our ongoing efforts to contribute to Kenya's fiscal policy discourse and promote equitable taxation.

We extend our sincere gratitude to Dr. Lyla Latif, whom we commissioned to undertake this critical research and author the report. Dr. Latif's expertise, diligence, and innovative thinking have been instrumental in producing this in-depth analysis that aligns with our mission of fostering a fair and efficient tax system in Kenya.

This report has greatly benefited from the rigorous review process conducted by Irene Otieno, Tedd Awour, John Thomi, and Karanja Chege. The NTA acknowledges the crucial role played by various stakeholders who participated in the development of this report. We extend our appreciation to representatives from the National Assembly, National Treasury, Kenya Revenue Authority, Commission on Revenue Allocation, Institute of Certified Public Accounts of Kenya (ICPAK), African Forum and Network on Debt and Development (AFRODAD), Kenya Times, the Committee on Fiscal Studies, UNDP (Kenya), The Institute for Social Accountability (TISA), Institute of Public Finance (IPF), Transparency International, WFD, and Global Financial Integrity (GFI), and TRF. Their diverse perspectives and input have been vital in ensuring that our recommendations are both practical and context-appropriate.

We also wish to thank all the individuals and organisations who contributed to this study through interviews, data provision, and other forms of assistance. Your cooperation and openness have been essential in developing a comprehensive understanding of the complexities surrounding wealth taxation in Kenya.

NTA is proud to have facilitated this important research, which we believe will make a significant contribution to ongoing policy discussions on equitable taxation and sustainable revenue generation in Kenya. We hope that the insights and recommendations presented in this report will inform and guide policymakers, researchers, and civil society organisations in their efforts to create a more just and efficient tax system for all Kenyans.

ABBREVIATIONS

AML	Anti-Money Laundering
BEPS	Base Erosion and Profit Shifting
CGT	Capital Gains Tax
CFC	Controlled Foreign Company
CRS	Common Reporting Standards
DTA	Double Taxation Agreements
GDP	Gross Domestic Product
G20	Group of 20
HNWI	High-Net-Worth Individuals
IMF	International Monetary Fund
iTax	Kenya Revenue Authority's electronic tax filing and payment platform
KRA	Kenya Revenue Authority
PAYE	Pay As You Earn
PTO	Premier Tax Office
OECD	Organisation for Economic Co-operation and Development
NSE	Nairobi Securities Exchange
UK	United Kingdom
UN	United Nations
VAT	Value-Added Tax
WHT	Withholding Tax

1. Introduction to Taxing Wealth

1.1. Definition and Scope

A wealth tax is a levy on the net worth[1] of an individual or entity. Net worth is typically calculated as the total value of assets minus liabilities. Wealth taxes can generally be divided into two main categories:

a. **Net wealth taxes:** These are levied on an individual's net assets , either on a regular basis (e.g., annually) or occasionally (e.g., one-time, event triggered, like capital gains).

b. **Transfer taxes:** These apply to the movement of wealth and can be classified as either originating from the giver (e.g., estate or gift taxes) or from the recipient (e.g., inheritance or accessions taxes).

This categorisation raises an important concern about the potential for double taxation when wealth taxes are applied to net worth composed of previously taxed income. The argument is that if an individual has accumulated wealth over time through their earned income, which has already been subject to income tax, then subjecting that same wealth to an additional wealth tax could be viewed as taxing the same economic resources twice.

For example, let's say an individual has a net worth of KES10 million, and this net worth is entirely made up of savings from their taxed income over the years, subjecting this KES10 million net worth to a 2% wealth tax would result in an additional KES2,000,000 tax burden, even though the underlying assets have already been taxed as income.

One side of the argument is that this violates the principle of not taxing the same income twice and creates an unfair burden on taxpayers. Wealth taxes should either exclude or provide deductions for the portion of net worth derived from previously taxed income, to avoid this double taxation. The other side of the arguments is that wealth is a separate measure of economic capacity and that the ability to accumulate assets over time itself represents a form of economic advantage that should be taxed, regardless of the source. Hence, wealth taxes are justified as a means to address rising inequality, even if they apply to assets funded by income that has already been taxed. This debate highlights the complex trade-offs and design considerations involved in implementing an effective and equitable wealth tax.

Wealth taxes typically take into account either the global assets of the taxpayer or those within a specific jurisdiction, contingent on the taxpayer's relationship with that jurisdiction. These taxes are usually progressive, with rates determined by the individual's wealth or a collective assessment of a family's wealth.[2] In many developed countries, wealth taxes exist in some form, with wealth transfer taxes being more widespread than net wealth taxes.[3] Countries such as Spain, Norway, Switzerland, Belgium and Argentina impose net wealth taxes. Many other countries across the globe have some form of wealth transfer taxes, such as inheritance tax, capital gains tax.

However, the specific definition and scope of what constitutes "wealth" for taxation purposes can vary significantly depending on the jurisdiction and the particular tax policy in question. Piketty (2014)[4] argues for a global wealth tax as a means to address rising inequality. He defines wealth broadly, including financial assets, real estate, business ownership, and even certain forms of human capital. Piketty's conceptualisation of wealth tax is comprehensive, proposing an annual levy on net worth above a certain threshold. Latif (2023)[5] broadens this conceptualisation further by including the Islamic wealth tax known as zakat, which is an annual 2.5% tax on earnings, gold, silver above a specific threshold, as well as on land and cattle. This historical form of wealth taxation is explicitly tied to alleviating inequality, offering a unique perspective on wealth tax rooted in religious and ethical principles

Not all wealth taxes are as broad in scope. Some countries have implemented more targeted forms of wealth taxation, focusing on specific types of assets or wealth transfers. For instance, property taxes, which are levied on the value of real estate, can be considered a form of wealth tax, albeit one focused on a particular asset class. Building on the existing conceptualisations of wealth taxation, the International Monetary Fund (IMF) has also contributed to refining the definition and scope of wealth taxes in contemporary economic policy.[6] In their analysis, the IMF broadens the understanding of wealth taxation beyond simply a levy on net worth, encompassing a spectrum of approaches aimed at addressing wealth inequality.

The IMF's framework identifies three primary mechanisms for taxing wealth: capital income taxes, direct wealth taxes, and wealth transfer taxes. Capital income taxes target the returns generated by wealth, such as dividends, interest, and capital gains. Direct wealth taxes, in contrast, are levied on the stock of wealth itself, typically calculated as the total value of assets minus liabilities. Wealth transfer taxes, including inheritance and gift taxes, focus on the movement of wealth between individuals, often across generations. This comprehensive view of wealth taxation expands the scope beyond traditional net worth taxes to include a range of fiscal tools that can impact wealth accumulation and distribution. The IMF's approach recognises that wealth can be taxed at various points:

As it generates returns,

As it accumulates,

As it is transferred.

This broader definition allows for a more nuanced analysis of the effects and trade-offs associated with different forms of wealth taxation.

1.2. Forms of Wealth Taxation

While a direct, comprehensive annual tax on net worth is what many economists and policymakers refer to when discussing 'wealth tax,' there are several other forms of taxation that target wealth in various ways:

Property Taxes

Levied on the value of real estate and other immovable property, these are perhaps the most common form of wealth taxation globally. Property rates, on the other hand should be distinguished from the latter. Property rates are charges levied by county governments to cover the cost of providing various public services and are therefore not considered a form of wealth tax.

Capital Gains Tax (CGT)

While technically an income tax, CGT can be viewed as a tax on the appreciation of asset values, thus targeting a form of wealth accumulation.

Inheritance or Estate Taxes

These taxes are levied on the transfer of wealth upon death, effectively taxing accumulated wealth as it passes between generations.

WEALTH TAX

Gift Taxes

Similar to inheritance taxes, these target wealth transfers made during a person's lifetime.

Financial Transaction Taxes

These can be seen as indirect wealth taxes, as they often disproportionately affect those with larger asset portfolios who engage in more frequent financial transactions.

The taxes mentioned above all involve taxing a form of wealth to some degree, but none of them specifically target wealth as a separate category of taxation. They do not have wealth as their sole or primary tax base. Wealth taxation, as distinct from these other forms of taxation, involves imposing a tax on an individual's net wealth, which is the total value of their assets minus any liabilities. Several countries currently have a wealth tax in place, including:

a. **Spain:** Spain applies a wealth tax payable on the total net value of an individual's asset worth over €1 million. The tax is progressive, with rates ranging from 0.2% to 3.5%, and includes exemptions for primary residences and certain business assets. Further, starting 2023 Spain has also introduced the Solidarity Tax as a complement to its current wealth taxation. The Solidarity Tax aims to standardise the tax on high-net-worth individuals whose assets exceed a value of €3 million.

b. **Switzerland:** Switzerland has had a wealth tax in place for many years, which applies to individuals with a net worth of over CHF 100,000. The tax is levied by the cantons (states) rather than the federal government, and rates vary widely between cantons.

c. **Norway:** Norway has a wealth tax that applies to individuals with a net worth of over NOK 1.5 million. The tax is progressive, with rates ranging from 0.15% to 0.7%, and includes exemptions for certain assets, such as primary residences and pensions.

d. **France:** France has a wealth tax, called the Solidarity Wealth Tax, which applies to individuals with a net worth of over €1.3 million. The tax is progressive, with rates ranging from 0.5% to 1.5%, and includes exemptions for primary residences and certain business assets.

e. **Argentina:** Argentina has a wealth tax, called the Solidarity Contribution, which applies to individuals with a net worth of over ARS 200 million. The tax is progressive, with rates ranging from 2% to 3.5%, and includes exemptions for certain assets, such as primary residences and productive assets.

It's worth noting that the specific design of a wealth tax can vary widely between countries, including the tax base, tax rates, and exemptions. The details of a wealth tax are important in determining its effectiveness and impact on the economy and society.

1.3. Capital Gains Tax as a Wealth Tax

Capital Gains Tax (CGT) occupies a unique position in the realm of wealth taxation, straddling the line between income tax and wealth tax. While technically a tax on income, CGT fundamentally targets the appreciation of wealth over time, making it a crucial consideration in discussions of how to tax accumulated wealth.

The treatment of capital gains varies significantly across jurisdictions, reflecting different economic philosophies and policy priorities. In the United States, for instance, long-term capital gains enjoy preferential tax rates compared to ordinary income. As of 2024, these rates are set at 0%, 15%, or 20%, depending on the taxpayer's income level, which is generally lower than the top marginal rate of 37% for ordinary income.[7] This preferential treatment is often justified as a means to encourage long-term investment and capital formation, though critics argue it disproportionately benefits the wealthy and exacerbates income inequality.

The United Kingdom takes a similar approach, with a separate CGT system featuring rates lower than those for income tax. In the 2023/24 tax year, basic rate taxpayers face a 10% rate on capital gains (18% for residential property), while higher and additional rate taxpayers pay 20% (24% for residential property).[8] The UK system also includes an annual tax-free allowance, although this is being gradually reduced in coming years.

Turning to Africa, we see a diverse range of approaches to CGT, often reflecting the continent's efforts to modernise tax systems and increase domestic resource mobilisation. Kenya, for instance, reintroduced CGT in 2015 after a three-decade hiatus. The current rate is set at 15% on the net gain from the transfer of property situated in Kenya, including land, buildings, and marketable securities.[9]

Nigeria has a longer history with CGT, having introduced it in 1967. The current rate stands at 10% on gains accruing to any person, whether individual or corporate, on the disposal of chargeable assets.[10] The Nigerian system includes certain exemptions, such as gains on the disposal of Nigerian government securities and stocks, reflecting policy choices about which types of investments to encourage.

South Africa took a different approach when it introduced CGT in 2001. Rather than establishing it as a separate tax, South Africa integrated CGT into the income tax system. For individuals, 40% of the net capital gain is included in taxable income and taxed at the individual's marginal rate. This can result in an effective CGT rate of up to 18% for individuals in the highest tax bracket, representing a significant tax on wealth appreciation. [11]

Other African countries have their own variations on CGT. Ghana applies a 15% rate on capital gains from the realisation of chargeable assets, including buildings, businesses, and shares of resident companies.[12] Uganda employs a 30% rate for companies and a variable rate for individuals, depending on their income tax bracket, for the disposal of business assets, shares, and property.
[13]

These varied approaches to CGT across different jurisdictions highlight the complex considerations at play in taxing wealth appreciation. Many countries, particularly in Africa, have introduced or reintroduced CGT to broaden the tax base and capture some of the wealth appreciation that was previously untaxed. This trend reflects a growing recognition of the need to ensure that the wealthy pay their fair share and to address rising wealth inequality. However, the implementation of CGT varies widely, from being fully integrated into the income tax system, as in South Africa, to being a separate tax with its own rates and rules, as in the UK.

