

THE POTENTIAL FOR TAXING WEALTH IN KENYA

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EXECUTIVE SUMMARY

As Kenya strives to enhance domestic resource mobilisation and address growing economic disparities, this report examines the potential for implementing a focused wealth tax regime. Building on existing fiscal policies, constitutional principles, and international best practices, a well-designed wealth tax could significantly contribute to Kenya's development goals without overburdening the broader population.

Key Findings:

1. **Constitutional Alignment:** The 2010 Constitution and the 2022 National Tax Policy provide a robust framework for introducing a wealth tax, emphasising principles of equity, accountability, and public participation.
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 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. **Revenue Potential:** A targeted wealth tax on high-net-worth individuals (HNWIs) in Kenya could generate substantial revenue. The report's estimates suggest a progressive tax system could yield around \$781 million annually.
5. **International Trends:** Global momentum towards wealth taxation, including in developing countries like Argentina, Burundi, Colombia, and Uruguay, offers valuable lessons for Kenya's approach.
6. **Administrative Readiness:** The Kenya Revenue Authority's ongoing efforts to establish an HNWI unit demonstrate proactive steps towards enhanced tax administration for the wealthy.
7. **Stakeholder Perspectives:** Interviews with taxpayers, KRA officials, and tax experts reveal a complex landscape of concerns and opportunities, emphasising the need for fairness, transparency, and effective administration.

Recommendations:

1. **Targeted Approach:** Design the wealth tax to focus exclusively on HNWIs, setting a high threshold to exempt the majority of Kenyans. Consider a 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. **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.
8. **International Cooperation:** Strengthen participation in global initiatives for tax transparency and information exchange to address offshore wealth and tax evasion.

Challenges to Address:

- Potential for capital flight and tax avoidance
- Political resistance from affected wealthy individuals
- Complex valuation issues, especially for non-liquid assets
- Integration with existing tax structures
- Building public trust in tax administration and usage of funds

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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1. Introduction to Taxing Wealth

1.1. Definition and Scope

A wealth tax is a levy on the net worth 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: net wealth taxes and transfer taxes. Net wealth taxes are levied on an individual's net assets, either on a regular basis or occasionally. Transfer taxes, on the other hand, 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).

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.¹ In many developed countries, wealth taxes exist in some form, with wealth transfer taxes being more widespread than net wealth taxes.² 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)³ 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)⁴ broadens this conceptualisation further by including the Islamic wealth tax known as zakat, which is an annual 2.5% tax on savings, 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.⁵ 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

¹ Rudnick, R and Gordon R., '[Taxation of Wealth](#)', in Thuronyi, V (ed) *Tax Law Design and Drafting* (IMF, 1996), p.292.

² European Commission, '[Cross country review of taxes on wealth and transfers of wealth](#)' (EC, 2014)

³ Piketty, T., '*Capital in the Twenty First Century*' ([Harvard University Press, 2014](#))

⁴ Latif, L., '[Islamic Wealth Taxation and Financing Public Health: An Interdisciplinary Analysis of Human Rights, Islamic Law, and the Constitution of Kenya](#)' (Ethics Press 2023)

⁵ Hebous, S et al., '[How to Tax Wealth](#)' (IMF, 2024)

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, and
- 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:

1. **Property Taxes:** Levied on the value of real estate, these are perhaps the most common form of wealth taxation globally.
2. **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.
3. **Inheritance or Estate Taxes:** These taxes are levied on the transfer of wealth upon death, effectively taxing accumulated wealth as it passes between generations.
4. **Gift Taxes:** Similar to inheritance taxes, these target wealth transfers made during a person's lifetime.
5. **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.
6. **Luxury Taxes:** Levies on high-value consumer goods can be considered a form of wealth taxation, as they target spending patterns associated with wealth.

While these taxes all involve taxing wealth to some degree, none of them specifically target wealth as a separate category of taxation. 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.⁶ 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).⁷ 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.⁸

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.⁹ 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

⁶ Wall Street Journal, <https://www.wsj.com/buyside/personal-finance/taxes/capital-gains-tax>

⁷ HM Revenue & Customs, [Capital Gains Tax Rates and Allowances](#)

⁸ Kenya Revenue Authority, [CGT](#)

⁹ Federal Inland Revenue Service, [CGT](#)

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.¹⁰

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.¹¹ 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.¹²

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. This diversity reflects the different priorities and challenges faced by each jurisdiction, including considerations of administrative capacity, economic competitiveness, and social equity.

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. However, its effectiveness in addressing wealth inequality is limited by factors such as preferential rates, the realisation principle (whereby gains are only taxed when assets are sold), and various exemptions and loopholes that exist in many tax systems.

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.¹³

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),¹⁴ Saez and Zucman (2019)¹⁵ and Zucman's (2024)¹⁶, highlighting the growing concentration of wealth at the top of the distribution.

¹⁰ [South African Revenue Service, CGT](#)

¹¹ [Ghana Revenue Authority, CGT](#)

¹² [Uganda Revenue Authority, CGT](#)

¹³ Enda, G and Gale W., '[What are capital gains taxes and how could they be reformed?](#)' *Brooking* February 14, 2020

¹⁴ Supra, n.3.