The treatment of capital gains remains a crucial consideration in discussions of wealth taxation. While it doesn't directly tax wealth holdings, CGT does tax the appreciation of wealth when realised. As such, it can be seen as a compromise between not taxing wealth at all and implementing a comprehensive wealth tax. One key issue with CGT as a wealth tax is that it is typically only levied when gains are realised through the sale of assets. This can lead to the 'lock-in' effect, where individuals hold onto assets to avoid triggering tax liabilities. Enda and Gale (2020), have proposed moves towards 'mark-to-market' taxation of capital gains, where increases in asset values would be taxed annually whether or not the assets are sold.[14]

2. Historical and Emerging Context

Wealth taxes are not a new concept. Various forms of wealth taxation have been implemented throughout history, from ancient civilisations to modern nation-states. In the 20th century, several European countries implemented net worth taxes, including France, Germany, and Sweden. However, by the early 21st century, many of these wealth taxes had been repealed. Sweden, for instance, abolished its wealth tax in 2007, with concerns about capital flight and economic impacts cited as reasons for its repeal. Despite this trend of repealing wealth taxes, the 2008 financial crisis and subsequent focus on inequality has reignited interest in wealth taxation. This resurgence of interest has been further fuelled by academic work, such as Piketty (2014),[15] Saez and Zucman (2019) [16] and and Zucman's (2024) [17], highlighting the growing concentration of wealth at the top of the distribution.

In recent years, there has been intensifying global discourse about implementing wealth taxes specifically targeting millionaires and billionaires. This conversation has been driven by several factors:

Growing Wealth Inequality: According to the Oxfam (2021) report on 'The Inequality Virus' the world's 2,153 billionaires had more wealth than the 4.6 billion people who make up 60 percent of the planet's population. This concentration of wealth has led to calls for redistributive policies.

Fiscal Pressures: Many governments face significant budget deficits and growing public debt, exacerbated by the COVID-19 pandemic. Wealth taxes on the very rich are seen as a potential source of significant revenue.

Perceptions of Fairness: There's a growing public sentiment that the very wealthy don't pay their 'fair share' in taxes, particularly as revelations about tax avoidance strategies have come to light.

The definition of wealth lacks universal consensus, varying with geographical, temporal, and societal contexts. While some rely on income-based metrics, such as the top 1% of earners or households earning double the median income, others favour net worth as a more comprehensive measure. Forbes classify individuals with over $1 million in net worth as high-net-worth individuals (HNWIs), while those exceeding $30 million are deemed ultra-high-net-worth individuals (UHNWIs). Relative measures, comparing individuals to population percentiles, offer another perspective. Certain forms of property, including real estate, financial assets, business ownership, and luxury goods, are often associated with wealth. However, these definitions are highly context-dependent, with wealth thresholds differing significantly across economies. Research from institutions like Credit Suisse, the World Inequality Database, and the U.S. Federal Reserve provides valuable data on wealth distribution. Ultimately, the concept of wealth extends beyond purely economic measures, encompassing factors such as quality of life, resource access, and financial security, making its definition inherently complex and subjective.

Therefore, proposals for taxing millionaires and billionaires vary, but they generally share some of the following common features:

High Thresholds:
Most proposals set the starting point for wealth taxation quite high, often at $50 million or more in net worth. This focuses the tax on the very wealthy, avoiding impact on the middle class or merely affluent.

Progressive Rates:
Many proposals suggest progressive rate structures, with higher rates on billion-dollar-plus fortunes than on those in the tens or hundreds of millions.

Broad Asset Base:
These wealth tax proposals typically aim to include all forms of wealth: financial assets, real estate, business ownership, and even luxury goods like art or yachts.

Global Approach:
Given concerns about capital flight, there are often calls for international cooperation on wealth taxation.

One prominent example is the wealth tax proposed by U.S. Senator Elizabeth Warren during her 2020 presidential campaign. Her plan called for a 2% annual tax on net worth above $50 million, with an additional 1% (total 3%) on net worth above $1 billion. Saez and Zucman, who advised on the plan, estimated it could raise significant revenue while affecting only a tiny fraction of U.S. households. Building on this concept, US President Joe Biden introduced his own wealth tax proposal in 2023 as part of his budget plan. It was introduced as the 'Billionaire Minimum Income Tax Act,' (not yet voted on) and applied a 20% minimum tax rate on households with a net worth exceeding $100 million. The idea of implementing wealth taxes on millionaires and billionaires has sparked intense debate among academics, economists, policymakers, and the public.[18] Key points of contention include:

Economic Impact:
Critics argue that wealth taxes could discourage entrepreneurship and investment, potentially slowing economic growth. Proponents counter that the extreme concentration of wealth itself is economically damaging, and that a well-designed wealth tax could promote more productive use of capital.

Capital Flight:
There are concerns that the mobile nature of much financial wealth could lead to capital flight if wealth taxes are imposed. This is why many advocates stress the importance of international cooperation.

Valuation Challenges:
Accurately valuing diverse assets, particularly unique or illiquid ones like private businesses or art collections, poses significant practical challenges.

Administrative Complexity:
Implementing and enforcing a comprehensive wealth tax could be administratively complex and costly.

Recent Developments

While comprehensive wealth taxes remain rare, there have been some notable developments recently:

a. The Labour Party in the United Kingdom had proposed a wealth tax on individuals with assets over £750,000, with a tax rate of 1.5%. The proposal (not yet implemented) included exemptions for primary residences and pensions.

b. The Social Democratic Party in Germany had proposed a wealth tax on individuals with a net worth over €2 million, with a tax rate of 1%. The proposal (not yet implemented) includes exemptions for certain assets, such as primary residences and business assets.

c. The New Democratic Party in Canada had proposed a wealth tax on individuals with a net worth over $20 million, with a tax rate of 1%. The proposal included exemptions for primary residences and pensions.

d. The African National Congress in South Africa had proposed a wealth tax on individuals with a net worth over ZAR 3.7 million, with a tax rate of 3%. The proposal (not yet implemented) includes exemptions for certain assets, such as primary residences and retirement savings.

e. Colombia is one of the countries that has introduced a wealth tax. In December 2020, the Colombian government proposed a one-time wealth tax on individuals with a net worth over COP 5 billion (approximately USD 1.3 million). The tax rate proposed was 1.25%, with exemptions for primary residences and certain business assets. The revenue generated from the tax was intended to be used to fund social spending on areas such as education and healthcare. However, the proposal was met with significant opposition from business groups and some political leaders and was ultimately not approved by Congress. Some of the concerns raised included the potential impact on investment and entrepreneurship, the effectiveness of the tax in generating revenue, and the potential for tax evasion and avoidance. However, the wealth tax was approved by the Colombian Congress and applied to individuals whose net worth exceeds 3 billion Colombian pesos. The tax imposes a 1.5% rate on the taxable base above this threshold, encompassing both domestic and foreign assets owned by Colombian residents, as well as assets within Colombia owned by non-residents.

The global discussion on wealth taxation reflects broader debates about inequality, fairness in tax systems, and the role of government in the economy. As wealth continues to concentrate at the top of the distribution, and as governments face ongoing fiscal challenges, it's likely that wealth taxation will remain a topic of intense interest and debate among policymakers, economists, and the public.

3. Justification for the Taxation of Wealth

The taxation of wealth has become an increasingly important topic in global economic discourse, particularly in light of growing inequality, persistent poverty, and the challenges faced by governments in mobilising domestic resources for crucial social services. This section presents a justification for wealth taxation, examining its potential to address a range of economic and social issues.

3.1. Addressing Inequality

One of the primary justifications for wealth taxation is its potential to address the growing wealth inequality that characterises many societies today. Wealth inequality has reached alarming levels globally, with Oxfam reporting that the world's richest 1% own more than twice as much wealth as 6.9 billion people. This concentration of wealth at the top has far-reaching implications for social cohesion, economic stability, and democratic processes.

Wealth taxation can serve as a powerful tool to reduce this inequality. By imposing higher tax rates on large accumulations of wealth, governments can slow the pace of wealth concentration at the top and potentially reverse it over time. This is particularly important because wealth tends to beget more wealth through returns on capital, leading to an ever-widening gap between the rich and the poor if left unchecked. Moreover, wealth inequality often translates into unequal opportunities, with children from wealthy families having access to better education, healthcare, and social networks. By redistributing some of this wealth through taxation, societies can work towards creating more equal opportunities for all citizens, regardless of their background.

3.2. Alleviating Poverty

Closely linked to the issue of inequality is the persistent problem of poverty, even in countries with significant overall wealth. World Vision reports that the World Bank estimates that about 9% of the world's population lives in extreme poverty, defined as living on less than $2.15 per day. [19] Wealth taxation can play a crucial role in poverty alleviation efforts.

By generating additional revenue from those who can most afford to pay, wealth taxes can fund targeted poverty reduction programs. These might include:

- Expanded social safety nets
- Investments in public education and healthcare
- Job creation initiatives
- Affordable housing programs

The impact of such programs can be transformative, breaking the cycle of poverty for millions of families and creating pathways to economic mobility. Furthermore, by reducing poverty, societies can unlock the potential of a larger portion of their population, leading to increased productivity and economic growth that benefits everyone.

3.3. Combating Illicit Financial Flows

Illicit financial flows (generally commercial tax evasion and avoidance, money laundering, and corruption) pose a significant challenge to many countries, particularly developing nations. The UN Conference on Trade and Development estimates that Africa alone loses about $88.6 billion annually in illicit capital flight, which is roughly equivalent to 3.7% of the continent's GDP. [20]

Wealth taxation can be an effective tool in combating these illicit flows. By implementing comprehensive wealth reporting requirements and strengthening enforcement mechanisms, countries can:

- Improve transparency in wealth holdings
- Deter tax evasion and avoidance
- Make it more difficult to hide illicitly acquired wealth

Furthermore, the implementation of wealth taxes often necessitates improvements in tax administration and financial tracking systems, which can have spillover benefits in terms of overall tax compliance and the fight against financial crimes.

3.4. Millionaires, Billionaires, and Wealth Disparity

The rise of ultra-high-net-worth individuals, including millionaires and billionaires, has brought the issue of extreme wealth concentration into sharp focus. According to Credit Suisse's Global Wealth Report 2021, there were 56.1 million millionaires globally in 2020, holding $191.6 trillion in wealth. [21] At the very top, Forbes reported 2,755 billionaires in 2021, with a combined net worth of $13.1 trillion. [22] This extreme concentration of wealth raises several concerns:

- **Economic power:** Such vast wealth can translate into disproportionate economic and political influence, potentially distorting markets and democratic processes.
- **Social cohesion:** Extreme wealth disparities can lead to social tensions and a sense of unfairness in society.
- **Economic inefficiency:** Excessive wealth concentration can lead to lower overall economic growth due to reduced aggregate demand and inefficient allocation of resources.

Wealth taxation targeting these ultra-high-net-worth individuals can help to moderate these extreme disparities. Even a modest tax on this wealth could generate significant revenue for public investment while having a minimal impact on the lifestyles of these individuals.

3.5. Addressing High Debt Burdens

Many countries, both developed and developing, are grappling with high levels of public debt. The COVID-19 pandemic has exacerbated this situation, with governments worldwide increasing spending to support their economies and healthcare systems. The IMF projects that global public debt will reach 98.8% of GDP in 2021[23]. Wealth taxation can provide a means to address these debt burdens without resorting to austerity measures that often disproportionately affect the poor and middle class. By tapping into the vast reservoirs of private wealth, governments can:

- Generate revenue to pay down public debt
- Reduce reliance on deficit spending
- Avoid cuts to essential public services

This approach is particularly justified given that much of the wealth accumulation at the top has been facilitated by public investments in infrastructure, education, and research and development. Wealth taxation can be seen as a way for those who have benefited most from these public investments to contribute back to the system that enabled their success.

3.6. Correcting Asymmetrical Economic Growth

In many countries, economic growth in recent decades has been characterised by asymmetry, with gains disproportionately accruing to those at the top of the income and wealth distribution. This asymmetrical growth not only exacerbates inequality but can also lead to economic instability. Wealth taxation can help to correct this imbalance by:

- Redistributing some of the gains from economic growth
- Encouraging more balanced and sustainable economic development
- Promoting broader-based prosperity that can drive long-term economic growth

By ensuring that the benefits of economic growth are more widely shared, wealth taxation can contribute to a more stable and resilient economy that works for all members of society.

3.7. Enhancing Domestic Resource Mobilisation for Education and Health

Many countries, particularly in the developing world, struggle to mobilise sufficient domestic resources to fund crucial social services like education and healthcare. UNESCO reports that there is an annual financing gap of $97 billion for achieving quality education for all in low and lower-middle-income countries.[24] Similarly, the WHO estimates that an additional $371 billion per year is needed to reach the health-related Sustainable Development Goals in 67 low- and middle-income countries.[25]

Wealth taxation can play a crucial role in bridging these funding gaps. By tapping into the vast reservoirs of private wealth, countries can:

- Increase investment in public education systems
- Expand access to quality healthcare
- Reduce reliance on external aid and loans for social services

Investing in education and health not only improves the well-being of citizens but also enhances human capital, which is crucial for long-term economic development. Wealth taxation thus represents an investment in the future productivity and prosperity of a nation.

3.8. Promoting Tax Justice and Fairness

Current tax systems in many countries place a disproportionate burden on labour income while allowing significant wealth to escape taxation. This creates a perception of unfairness and can erode public trust in the tax system. Wealth taxation can help to restore balance and promote tax justice by ensuring that those with the greatest ability to pay are contributing their fair share.

Furthermore, wealth taxes can help to address the regressive nature of many consumption taxes, which tend to impact lower-income individuals more heavily as a proportion of their income. By shifting some of the tax burden to wealth, governments can create more progressive overall tax systems.

3.9. Environmental Considerations

Wealth taxation can be justified on environmental grounds. High levels of wealth are strongly correlated with disproportionate carbon footprints and resource consumption. By taxing wealth, governments can:

- Discourage excessive consumption. A wealth tax could serve as a Pigouvian tax, internalising the negative externalities of luxury consumption (e.g., private jets, yachts) that have outsized environmental impacts.
- Generate revenue for environmental initiatives. According to Oxfam (2023) a global wealth tax of 5% on billionaires could generate $1.7 trillion annually. This is sufficient to fund climate mitigation and adaptation efforts of which $1 trillion is needed annually (IHLEG Finance for Climate Action, 2022)
- Promote more sustainable patterns of economic activity

This aligns wealth taxation with efforts to combat climate change and promote sustainable development, addressing one of the most pressing challenges of our time.

3.10. Strengthening Democracy

Extreme wealth concentration can lead to the outsized political influence of a small group of individuals, potentially undermining democratic processes. Wealth taxation can help to counteract this by:

- Reducing the political power differential between the ultra-wealthy and the rest of society
- Generating resources for strengthening democratic institutions
- Promoting a sense of shared stake in society among all citizens

By moderating extreme wealth disparities, wealth taxation can contribute to more robust and representative democratic systems.

4. Principles Guiding the Taxation of Wealth

The taxation of wealth is a complex and often contentious issue that requires careful consideration of various principles to ensure effectiveness, fairness, and societal benefit. This section explores the key principles that should underpin the taxation of wealth.

4.1. Equity and Fairness

The principle of equity is paramount in any tax system, and it is particularly crucial when it comes to wealth taxation. This principle suggests that the tax burden should be distributed fairly among taxpayers based on their ability to pay. In the context of wealth taxation, this often translates to progressive taxation, where those with greater wealth pay a higher proportion in taxes. Piketty (2014) argues that wealth taxation is essential for addressing growing inequality. He proposes a global wealth tax as a means to prevent the concentration of wealth in the hands of a few, which he sees as a threat to social stability and democratic values. Saez and Zucman (2019), further develop this argument. They contend that the current tax system in many countries, has become regressive at the top, with billionaires often paying lower effective tax rates than the middle class. They propose a comprehensive wealth tax to restore progressivity to the tax system. However, the principle of equity in wealth taxation is not without its critics. Some argue that wealth taxes can be unfair to individuals who have accumulated wealth through saving and investment over a lifetime. McCaffery (1994) [26] points out that wealth taxes can create a 'double taxation' problem, as the income used to accumulate wealth has already been taxed.

4.2. Economic Efficiency

The principle of economic efficiency suggests that taxes should be designed to minimise distortions in economic behaviour. In the context of wealth taxation, this principle raises several considerations. On one hand, proponents of wealth taxes argue that they can improve economic efficiency by reducing the concentration of wealth and power, which can lead to rent-seeking behaviour and market distortions. Stiglitz (2015)[27] argues that excessive wealth concentration can lead to 'rent-seeking' activities that reduce overall economic efficiency. On the other hand, critics argue that wealth taxes can discourage saving and investment, potentially leading to reduced capital formation and economic growth. Feldstein (1987) [28] suggests that high taxes on capital can lead to lower savings rates and reduced economic growth. A balanced approach to this principle might involve designing wealth taxes that target unproductive wealth accumulation while providing incentives for productive investment. For instance, preferential treatment could be given to investments in small businesses or innovative technologies.

4.3. Neutrality

The principle of neutrality suggests that taxes should not unduly influence economic decisions. In the context of wealth taxation, this principle is closely related to economic efficiency but focuses specifically on ensuring that the tax system does not create arbitrary advantages for certain forms of wealth over others. For example, a wealth tax that heavily targets financial assets but ignores real estate could distort investment decisions, encouraging individuals to over-invest in property. Similarly, a wealth tax that applies differently to domestic and foreign assets could influence capital flows and investment patterns. Kopczuk (2013) [29] discusses the importance of neutrality in wealth taxation, particularly in the context of estate and inheritance taxes. He argues that non-neutral wealth taxes can lead to inefficient allocation of resources and create opportunities for tax avoidance.

4.4. Simplicity and Administrability

The principle of simplicity suggests that tax systems should be as straightforward as possible to understand and comply with. Administrability refers to the practical feasibility of implementing and enforcing the tax. Wealth taxes can be particularly challenging in this regard. Valuing assets, especially non-liquid assets like businesses or art collections, can be complex and contentious. Moreover, wealth can be easily moved across borders, making enforcement difficult. Repetti (2008) [30] acknowledges these challenges but argues that they are not insurmountable. He suggests that advances in information technology and increased international cooperation can make wealth taxes more feasible to administer. To adhere to this principle, wealth tax designs should prioritise clear definitions of taxable wealth, straightforward valuation methods, and efficient enforcement mechanisms. Cooperation between tax authorities at the international level is also crucial to address issues of offshore wealth and tax evasion.

4.5. Revenue Adequacy

The principle of revenue adequacy suggests that taxes should generate sufficient revenue to meet public needs. Wealth taxes are often proposed as a means to address fiscal challenges and fund important public services. Saez and Zucman (2019) estimate that a moderate wealth tax on the top 0.1% of households in the United States could raise significant revenue – potentially over $200 billion annually. This revenue could be used to fund important public investments or reduce other, potentially more distortionary, taxes.

However, critics argue that wealth taxes may not provide a stable or predictable source of revenue. Experience with wealth taxes in European countries has been mixed, with some countries abandoning their wealth taxes due to high administrative costs and lower-than-expected revenues. A principle of revenue adequacy in wealth taxation might involve setting realistic revenue targets, considering both the potential yield and the costs of administration and enforcement.

4.6. Horizontal Equity

The principle of horizontal equity suggests that taxpayers in similar economic circumstances should face similar tax burdens. In the context of wealth taxation, this principle raises important questions about how to define and measure wealth. For instance, should the tax treat equally a person with $10 million in liquid assets and another with $10 million tied up in a family business? Should it distinguish between inherited wealth and self-made wealth? Batchelder (2009)[31] grapples with these questions in the context of inheritance taxation. She proposes a system that would treat all large transfers of wealth similarly, regardless of the relationship between the donor and recipient, to promote horizontal equity. Adhering to this principle in wealth taxation requires careful consideration of how wealth is defined and measured, and how different types of wealth are treated under the tax system.

4.7. Vertical Equity

Vertical equity, closely related to the broader principle of equity discussed earlier, suggests that those with a greater ability to pay should bear a larger share of the tax burden. In the context of wealth taxation, this principle is often used to justify progressive tax rates that increase as wealth increases. Piketty and Saez (2013) [32] argue for a progressive tax on wealth as a means to address rising inequality. They suggest that optimal tax rates on capital could be quite high – potentially over 50% for the highest wealth brackets. However, implementing vertical equity in wealth taxation raises challenging questions. How steeply should tax rates rise with wealth? At what level of wealth should the tax begin to apply? These are not just technical questions but deeply political ones that reflect societal values about fairness and the appropriate distribution of wealth.

4.8. Intergenerational Equity

The principle of intergenerational equity suggests that the tax system should be fair not just within a generation, but across generations. This principle is particularly relevant to wealth taxation, as wealth often accumulates and is transferred across generations. Beckert (2008) [33] explores the tension between the principle of merit-based success and the reality of inherited advantage. He argues that inheritance taxation can play a crucial role in promoting equal opportunity across generations. On the other hand, critics argue that wealth taxes can unfairly penalise families that have built up wealth over generations through hard work and saving. They contend that individuals should have the right to pass on the fruits of their labour to their children. A balanced approach to this principle might involve designing wealth taxes that allow for some intergenerational transfer of wealth while preventing the entrenchment of dynastic wealth over multiple generations.

4.9. Global Perspective

In an increasingly interconnected world, the principle of taking a global perspective in wealth taxation is becoming more important. This principle suggests that wealth taxation should be designed with consideration for international capital flows and the potential for tax competition between countries. Zucman (2015) [34] highlights the challenge of offshore wealth and tax evasion. He argues for a global wealth registry and increased international cooperation to effectively tax wealth in a globalised economy. Adhering to this principle might involve efforts to harmonise wealth tax policies across countries, increased information sharing between tax authorities, and measures to address tax havens and offshore wealth.

4.10. Sustainability

The principle of sustainability suggests that tax systems should be designed to be viable and effective over the long term. In the context of wealth taxation, this principle raises questions about the long-term economic and social impacts of the tax. For instance, how might wealth taxes affect patterns of saving and investment over time? Could they lead to changes in wealth accumulation that ultimately reduce the tax base? How might they interact with demographic changes, such as aging populations? Adhering to this principle in wealth taxation might involve regular reviews and adjustments of the tax system to ensure its continued effectiveness and relevance.

4.11. Behavioural Considerations

The principle of considering behavioural responses suggests that wealth taxes should be designed with an understanding of how they might influence individual and corporate behaviour. This principle draws on insights from behavioural economics and recognises that tax policies can have complex and sometimes unintended consequences. Adhering to this principle might involve designing wealth taxes that not only raise revenue but also encourage desirable behaviours, such as charitable giving or productive investment.

4.12. Transparency and Accountability

Finally, the principle of transparency and accountability suggests that the wealth tax system should be clear and understandable to taxpayers, and that there should be mechanisms for holding tax authorities accountable for their administration of the tax. This principle is particularly important for wealth taxes, which can be complex and potentially intrusive. Clear communication about how wealth is defined, valued, and taxed is crucial for public acceptance and compliance. Ultimately, the design of wealth taxes will involve trade-offs between these principles, reflecting societal values and priorities. As wealth inequality continues to grow and governments face increasing fiscal pressures, the debate over wealth taxation is likely to intensify. A thoughtful application of these principles can help guide the development of wealth tax policies that are fair, effective, and sustainable.

5. Case Study on Taxing Wealth: Kenya

Kenya, like many developing countries, faces significant challenges in mobilising domestic resources to fund its development agenda. While the country has made strides in improving its tax system over the years, the taxation of wealth remains a complex and often contentious issue. This section aims to provide a comprehensive overview of Kenya's approach to taxing wealth.

5.1. The Absence of a Wealth Tax

During British colonial rule, the tax system was primarily designed to fund the colonial government and encourage cash crop production. This system was largely regressive, with the burden falling heavily on the African population through poll taxes and hut taxes. Wealth, largely concentrated in the hands of European settlers and Asian traders, was not specifically targeted for taxation. This laid the groundwork for a society marked by significant economic disparities.

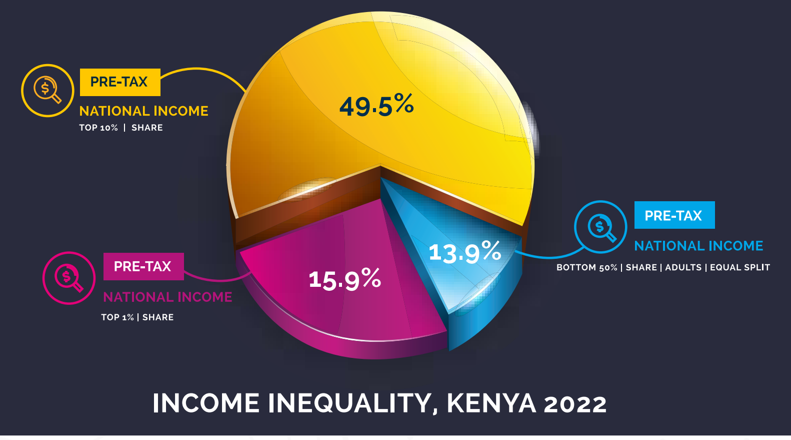
Upon gaining independence in 1963, Kenya inherited this colonial tax structure. While gradual changes were implemented to align the system with the new nation's goals, focusing primarily on income taxation and indirect taxes like sales tax (later replaced by VAT), wealth taxation remained limited. Property rates became the main form of wealth-based tax but did little to address the underlying inequalities.

The 1980s and 1990s saw Kenya undergo structural adjustment programmes under the guidance of the IMF and World Bank. These programmes emphasised fiscal discipline and often led to a narrowing of the tax base. During this period, there was little emphasis on wealth taxation, with the focus instead on broadening the income tax base and improving tax administration. These policies, while aimed at economic stabilisation, did not significantly alter the distribution of wealth and income in the country.

In the past two decades, there has been growing recognition of the need to expand the tax base and address inequality. This has led to some reforms that, while not explicitly framed as wealth taxes, have implications for wealth taxation (see section 5.2). These include the reintroduction of capital gains tax in 2015 and various attempts to improve property taxation.

However, the 2022 income and wealth inequality data taken from the World Inequality Database [35] suggests that these measures have had limited impact in creating a more equitable society. See Figures 1 and 2 below.