¹⁵ Saez, E and Zucman G., '[Progressive wealth taxation](#)', (2019)

¹⁶ Zuchman, G., '[Speech at the G20 finance ministers meeting in Sao Paulo](#)'

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:

1. **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.
2. **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.
3. **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.
4. **New Research:** Academic work, like that of Saez and Zucman (2019), has provided new data on wealth concentration and proposed specific wealth tax plans.

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

1. **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.
2. **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.
3. **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.
4. **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](#). Economists Saez and Zucman, who advised on the plan, estimated it could raise significant revenue while affecting only a tiny fraction of U.S. households. The idea of implementing wealth taxes on millionaires and billionaires has sparked intense debate among academics, economists, policymakers, and the public.¹⁷ Key points of contention include:

1. **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.
2. **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.
3. **Valuation Challenges:** Accurately valuing diverse assets, particularly unique or illiquid ones like private businesses or art collections, poses significant practical challenges.
4. **Administrative Complexity:** Implementing and enforcing a comprehensive wealth tax could be administratively complex and costly.
5. **Liquidity Issues:** Some argue that wealth taxes could force asset sales to pay tax bills, potentially distorting markets or causing hardship for those with illiquid wealth.

¹⁷ See also: [Stiglitz, 2013](#); [Kharas, 2019](#); [Hongler and Valta, 2021](#); [Ghosh, 2022](#); [Galle et al, 2023](#)

Recent Developments

While comprehensive wealth taxes remain rare, there have been some notable developments in recent years:

- a. The Labour Party in the [United Kingdom](#) has proposed a wealth tax on individuals with assets over £750,000, with a tax rate of 1.5%. The proposal includes exemptions for primary residences and pensions.
- b. The Social Democratic Party in [Germany](#) has proposed a wealth tax on individuals with a net worth over €2 million, with a tax rate of 1%. The proposal includes exemptions for certain assets, such as primary residences and business assets.
- c. The New Democratic Party in [Canada](#) has proposed a wealth tax on individuals with a net worth over \$20 million, with a tax rate of 1%. The proposal includes exemptions for primary residences and pensions.
- d. The African National Congress in [South Africa](#) has proposed a wealth tax on individuals with a net worth over ZAR 3.7 million, with a tax rate of 3%. The proposal includes exemptions for certain assets, such as primary residences and retirement savings.
- e. [Colombia](#) is one of the countries that has considered introducing 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.

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.¹⁸ 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.¹⁹

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

¹⁸ World Vision, [Global poverty](#)

¹⁹ UNCTAD, [Economic Development in Africa Report](#) (2020)

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.²⁰ At the very top, Forbes reported 2,755 billionaires in 2021, with a combined net worth of \$13.1 trillion.²¹ 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 2021.²² 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

²⁰ Credit Suisse, [Global wealth report 2021](#)

²¹ Forbes, [35th Annual World's Billionaires List: Facts and Figures 2021](#)

²² IMF, [Public debt and real GDP: Revisiting the impact](#)

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.²³ 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.²⁴

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 also be justified on environmental grounds. High levels of wealth are often associated with high levels of consumption and carbon emissions. By taxing wealth, governments can:

²³ <https://www.unesco.org/sdg4education2030/en/knowledge-hub/education-financing>

²⁴ WHO, [Health financing and economics](#)

- Discourage excessive consumption
- Generate revenue for environmental initiatives
- 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)²⁵ 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

²⁵ McCaffery, E., '[The Uneasy Case for Wealth Transfer Taxation](#)' (1994)

improve economic efficiency by reducing the concentration of wealth and power, which can lead to rent-seeking behaviour and market distortions. Stiglitz (2015)²⁶ 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)²⁷ 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)²⁸ 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)²⁹ 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.

²⁶ Stiglitz, J., ['The Origins of Inequality, and Policies to Contain It'](#) (2015)

²⁷ Feldstein, M., ['The Effects of Taxation on Capital Accumulation'](#) (NBER, 1987),

²⁸ Kopczuk, W., ['Taxation of Intergenerational Transfers and Wealth'](#) (2013),

²⁹ Repetti, JR., ['Democracy and Opportunity: A New Paradigm in Tax Equity'](#) (2008),

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)³⁰ 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)³¹ 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)³² 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.

³⁰ Batchelder, L., [‘What Should Society Expect from Heirs? A Proposal for a Comprehensive Inheritance Tax’](#) 63 *Tax Law Review* 1 (2009)

³¹ Piketty, T and Saez E., [‘A theory of optimal capital taxation’](#)

³² Beckert, J., [‘Inherited Wealth’](#) (2008)

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)³³ 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 globalized 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

³³ Zucman, G., '[The Hidden Wealth of Nations](#)' (2015)

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 Database³⁴ 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/>