Figure 1: Income Inequality in Kenya (2022) / Source: https://wid.world/country/kenya/



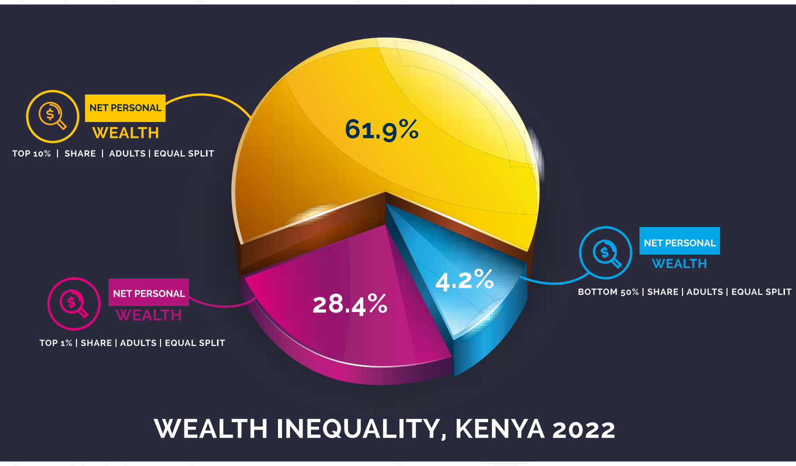
The income distribution in Kenya paints a stark picture of a nation where income remains heavily concentrated at the top. The wealthiest 10% of Kenyans command nearly half (48.7%) of the country's pre-tax national income, with the top 1% controlling a substantial 15.3%. This is nearly half of the country's income concentrated among a small segment of the population. In downright contrast, the bottom 50% of the population collectively receive only 13.3% of the nation's income–less than the share held by the top 1% alone. These figures reveal a clear income inequality in Kenya:

- The top 10% of the population earns more than 3.5 times what the bottom 50% earns collectively.
- The share of income held by the top 1% is greater than that of the bottom 50%, despite representing a much smaller portion of the population.
- There's a large gap between the top 10% and the top 1%, suggesting significant inequality even within the upper income brackets.

This data indicates a highly unequal distribution of income in Kenya, with income concentrated heavily at the top while a large portion of the population shares a relatively small percentage of the national income.

These statistics indicate that despite various economic policies and reforms implemented since independence, the fundamental structure of income distribution remains heavily skewed. The concentration of wealth at the top echelons of society demonstrate that post-independence reforms have not sufficiently addressed the deep-rooted economic disparities.

Figure 2: Wealth Inequality in Kenya (2022) / Source: https://wid.world/country/kenya/



The wealth distribution data reveals even more pronounced disparities:

- The top 10% of Kenyans own 61.9% of the country's net personal wealth.
- The top 1% alone controls 28.4% of the net personal wealth.
- In striking contrast, the bottom 50% of the population owns just 4.2% of the country's net personal wealth.

These figures demonstrate that wealth concentration is even more extreme than income concentration[36]. The disparity is particularly striking when comparing the top 1% (owning 28.4% of wealth) to the bottom 50% (owning only 4.2% of wealth).

While both income and wealth are highly concentrated at the top, wealth inequality appears more severe. The top 10%'s share of wealth (61.9%) is significantly higher than their share of income (48.7%). Similarly, the bottom 50%'s share of wealth (4.2%) is much lower than their share of income (13.3%). These statistics indicate that despite various economic policies and reforms implemented since independence, the fundamental structure of both income and wealth distribution remains heavily skewed.

The concentration of economic resources at the top echelons of society demonstrates that post-independence reforms have not sufficiently addressed the deep-rooted economic disparities.

Despite the various tax reforms implemented over the years, Kenya has not introduced a specific wealth tax that would directly target the assets and accumulated wealth of its most affluent citizens. The tax system continues to rely heavily on income tax, value-added tax (VAT), and other forms of indirect taxation.

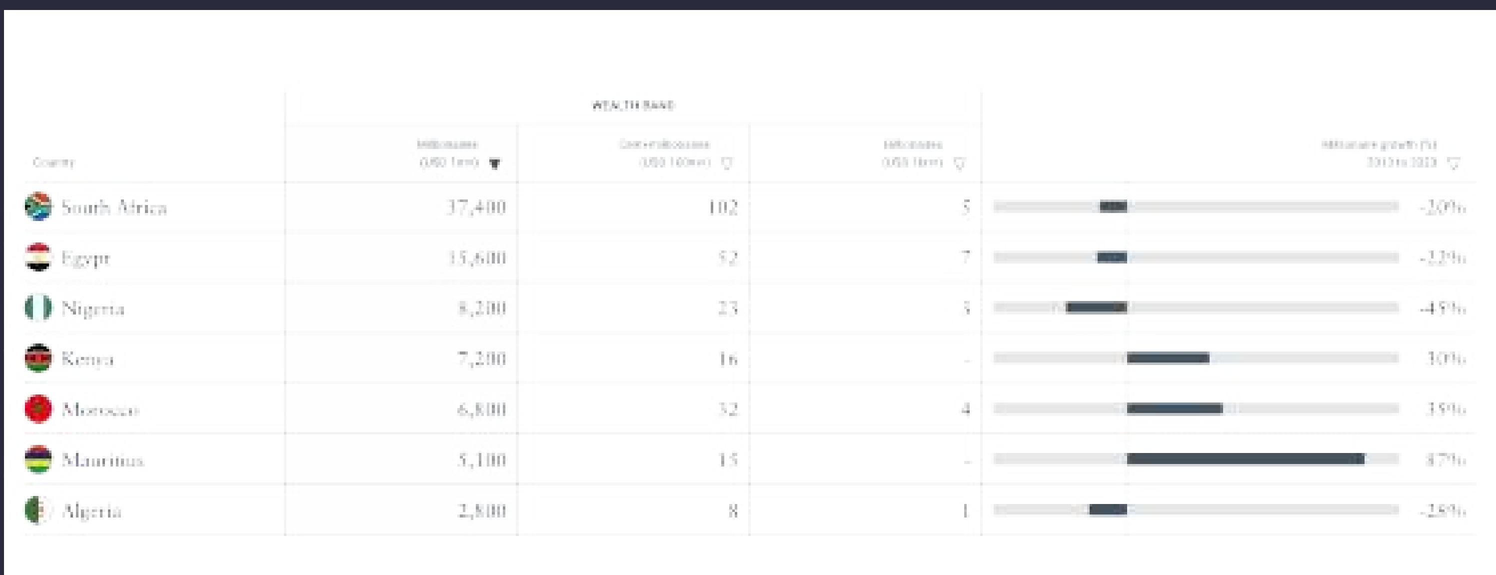
While there are taxes that touch on aspects of wealth, such as property rates and capital gains tax, these do not constitute a systematic approach to taxing overall wealth. The lack of a wealth tax means that the substantial assets held by the wealthiest segments of Kenyan society – including land, property, investments, and other forms of capital – are not subject to ongoing taxation based on their total value. This gap in the tax system may contribute to the persistence of the high levels of inequality revealed in the 2022 data (this is the latest available data from the World Inequality Database).

The absence of a wealth tax in Kenya is not unusual in the African context, where such taxes are relatively rare. However, given the extreme concentration of income and, by extension, wealth at the top of the economic pyramid, the introduction of a wealth tax could be a potential tool for addressing inequality in Kenya. Such a tax, if implemented, could provide additional revenue for public services and redistributive programmes, potentially helping to narrow the vast gap between the top earners and the rest of the population.

There is also data from Africa Wealth Report 2024[37] on Kenya's wealth distribution (as at 2022) that further underscores the potential impact of a wealth tax. With 7,200-dollar millionaires, including 16 centi-millionaires (those with wealth exceeding $100 million), Kenya has a significant concentration of wealth that could be tapped for national development (see Figure 3). The Africa Wealth Report 2024's findings on Kenya's wealthy are particularly striking when contextualised against the country's total population. Kenya's population is estimated at around 52 million people.[38] The presence of 7,200 dollar millionaires and 16 centi-millionaires within this population underscores the extreme concentration of wealth in the hands of a tiny minority.

To put this in perspective, the 7,200 millionaires represent approximately 0.014% of Kenya's population, yet they control a disproportionate share of the country's wealth. The 16 centi-millionaires, making up an even smaller fraction of the population at about 0.00003%, possess wealth that in orders of magnitude is greater than that of the average Kenyan. This concerning contrast between a small group of ultra-wealthy individuals and the broader population exemplifies the severe wealth inequality in Kenya. It highlights how a minuscule percentage of the population holds vast economic resources, while the majority of Kenyans have significantly less access to wealth and financial security. This disparity not only reflects economic inequality but also points to potential imbalances in economic opportunity and social mobility within the country.

Figure 3: Kenya's Wealth US Dollar Millionaires and Centi-Millionaires

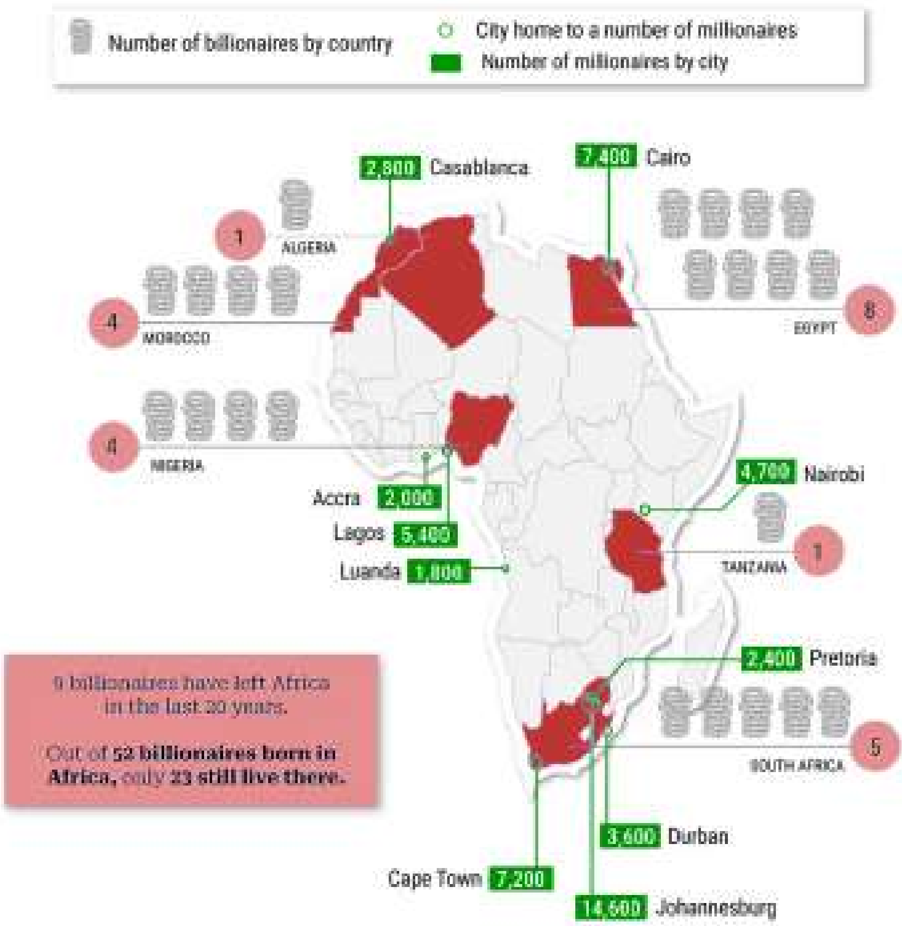


Country	WEALTH BAND Millionaires (USD 1m+)	Centi-millionaires (USD 100m+)	Billionaires (USD 1bn+)	Millionaire growth (%) 2013 to 2023
South Africa	37,400	102	5	-20%
Egypt	15,600	52	7	-22%
Nigeria	8,200	23	3	-45%
Kenya	7,200	16	-	30%
Morocco	6,800	32	4	35%
Mauritius	5,100	15	-	87%
Algeria	2,800	8	1	-25%

Source: The Africa Wealth Report 2024

Further, the concentration of 4,700 millionaires in Nairobi (see Figure 4), representing about 65% of Kenya's wealthy elite, demonstrates the urban-centric nature of wealth accumulation in the country. This centralisation of affluence in the capital city underscores a profound urban-rural economic divide, reflecting broader patterns of uneven development across Kenya. Such concentration not only highlights disparities in economic opportunities between Nairobi and the rest of the country but also points to potential imbalances in infrastructure development, service provision, and overall quality of life. The gravitational pull of wealth towards Nairobi likely fuels internal migration, as individuals from other regions are drawn to the capital in pursuit of better economic prospects. This phenomenon can exacerbate urban challenges while potentially depleting human capital from other areas. Moreover, the clustering of wealth in Nairobi raises critical questions about the effectiveness of national policies in promoting equitable growth and resource distribution throughout Kenya, emphasising the need for strategies that foster more balanced regional development and economic inclusivity across the entire nation.

Figure 4: US Dollar Millionaires Based in Nairobi / Source: The Africa Report

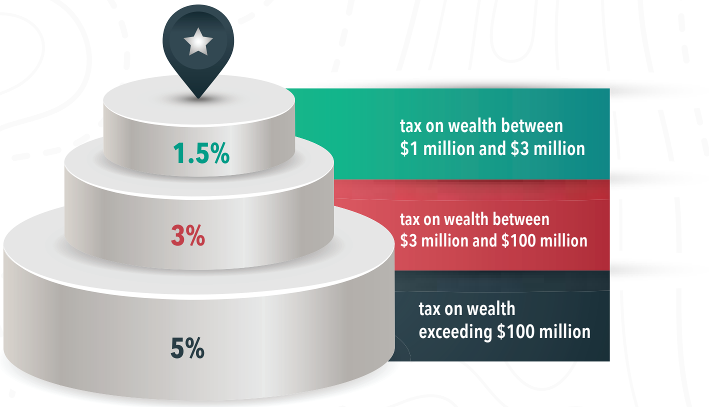


This concentration of wealth becomes even more striking when juxtaposed against the income inequality data previously discussed. While the bottom 50% of Kenyans collectively receive only 13.3% of the nation's income, a small group of 7,200 individuals holds wealth of at least $1 million each. This disparity underscores the potential for a wealth tax to address economic imbalances.

Further, Kenya's 30% growth in millionaires from 2013 to 2023 stands out positively among its African peers. Countries like South Africa, Egypt, and Nigeria experienced negative growth in their millionaire populations during the same period, with declines of 20%, 22%, and 45% respectively[39]. This growth in Kenya's wealthy class, occurring despite various economic challenges, suggests a resilience and accumulation of wealth at the top that could potentially support a new tax measure.

If Kenya was to propose an annual wealth tax, a progressive graduated system could offer a nuanced and potentially more equitable approach to generating substantial revenue for national development. Such a system would acknowledge the varying levels of wealth among Kenya's affluent population, from millionaires to centi-millionaires, and tax them accordingly.

The proposed structure could encompass three tiers:



This tiered approach would ensure that those with the most substantial wealth contribute proportionally more to the country's fiscal resources.

Based on conservative estimates of Kenya's wealth distribution, this graduated system could yield substantial returns as follows:

Table 2: Proposed Progressive Wealth Taxation

Wealth Bracket (Tiers)	Proposed Tax Rate	Estimated Number of Individuals	Assumed Average Wealth	Estimated Tax Revenue
$1M - $3M	1.5%	5,700	$2M	$171M
3M - $100M	3%	1,500	$10M	$450M
>$100M	5%	16	$200M	$160M
TOTAL		**7,216**	**$781M**	

Of the 7,200 millionaires in Kenya, suppose we estimate that approximately 5,700 falls within the $1-3 million range. Assuming an average wealth of $2 million for this group, they could contribute $171 million annually (5,700 x $2 million x 1.5%).

Let's assume that the remaining 1,500 millionaires fall into the $3-100 million bracket. Suppose we estimate an average wealth of $10 million, this group could generate approximately $450 million (1,500 x $10 million x 3%).

For the 16 centi-millionaires let us assume that they have an average wealth of $200 million, taxing them would add another $160 million to the tax revenue (16 x $200 million x 5%).

Collectively, this progressive taxation model could potentially generate around **$781 million** annually for Kenya's treasury. This revenue could be transformative for Kenya's development agenda. It could fund critical areas such as education, healthcare, and infrastructure, which are essential for reducing inequality and promoting inclusive growth. For instance, it could significantly boost Kenya's education budget, enhance healthcare services, or fund large-scale infrastructure projects that create jobs and stimulate economic activity.

Implementing an annual wealth tax, rather than a one-off measure, could provide a sustainable source of funding for these initiatives. It would also serve as an ongoing mechanism to address wealth concentration, which the income inequality data suggests is a persistent issue in Kenya.

5.2. Existing Taxation Principles Guiding Wealth Taxation in Kenya

This section will examine the principles underpinning wealth taxation in the context of Kenya, considering the country's constitutional framework, national tax policy, Income Tax Act, and international taxation aspects. Through this analysis, the aim is to demonstrate that Kenya has the foundational principles in place to develop a wealth tax regime.

5.2.1.Constitutional Framework

Kenya's 2010 Constitution provides a strong foundation for the principles that should guide any wealth taxation regime. Article 201 outlines the principles of public finance, which are directly applicable to taxation:

1. Openness and accountability, including public participation in financial matters
2. Promotion of an equitable society, including equitable sharing of the tax burden
3. Equitable sharing of the burdens and benefits of the use of resources between present and future generations
4. Responsible financial management and clear fiscal reporting

These constitutional principles align closely with several key principles of wealth taxation discussed earlier, particularly equity, transparency, and intergenerational equity.

Furthermore, Article 209 of the Constitution grants the national government the power to impose income tax, value-added tax, customs duties, and other duties on import and export goods, and excise tax. While wealth tax is not explicitly mentioned, it could be interpreted as falling under the broad category of income tax, especially if structured as a tax on imputed income from wealth. The Constitution also emphasises the need for public participation in policy-making processes. This aligns with the principle of transparency and accountability in wealth taxation, suggesting that any wealth tax regime in Kenya would need to be developed through a consultative process.

5.2.2.National Tax Policy

Kenya's National Tax Policy, adopted in 2022, provides further guidance on the principles that should underpin the country's tax system, including any potential wealth tax. The policy emphasises several key principles:

Equity and Fairness:

The policy states that the tax system should ensure that the tax burden is distributed fairly across different income groups. This principle directly supports the concept of vertical equity in wealth taxation, where those with greater wealth would be expected to contribute more.

Certainty and Simplicity:

The policy emphasises the need for clear and simple tax laws, which aligns with the principle of simplicity and administrability in wealth taxation.

Efficiency:

The policy aims to minimise distortions in economic decision-making, which corresponds to the principles of economic efficiency and neutrality in wealth taxation.

Convenience:

This principle suggests that tax payment should be made as easy as possible for taxpayers, which relates to the administrability of a potential wealth tax.

These principles in the National Tax Policy provide a strong foundation for the development of a wealth tax regime in Kenya. They suggest that such a tax would need to be progressive, clearly defined, efficiently administered, and adaptable to changing economic conditions.

5.2.3.Income Tax Act

While Kenya's Income Tax Act (Cap. 470) does not currently include provisions for a comprehensive wealth tax, it does contain elements that could serve as building blocks for such a regime.

5.2.3.1. Capital Gains Tax

Capital Gains Tax (CGT) was reintroduced in Kenya in 2015 after being suspended in 1985. It is charged at a rate of 15% on gains from the transfer of property situated in Kenya. This includes:

- Land and buildings
- Shares and securities listed on the Nairobi Securities Exchange (NSE)
- Other marketable securities

The reintroduction of CGT was a significant step towards taxing wealth, as it captures the appreciation in value of assets over time. CGT over the years has been generating substantial revenue for the government (see Table 3).

Table 3: CGT performance nationally in KES Millions

Item	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
Capital Gains Tax Revenue	578.95	3,810.54	2,419.00	16,639.96	4,139.52
% Contribution to total tax revenue	0.0005655	0.00335	0.0018939	0.012405	0.0025525
Total Tax Revenue	**1,022,069.24**	**1,136,880.10**	**1,277,204.95**	**1,341,387.85**	**1,621,723.04**

Source: Kenya National Bureau of Statistics Statistical Abstract 2015, 2019, 2022

Key features of Kenya's CGT:

- The gain is calculated as the difference between the transfer value and the adjusted cost of the asset.
- Exemptions exist for certain transactions, such as transfer of property for purposes of administering the estate of a deceased person.
- For listed securities, the gain is calculated as 15% of the transfer value, which simplifies administration but may not accurately reflect actual gains.

Challenges with CGT implementation includes:

- Difficulty in determining the cost basis for long-held assets
- Enforcement issues, particularly for private transactions
- Potential to discourage investment and capital formation

5.2.3.2. Property Taxes

Property taxation in Kenya is primarily the responsibility of county governments, as provided for in the Constitution of Kenya 2010. The main forms of property taxation are:

a. **Land Rates:** These are annual taxes levied by county governments on the value of land. The rates vary by county and are typically a percentage of the unimproved site value.

b. **Property Rates:** Some counties levy additional rates on improvements to land (i.e., buildings).

c. **Stamp Duty:** This is a national government tax levied on the transfer of property. It is charged at 4% of the value of urban property and 2% for rural property.

Over the years property taxation in the form of land rent and rates has yielded substantial revenue for the government (see Table 4).

Table 4: Property tax performance nationally in KES Millions

Type of tax	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Property tax	490.30	653.73	-	-	404.84
% Contribution to tax	0.000704	0.0008549	-	-	0.0003553
Total Tax Revenue	695,887.71	763,828.34	911,803.70	1,022,069.24	1,136,880.10

Type of tax	FY 2016/17	FY 2017/18	FY 2018/19
Property tax	244.81	3,285.77	3,305.26
% Contribution to tax	0.0001910	0.0024489	0.0020379
Total Tax Revenue	1,277,204.95	1,341,387.85	1,621,723.04

Source: Kenya National Bureau of Statistics, Statistical Abstract 2016, 2019, 2022

Challenges in property taxation include:

- Outdated valuation rolls in many counties, leading to undervaluation of properties
- Low collection rates due to weak enforcement mechanisms
- Political interference in rate-setting and collection
- Lack of comprehensive property registration systems

5.2.3.3. Rental Income Tax

While not strictly a wealth tax, rental income tax affects property owners and thus has implications for wealth taxation. Residential rental income is taxed at 10% of the gross rent for individuals earning up to KSh 10 million per year. Above this threshold, and for all companies, rental income is taxed as part of overall income at the applicable income tax rates.

5.2.3.4. Excise Duty on Luxury Items

Kenya levies excise duty on various goods, some of which could be considered luxury items. While not a direct tax on wealth, these duties can be seen as indirectly taxing wealth through consumption. Items subject to excise duty include:

- High-end motor vehicles
- Cosmetics
- Jewellery
- Alcoholic beverages

The rates vary by product but can be significant. For example, excise duty on motor vehicles over 3000cc is charged at 35%.

5.2.3.5. Dividend Tax

Dividends are taxed at a rate of 5% for residents and 10% for non-residents. While this is not a wealth tax per se, it does affect returns on financial assets and thus has implications for wealth accumulation and distribution.

5.2.3.6. Estate Duty and Gift Tax

Kenya does not currently have inheritance tax or gift tax. Estate duty was abolished in 1982. The absence of these taxes is notable, as they are common forms of wealth taxation in many countries.

Recently there have been several developments and proposals related to wealth taxation in Kenya:

5.2.3.7. Digital Service Tax

Introduced in 2021, the Digital Service Tax (DST) is charged at 1.5% of the gross transaction value of digital services provided in Kenya. While not explicitly a wealth tax, it targets digital companies, many of which have significant market value but may have limited physical presence in Kenya.

5.2.3.8. Minimum Tax

In 2020, Kenya introduced a minimum tax of 1% of gross turnover, applicable even to loss-making companies. While this was struck down by the High Court as unconstitutional[40], it represented an attempt to ensure that all businesses contribute to the tax base, regardless of profitability.

5.2.3.9. Premier Tax Office (PTO)

The Kenya Revenue Authority (KRA) has established a dedicated unit to focus on high-net-worth individuals. This unit aims to improve compliance among wealthy individuals and could potentially pave the way for more targeted wealth taxation measures in the future.

5.2.4. International Taxation Aspects

Kenya has been actively engaged in international efforts to combat tax evasion and avoidance, which is crucial for the effective implementation of any wealth tax regime. Key developments in this area include:

1. **OECD Common Reporting Standard (CRS):** Kenya has committed to implementing the CRS, which provides for automatic exchange of financial account information. This aligns with the principle of taking a global perspective in wealth taxation and would be crucial for identifying offshore wealth.

2. **Double Taxation Agreements (DTAs):** Kenya has signed DTAs with several countries, which help prevent double taxation but also include provisions for information exchange. These agreements could be leveraged in the administration of a wealth tax.

3. **Transfer Pricing Rules:** Kenya has robust transfer pricing regulations, which aim to prevent profit shifting by multinational corporations. This demonstrates Kenya's commitment to addressing complex international tax issues, which would be relevant in a wealth tax context.

4. **Participation in the OECD/G20 Inclusive Framework on BEPS:** Kenya's participation in this initiative shows its commitment to addressing tax base erosion and profit shifting, which is relevant to wealth taxation, particularly for high-net-worth individuals with international business interests.

These international taxation aspects demonstrate that Kenya is already engaged in the global tax landscape in ways that would support the implementation of a wealth tax regime. The country has shown a commitment to international cooperation and information exchange, which are crucial for effectively taxing wealth in a globalised economy.

Based on the analysis of Kenya's constitutional framework, national tax policy, Income Tax Act, and engagement with international taxation initiatives, it can be argued that Kenya has the foundational principles in place to develop a wealth tax regime as proposed under 5.1.

5.3. Challenges and Considerations Relating to Implementing Wealth Taxation

While Kenya has many of the foundational principles in place to develop a wealth tax regime, several challenges and considerations would need to be addressed:

1. **Valuation Issues:** Determining the value of assets, particularly non-liquid assets like land and businesses, would be a significant challenge. Kenya would need to develop robust valuation methodologies and build capacity within the Kenya Revenue Authority (KRA) to handle these complexities.

2. **Data and Information Systems:** Implementing a wealth tax would require comprehensive data on wealth holdings. While Kenya has made strides in this area, such as through the iTax system, further investments in data collection and analysis capabilities would be necessary.

3. **Enforcement and Compliance:** Recognising the potential for tax avoidance and evasion, especially among HNWI, Kenya has taken proactive steps to strengthen its enforcement capabilities. The Kenya Revenue Authority (KRA) has established a dedicated Premier Tax Office (PTO) for HNWIs. The establishment of this specialised unit represents a significant advancement in Kenya's tax administration strategy. It acknowledges the unique challenges posed by HNWI, who often have complex financial structures and may have access to sophisticated tax planning strategies. The establishment of the PTO, even without specific wealth tax legislation, serves multiple strategic purposes. It allows for enhanced monitoring of complex financial structures, develops specialised expertise in handling HNWI affairs, and optimises resource allocation for potentially higher revenue yields. This dedicated unit not only encourages voluntary compliance but also facilitates valuable data collection on wealth patterns, informing future policy decisions. The PTO addresses existing tax obligations more effectively and aligns with international best practices in tax administration. It prepares the groundwork for potential future wealth taxation, demonstrating Kenya's proactive approach to ensuring equitable tax compliance across all wealth levels. Therefore, going forward, KRA should focus on dedicating resources specifically to this segment of taxpayers to improve its ability to accurately assess and collect taxes from this crucial demographic.

4. **International Cooperation:** While Kenya is engaged in international tax initiatives, successfully implementing a wealth tax would require even greater international cooperation, particularly in terms of information exchange and addressing offshore wealth.

5. **Political Economy Considerations:** Introducing a wealth tax would likely face political resistance from wealthy individuals and groups. Navigating these political challenges would require strong political will and effective public communication about the benefits of such a tax.

6. **Economic Impact:** Careful consideration would need to be given to the potential economic impacts of a wealth tax, including effects on savings, investment, and capital flight. The design of the tax would need to balance revenue generation with these economic considerations.

7. **Legal Framework:** While the existing legal framework provides a foundation, new legislation would likely be needed to implement a comprehensive wealth tax. This would require careful drafting to ensure consistency with the Constitution and existing tax laws.

5.4. Designing a Wealth Tax Regime for Kenya

Introducing a wealth tax in Kenya, with a focus on the wealthy rather than burdening all taxpayers, requires careful consideration and strategic planning. This approach aligns with principles of vertical equity and the goal of addressing wealth inequality without creating undue hardship for the broader population. This section explains how Kenya could proceed on introducing a wealth tax, drawing lessons from other African and developing countries that have implemented or are progressing towards wealth tax regimes.

Before considering the design of a wealth tax regime for Kenya, this report will first analyse the data gathered from interviews with key stakeholders from a previous NTA study conducted in 2022 by Dr. Francis Omondi. The interviews with individuals, corporations, revenue authority officials, treasury officers, and other experts, provide valuable perspectives on the current tax landscape to understand the potential for wealth taxation in Kenya. The analysis that follows next will serve as a foundation for developing an effective and contextually appropriate wealth tax system for Kenya.

The previous interviews encompassed a wide range of topics, including current wealth taxes, tax rates, administration challenges, and suggestions for improvement. By examining the responses from various stakeholders, this report identifies patterns, concerns, and opportunities that will inform its approach to designing a wealth tax regime tailored to Kenya's unique economic and social environment.

Interviews with taxpayers conducted by Dr. Francis Omondi for NTA in 2022:

The taxpayers interviewed identified several existing taxes that they consider as taxation of wealth, including:

- Land rates
- Capital gains tax
- Stamp duty for motor vehicle insurance
- Property taxation
- Real income tax on rental revenues
- Excise duty
- Stock exchange tax
- Custom duty tax
- Corporate tax
- Fuel tax

This wide range of taxes indicates that Kenyans already feel a significant tax burden on various forms of wealth and income.

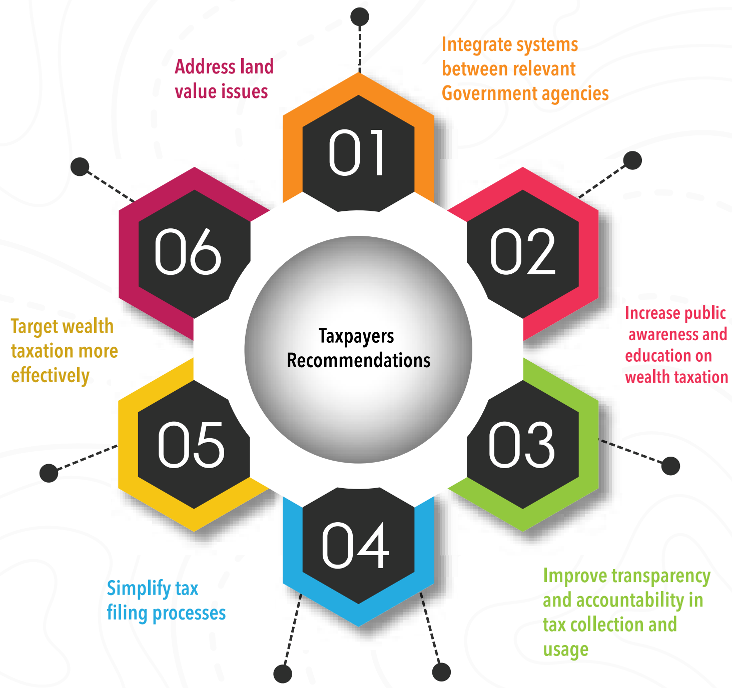
The responses revealed varying tax rates for different types of wealth:

Capital gains tax	Rental income tax	Business income	Land rates	Property tax	Corporate tax	Fuel tax
5% of property value (as at 2022 when interviews were conducted)	10%	30%	0.115% of property value (in Nairobi City County)	8% monthly	30%	8%

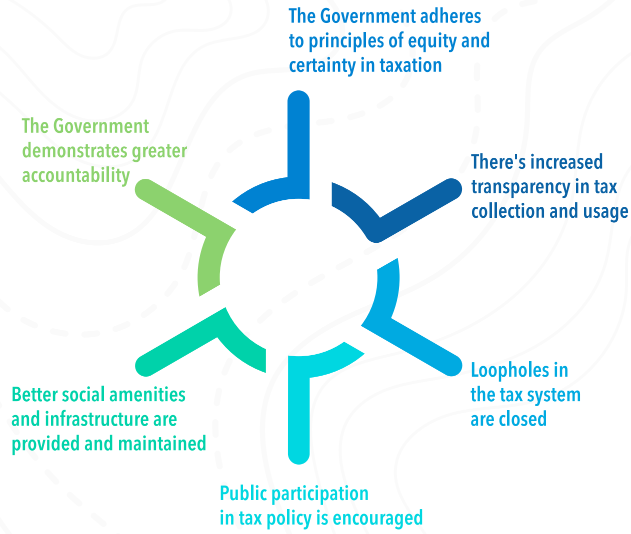
These rates suggest a complex tax system with different treatments for various forms of wealth and income.

Several key issues emerged regarding the administration of wealth taxes:

- Weak and unstructured administration
- Lack of integration between government agencies' systems
- Low compliance rates among wealth owners
- Insufficient civic education on wealth taxation
- Corruption and poor quality of government services
- Complicated filing processes
- High taxation, especially in certain industries like hospitality
- Difficulty in identifying property owners
- Issues with VAT payment timing versus invoice payments



Taxpayers offered various recommendations:



Respondents indicated they might accept more wealth taxation if:

Suggestions for expanding the wealth tax base included:

- Tax on cars
- Tax on bank deposits
- Inheritance and gift taxes
- Commercial livestock taxation
- Increased import duties on luxury goods
- Higher tax rates for the wealthy
- Foreign investment taxation
- Taxation of retirement accounts
- Taxation of idle land

Patterns that emerge from an analysis of responses from the taxpayers interviewed:

1. **Complexity:** The current wealth tax system in Kenya is perceived as complex and burdensome, with multiple taxes affecting various forms of wealth.

2. **Lack of Trust:** There's a clear lack of trust in the government's ability to administer taxes fairly and use the revenue effectively.

3. **Desire for Fairness:** Respondents consistently emphasised the need for equity in taxation, suggesting a graduated system based on wealth value.

4. **Need for Transparency:** A recurring theme was the demand for greater transparency and accountability in tax collection and usage.

5. **Systemic Inefficiencies:** The responses highlight significant administrative challenges, including poor integration of systems and difficulties in identifying wealth owners.

6. **Conditional Acceptance:** While there's resistance to increased taxation, respondents indicated they might accept higher wealth taxes under specific conditions, primarily related to improved governance and public services.

7. **Potential for Expansion:** Despite concerns about current taxation levels, respondents identified several areas where the wealth tax base could potentially be expanded.

These findings provide crucial insights for designing a wealth tax regime that addresses current shortcomings while considering taxpayer concerns and suggestions. The analysis reveals a need for a system that is not only efficient and fair but also transparent and aligned with the broader goals of national development.

Interviews with KRA and Treasury Officials conducted by Dr. Francis Omondi for NTA in 2022:

The following are the overall responses obtained from the interviewees:

1. **Current State of Wealth Taxation:**

- Kenya's tax system currently focuses on income earned or profits, not on wealth.
- There is no explicit wealth tax in Kenya's current tax policy.
- The Income Tax Act (cap 470) is the primary legislation, with no mention of a Wealth Tax Act.

2. **Definition and Policy:**

- Wealth tax is not clearly defined in Kenya's tax policy.
- The draft policy does not mention wealth tax.

3. **Existing Taxes That Might Constitute Wealth Tax:**

- Capital Gains Tax (CGT) is currently at 15%.
- The 15% rate is considered fair.

4. **Untaxed Items That Could Constitute Wealth:**

   Officials identified several items not currently taxed that could be considered for wealth taxation:

- Cash and bank deposits
- Shares
- Fixed assets
- Personal cars
- Pension plans
- Owner-occupied housing
- Trusts
- Estate taxes
- Gift taxes
- Inheritance taxes

5. **Suggested Tax Rates:**

- Officials suggest a rate between 1% and 2% annually for wealth tax items, emphasising the need for detailed analysis of various factors.

6. **Implementation Suggestions:**

- Set an exemption threshold on net worth to ensure households below that threshold don't pay the tax.
- Charge wealth tax as a percentage of an individual's total net worth each year.

7. **Revenue Potential:**

- Officials believe a wealth tax could generate more revenue for the government.
- However, they stress the importance of considering both pros and cons before implementation.

8. **Potential Effects:**

Positive:

- Could lower income inequality for future generations.
- May have a favourable effect on income distribution due to the progressive nature of taxation.

Negative:

- High wealth tax rates could negatively impact work incentives, savings, investment, and overall economic output.
- Might be inflationary if the tax revenue is redistributed to lower-income groups with a higher propensity to consume.

9. **Implementation Challenges:**

- Defining what constitutes wealth for tax purposes.
- Need for public sensitisation and involvement of taxpayers.
- Potential difficulty in administration.
- Risk of encouraging tax evasion.

Patterns that emerge from an analysis of responses from the government officers:

1. **Lack of Current Framework:** There's a clear absence of a wealth tax framework in Kenya's current tax system and policy.

2. **Cautious Approach:** Officials recognise the potential benefits of a wealth tax but advocate for a careful, measured approach to implementation.

3. **Concern for Economic Impact:** There's a balanced view of both positive and negative potential impacts on the economy and income distribution.

4. **Focus on Fairness:** The suggestion of an exemption threshold indicates a desire to target wealth tax at higher net worth individuals.

5. **Administrative Challenges:** Officials anticipate difficulties in defining, implementing, and administering a wealth tax.

6. **Need for Public Engagement:** The importance of sensitising and involving taxpayers in the process is emphasised.

7. **Potential for Revenue Generation:** While acknowledging the revenue potential, officials stress the need for a comprehensive cost-benefit analysis.

8. **Gradual Implementation:** The suggested tax rates (1-2%) and the caution against high rates indicate a preference for a gradual approach to wealth taxation.

These findings from the officers provide valuable insights into the governmental perspective on wealth taxation. Their views highlight the potential benefits of such a tax while also underscoring the need for careful planning, public engagement, and consideration of economic impacts in designing and implementing a wealth tax regime in Kenya.

Interviews with researchers and tax experts conducted by Dr. Francis Omondi for NTA in 2022:

The interviewees provided the following overall insights:

1. **Adequacy of Current Wealth Taxation:**

- Experts agree that wealth taxation in Kenya is currently inadequate.
- The focus has primarily been on income taxation rather than wealth.
- There was an attempt to tax wealth in the 1980s through Capital Gains Tax (CGT), but it faced strong opposition and was suspended in 1985.
- CGT was reintroduced in 2015 at a rate of 5%, which is considered low.
- Stamp duty is also identified as a form of wealth tax.

2. **Historical Context:**

- The suspension of CGT in 1985 was linked to opposition from politicians and elites during a period of alleged public resource misappropriation.

3. **Current Tax Policy:**

- Experts believe Kenya's tax policy does not adequately address wealth taxation.
- The current approach focuses on taxing income generated from wealth rather than wealth itself.
- There's a perceived fear that wealth taxation might discourage investment.
- The policy lacks a clear definition of taxable wealth.

4. **Untaxed Wealth:**

- Idle land is currently not taxed in Kenya.
- Transfer of pension is not taxed.

5. **Experts propose several areas for expansion:**

- Taxation of idle land
- Taxation of unclaimed assets
- Taxation of utilised pension during transfer
- Increasing the rate of taxation on unit trusts (currently 5%)
- Improving land valuation for taxation purposes

6. **Suggestions for Improving Wealth Taxation:**

- Expand the definition of taxable wealth to include emerging areas like technology-driven wealth (e.g., cryptocurrency)
- Integrate tax administration with up-to-date technology for improved efficiency
- Target taxation towards those in technology-driven businesses
- Devise methods for evaluating digitally held wealth
- Adopt systems to track offshore behaviours of citizens to net hidden wealth
- Develop mechanisms for determining the correct value of the tax base
- Aggressively combat corruption

Patterns that emerge from an analysis of their responses:

1. **Historical Resistance:** There's a recognition of historical resistance to wealth taxation, particularly from political and elite classes.

2. **Inadequacy of Current System:** Experts consistently view the current wealth taxation system as inadequate, with a focus on income rather than wealth itself.

3. **Low Rates and Limited Scope:** The current wealth tax mechanisms (like CGT and stamp duty) are seen as having rates that are too low and a scope that is too limited.

4. **Technological Challenges and Opportunities:** There's a strong emphasis on the need to address technological advancements, both in terms of taxing new forms of wealth (like cryptocurrency) and using technology to improve tax administration.

5. **Broadening the Tax Base:** Experts suggest expanding the wealth tax base to include currently untaxed areas like idle land and unclaimed assets.

6. **Valuation Challenges:** There's recognition of the need for improved mechanisms to accurately value wealth for taxation purposes.

7. **Global Perspective:** The suggestion to track offshore behaviours indicates an awareness of the global nature of wealth and the need for international cooperation in wealth taxation.

8. **Corruption as a Barrier:** The call to aggressively fight corruption suggests that experts see this as a significant obstacle to effective wealth taxation.

9. **Investment Concerns:** There's an acknowledgment of fears that wealth taxation could discourage investment, indicating a need to balance revenue generation with maintaining a favourable investment climate.

10. **Comprehensive Reform:** The suggestions indicate that experts believe a comprehensive reform of the wealth taxation system is necessary, rather than piecemeal changes.

These findings from researchers and tax experts provide valuable insights into the academic and professional perspective on wealth taxation in Kenya. Their views highlight the inadequacies of the current system, the potential for expansion, and the need for technological and policy advancements to create an effective wealth tax regime. The experts also emphasise the importance of addressing broader issues like corruption and investment climate concerns in the context of wealth taxation reform.

5.4.1.Defining the Scope of Wealth Tax

Based on the interview responses and suggestions provided, it is clear that there is a diverse understanding of what constitutes a wealth tax among the stakeholders in Kenya. The respondents suggested the following sources as wealth tax:

a. Tax on cars, increased import duties on luxury goods, and higher tax rates for the wealthy are often associated with wealth taxation, though they do not strictly fit the definition of a comprehensive wealth tax. These measures target consumption patterns or income of wealthy individuals rather than their overall net worth. However, they could be complementary policies to a wealth tax regime, helping to capture aspects of wealth expression and potentially easier to implement than a full wealth tax.

b. Tax on bank deposits and taxation of retirement accounts could be considered part of a wealth tax, as they represent stored value. However, including these might be controversial, especially retirement accounts, as they could discourage saving for retirement and impact middle-class individuals. A wealth tax regime would typically set high thresholds to exclude such accounts held by the non-wealthy.

c. Inheritance and gift taxes are closely related to wealth taxation and are often considered part of a comprehensive approach to taxing wealth. These target the transfer of wealth between generations and could be crucial in preventing the concentration of wealth over time. They align well with the principles of a wealth tax regime.

d. The question of whether to include livestock in a wealth tax regime highlights the complexities of implementing such a system in Kenya. Livestock holds a central role in Kenyan society, serving not only as an economic asset but also as a cornerstone of cultural identity for communities like the Maasai. This duality complicates its potential inclusion in a wealth tax framework. On one hand, large herds can represent significant economic value, comparable to other forms of capital. Commercial livestock operations, in particular, could be viewed as business assets subject to wealth taxation. However, the cultural and traditional significance of livestock in many Kenyan communities presents a strong argument against its blanket inclusion in a wealth tax regime. Taxing traditional herding practices could be perceived as culturally insensitive and potentially discriminatory against certain ethnic groups. Moreover, it could disincentivise practices that are often crucial for environmental management in arid and semi-arid regions. A nuanced approach to this issue might involve setting high thresholds for livestock holdings, effectively exempting traditional and subsistence herding practices from taxation. Large-scale commercial livestock operations could be included, treated similarly to other business assets. Such an approach would need to consider regional variations and focus on livestock holdings that clearly exceed what's necessary for traditional lifestyles or local norms.

e. Foreign investment taxation, while important for overall tax policy, is not typically considered a wealth tax. It's more related to income or capital gains taxation. However, ensuring that wealth held offshore is properly accounted for and taxed is crucial for an effective wealth tax system.

f. Taxation of idle land is an intriguing proposition that could fit within a wealth tax framework. It targets a form of wealth that is not actively contributing to economic productivity and could encourage more efficient use of resources. This could be particularly relevant in the Kenyan context where land ownership is a significant form of wealth.

While not all these suggestions fit the traditional definition of a wealth tax, many could be incorporated into a broader wealth taxation strategy. A comprehensive wealth tax regime for Kenya might include elements of traditional net worth taxation, complemented by targeted measures like inheritance taxes, luxury goods taxes, and potentially context-specific elements like idle land or high-value livestock taxation. The key would be to design a system that effectively captures various forms of wealth while being administratively feasible and aligned with Kenya's economic and social goals.

Thus, the first step in introducing a wealth tax in Kenya would be to clearly define its scope. It must focus on the wealthy, but the definition of 'wealthy' needs to be contextualised for Kenya's economic landscape. While targeting the 7,200-dollar millionaires and 16 centi-millionaires is a good starting point, it is crucial to recognise that significant wealth in Kenya may take various forms and might not always translate to dollar millionaire status.

What could be considered is setting a tiered threshold system for the tax to apply:

1. A high threshold for liquid assets and financial wealth, targeting the identified dollar millionaires and centi-millionaires.

2. A separate, contextually appropriate threshold for other forms of significant wealth, such as:
    a. Large landholdings, particularly idle land in high-value areas
    b. Extensive real estate portfolios
    c. Substantial business assets
    d. High-value livestock holdings that clearly exceed traditional or subsistence levels

This nuanced approach would ensure that the tax captures not only those with high liquid wealth but also individuals who hold significant wealth in less liquid forms that are particularly relevant to the Kenyan economy.

For instance, while someone might not qualify as a dollar millionaire, they could still be considered wealthy if they own vast tracts of idle land in prime areas, multiple high-value properties, or large-scale commercial agricultural operations. By including these categories, the wealth tax can address various forms of wealth concentration that are specific to Kenya's economic structure.

In the Kenyan context, a thorough analysis of wealth distribution is therefore necessary to determine an appropriate threshold. This could be based on factors such as:

1. Total net worth (assets minus liabilities)
2. Value of specific high-value assets (e.g., real estate, businesses, financial investments)
3. Annual income above a certain level, combined with asset ownership

By setting the threshold high, Kenya can position the wealth tax as a measure targeting extreme wealth concentration rather than a broad-based tax on the general population.

5.4.2.Identifying High Net Worth Individuals (HNWIs)

A crucial step in implementing a focused wealth tax is identifying the individuals who would be subject to it. Kenya can learn from Uganda's progress in this area. Uganda has developed a High Net Worth Individual (HNWI) register as part of its efforts to enhance tax compliance among the wealthy. The Kenya Revenue Authority's Premier Tax Office (PTO) has a HNWI register with approximately 84 names. [41] This register needs to be updated with all 7,200-dollar millionaires and 16 centi-millionaires (based on the Africa Wealth Report).

Uganda's approach involves:

1. Defining criteria for HNWIs (e.g., income levels, asset ownership, lifestyle indicators)
2. Using data analytics to identify potential HNWIs from various sources (e.g., tax returns, property registries, company ownership records)
3. Establishing a dedicated unit within the tax authority to manage HNWI compliance

While Kenya is in the process of adopting a similar approach, KRA ought to leverage on existing data sources and implementing new reporting requirements for high-value assets. This would involve:

1. Enhancing KRA's data analytics capabilities
2. Implementing a robust asset declaration system for individuals above a certain wealth or income threshold
3. Collaborating with other government agencies (e.g., lands registry, companies registry) to cross-reference data
4. Establishing information-sharing agreements with financial institutions to identify large account holders

Creating a comprehensive HNWI register would not only facilitate the implementation of a wealth tax but also enhance overall tax compliance among the wealthy.

5.4.3.Determining Taxable Assets

In defining the base for a wealth tax, Kenya needs to decide which assets would be subject to taxation. Drawing from international examples, Kenya could consider including:

1. Real estate (both residential and commercial)
2. Financial assets (stocks, bonds, mutual funds)
3. Business ownership
4. High-value personal property (e.g., luxury vehicles, aircraft, yachts)
5. Intellectual property rights

Kenya could look at the example of Colombia, which has had a wealth tax in various forms since 2002. Colombia's wealth tax applies to a broad range of assets, including real estate, vehicles, financial assets, and business investments.

However, Kenya might also consider certain exemptions to encourage productive investment and protect family businesses. For instance:

1. Primary residences up to a certain value
2. Productive business assets that generate employment
3. Retirement savings up to a certain limit
4. Agricultural land actively used for farming

These exemptions would help focus the tax on unproductive or excessive wealth while protecting assets that contribute to economic growth and employment.

5.4.5.Valuation Mechanisms

One of the most challenging aspects of implementing a wealth tax is accurately valuing assets. Kenya would need to develop robust valuation mechanisms, potentially drawing on existing systems and international best practices.

For real estate, Kenya could build on its existing property valuation systems, potentially enhancing them with more frequent reassessments and market-based valuation methods. For financial assets, market values could be used where available, with specific rules for valuing unlisted securities. The valuation of business assets and intellectual property would be more complex. Kenya could consider allowing taxpayers to use audited financial statements for business valuations, with the tax authority retaining the right to challenge valuations it deems unreasonable.

To address valuation challenges, Kenya could look at the example of Switzerland, which has long-standing experience with wealth taxation. Swiss cantons use a mix of methods, including:

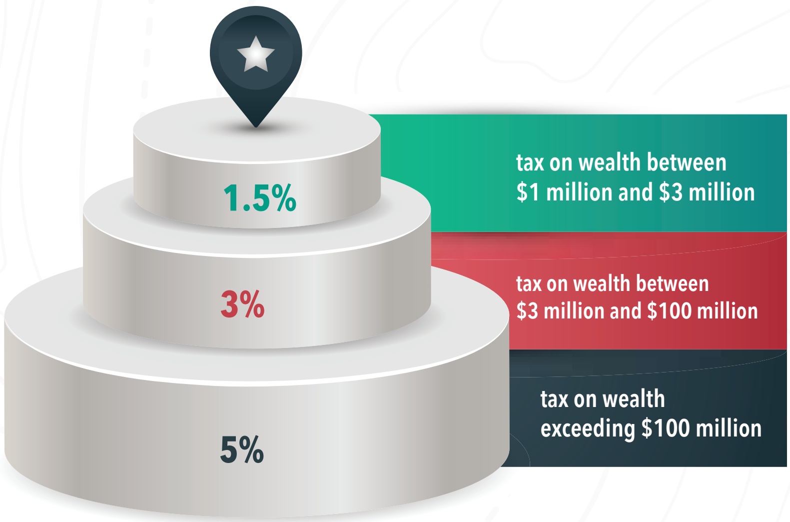
1. Market values for listed securities and real estate
2. Capitalised earnings approaches for unlisted businesses
3. Insurance values for high-value personal property

Implementing a wealth tax would likely require Kenya to invest in building valuation capacity within the KRA, potentially including the recruitment of specialised valuation experts.

5.4.6.Tax Rates and Structure

In determining the rate structure for a wealth tax, Kenya should aim for a balance between revenue generation and minimising potential negative economic impacts. A progressive rate structure, where the rate increases with the level of wealth, could be considered to enhance vertical equity.

For example, Kenya could implement a tiered system for the dollar millionaires and centi-millionaires such as:



These thresholds and rates are recommendations and would need to be determined based on detailed economic analysis and wealth distribution data. Kenya could also consider the approach taken by Argentina in its one-time wealth tax, where different rates were applied to domestic and foreign assets (with higher rates on foreign assets to discourage offshore wealth holdings).

There should also be a separate structure for those who hold significant wealth but may not fall into the dollar millionaire or centi-millionaire categories. For these individuals, a parallel tiered system could be created that captures various forms of wealth relevant to the Kenyan context. A proposed structure for this category would be:

1. **Land and Real Estate:**
- 1% tax on idle land and non-primary residences valued between KES 50 million and KES 100 million
- 2% tax on idle land and non-primary residences valued between KES 100 million and KES 500 million
- 3% tax on idle land and non-primary residences valued over KES 500 million

2. **Business Assets:**
- 1% tax on business assets valued between KES 100 million and KES 300 million
- 2% tax on business assets valued between KES 300 million and KES 1 billion
- 3% tax on business assets valued over KES 1 billion

3. **Large-scale Commercial Livestock:**
- 1% tax on livestock holdings valued between KES 50 million and KES 100 million
- 2% tax on livestock holdings valued between KES 100 million and KES 500 million
- 3% tax on livestock holdings valued over KES 500 million

4. **Luxury Assets (e.g., high-value vehicles, aircraft, yachts):**
- 2% tax on luxury assets with a combined value between KES 50 million and KES 100 million
- 3% tax on luxury assets with a combined value exceeding KES 100 million

5.4.7.Administration and Enforcement

Effective administration and enforcement would be crucial for the success of a wealth tax. The PTO unit within the KRA would be responsible for:

1. Managing the HNWI register
2. Conducting specialised audits of high-net-worth taxpayers
3. Developing expertise in complex valuation issues
4. Collaborating with international counterparts on cross-border wealth issues

To enhance enforcement, Kenya could implement strict penalties for non-compliance, including for failure to declare assets or deliberate undervaluation. However, these should be balanced with mechanisms for dispute resolution and appeals to ensure fairness.

Kenya could also consider implementing a voluntary disclosure program ahead of the wealth tax introduction, allowing individuals to declare previously undisclosed assets without facing penalties. This approach was used successfully by Indonesia in its tax amnesty program prior to implementing new measures to tax wealth.

5.4.8.International Cooperation

Given the global nature of wealth holdings, international cooperation would be crucial for the effective implementation of a wealth tax in Kenya. Key areas of focus should include:

1. Enhancing participation in automatic exchange of financial account information under the OECD's Common Reporting Standard

2. Strengthening anti-money laundering (AML) and beneficial ownership transparency regimes to identify true asset owners
3. Negotiating and updating tax treaties to include provisions for information exchange and assistance in tax collection
4. Collaborating with other African countries to develop regional approaches to wealth taxation and information sharing

Kenya could look to Argentina's approach, which included provisions in its wealth tax law to use information from tax information exchange agreements to identify offshore assets subject to the tax.

5.4.9. Addressing Capital Flight Concerns

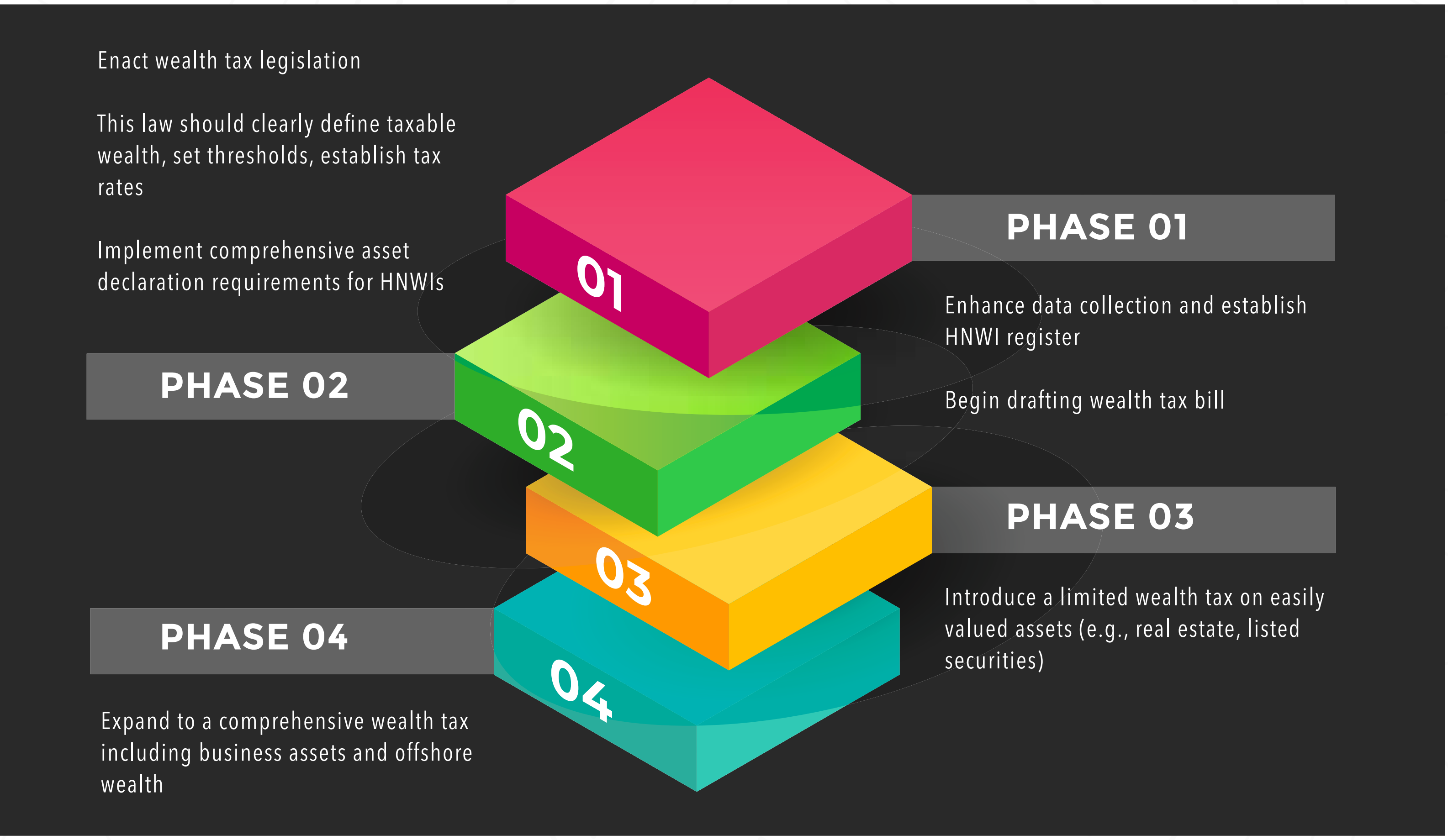
A common concern with wealth taxes is the potential for capital flight. To mitigate this risk, Kenya could consider several strategies:

1. Implementing exit taxes on individuals who renounce residency
2. Strengthening controlled foreign company (CFC) rules to tax offshore holdings
3. Collaborating with other countries to prevent 'race to the bottom' tax competition
4. Emphasising the link between wealth tax payments and improved public services to enhance social acceptance

It's worth noting that empirical evidence on capital flight due to wealth taxes is mixed. A study by Advani and Tarrant (2021) [42] on the UK suggests that while some avoidance occurs, it is not as extensive as often feared.

5.4.10. Phased Implementation

Given the complexity of a wealth tax, Kenya could consider a phased implementation approach. This approach would not only allow for gradual capacity building within the KRA and give taxpayers time to adjust but would also provide the necessary time to develop and enact comprehensive wealth tax legislation. Here is a proposed phased approach:



This phased approach would allow for capacity building within the KRA and give taxpayers time to adjust to new requirements.

5.5. Learning from Other Developing Countries

Kenya can draw valuable lessons from other developing countries that have implemented or are progressing towards wealth tax regimes:

1. **Colombia:** Has had a wealth tax in various forms since 2002. Key lessons include the importance of regularly updating asset valuations and the challenges of taxing hard-to-value assets like unlisted businesses.

2. **Argentina:** Implemented a one-time wealth tax in 2020 to fund COVID-19 relief measures. The tax was highly progressive and included higher rates for offshore assets. Kenya could learn from Argentina's approach to offshore wealth and its use of a progressive rate structure.

3. **Uruguay:** Has a long-standing annual net wealth tax of 1.5%. Its experience highlights the importance of setting the tax-free threshold at an appropriate level to focus on the truly wealthy.

4. **South Africa:** While it doesn't have a direct wealth tax, South Africa has implemented a number of measures to tax wealth, including estate duty, donations tax, and tax on worldwide income and assets for residents. Kenya could learn from South Africa's comprehensive approach to taxing different forms of wealth.

5. **Burundi:** Burundi is introducing a new wealth tax as part of its broader efforts to boost revenue collection. This tax, included in the 2023/24 budget, specifically targets real estate wealth. The measure applies to individuals or entities from the acquisition of their third building onwards, signalling an attempt to generate revenue from those with significant property holdings.

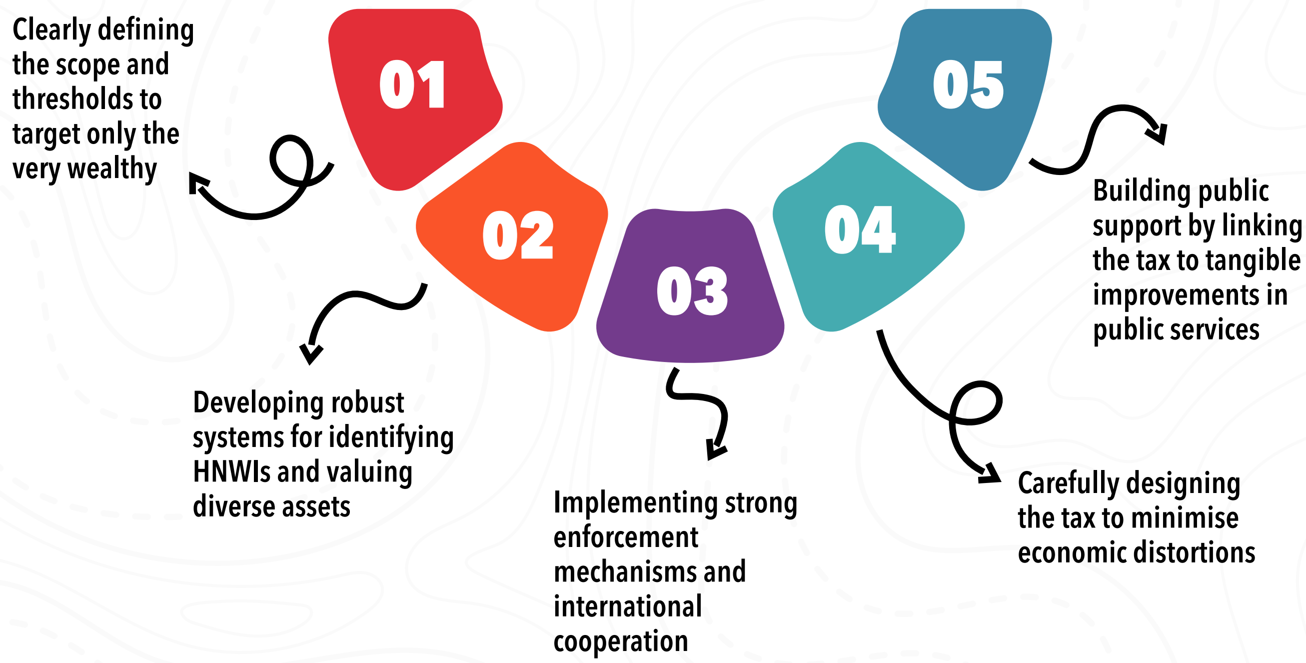
6. **Uganda:** While not a wealth tax per se, Uganda's progress in establishing an HNWI register provides valuable lessons in identifying and managing compliance of wealthy taxpayers.

7. **Zimbabwe:** Zimbabwe introduced a wealth tax in 2024. The tax is set at 1% on the value of residential properties other than the principal private residence, where the value exceeds $250,000. This approach demonstrates an attempt to tax wealth while exempting primary residences to avoid impacting the average homeowner. However, Zimbabwe's experience also highlights significant implementation challenges. The tax has been difficult to enforce due to the decentralised nature of property taxation in Zimbabwe. Local governments have the prerogative to tax land and property, and this regime is poorly developed in many areas. Many local authorities lack up-to-date property valuations, making it challenging to determine which properties meet the $250,000 threshold. There's a lack of capacity at both national and local levels to effectively administer and collect this tax. The tax has faced opposition from property owners and some local authorities, further complicating its implementation.

6. Conclusion

Introducing a wealth tax focused on the wealthy in Kenya is a complex but potentially impactful policy option. By learning from the experiences of other developing countries, carefully designing the tax, and implementing it in phases, Kenya could develop a wealth tax regime that contributes to domestic resource mobilisation and addresses wealth inequality without unduly burdening the broader population.

Key to success would be:



While challenging, a well-designed wealth tax could be a valuable tool in Kenya's efforts to build a more equitable and sustainable tax system. As with any significant tax reform, thorough economic analysis, stakeholder consultation, and careful implementation planning would be crucial to its success.

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This report was made possible through the financial support of OXFAM