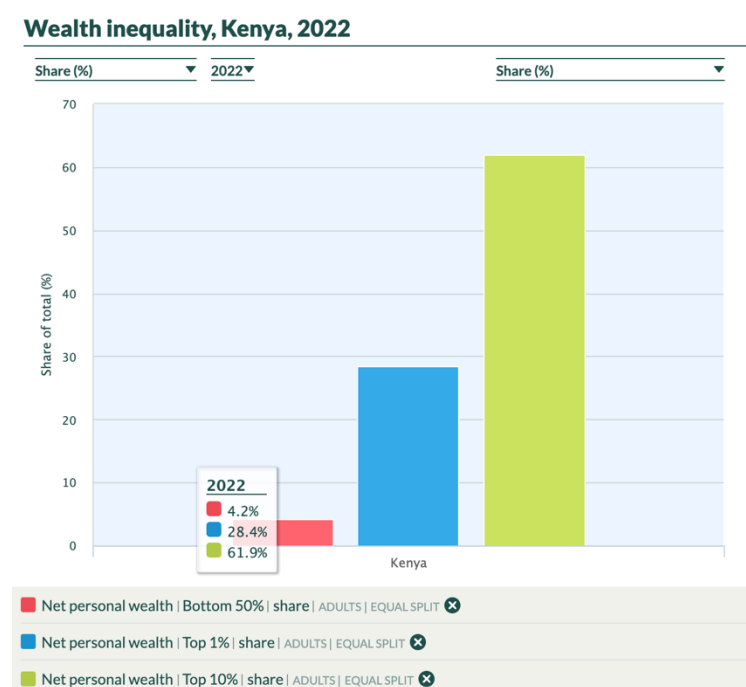
³⁴ World Inequality Database, Kenya. <https://wid.world/country/kenya/> (accessed 8 August 2024).

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. 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 2024³⁵ 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.³⁶ 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

³⁵ <https://www.henleyglobal.com/publications/africa-wealth-report-2024/africas-wealthiest-countries> (cited by Henley & Partners)

³⁶ Kenya National Bureau of Statistics, <https://www.knbs.or.ke/> (accessed on 8th August 2024)

disparity not only reflects economic inequality but also points to potential imbalances in economic opportunity and social mobility within the country.

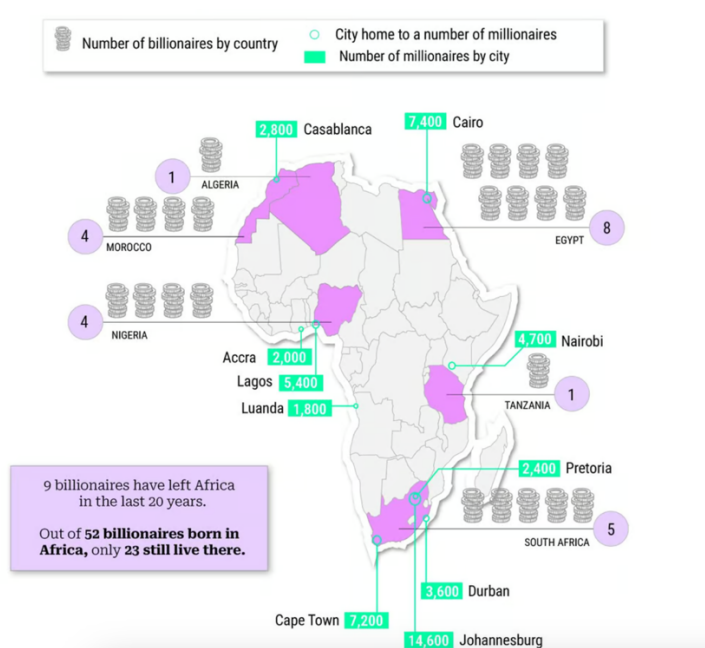
Figure 3: Kenya's Wealth US Dollar Millionaires and Centi-Millionaires

Country	WEALTH BAND			Millionaire growth (%) 2013 to 2023
	Millionaires (USD 1m+)	Centi- millionaires (USD 100m+)	Billionaires (USD 1bn+)	
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	-28%

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.³⁷ 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:

1. A 1.5% tax on wealth between \$1 million and \$3 million
2. A 3% tax on wealth between \$3 million and \$100 million
3. A 5% tax on wealth exceeding \$100 million.

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. 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 ($5,700 \times \$2 \text{ million} \times 1.5\%$).

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 ($1,500 \times \$10 \text{ million} \times 3\%$).

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 ($16 \times \$200 \text{ million} \times 5\%$).

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.

³⁷ <https://www.henleyglobal.com/publications/africa-wealth-report-2024/africas-wealthiest-countries>

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:

1. **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.
2. **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.
3. **Efficiency:** The policy aims to minimise distortions in economic decision-making, which corresponds to the principles of economic efficiency and neutrality in wealth taxation.
4. **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.
5. **Flexibility:** The policy recognises the need for the tax system to adapt to changing economic circumstances, which aligns with the principle of sustainability in wealth taxation.

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.

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 include:

- 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.

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,³⁸ it represented an attempt to ensure that all businesses contribute to the tax base, regardless of profitability.

³⁸ [Waweru & 3 others v National Assembly & 2 others \(Constitutional Petition E005 & E001 \(Consolidated\) of 2021 eKLR](#)

5.2.3.9. *High Net Worth Individual (HNWI) Unit*

The Kenya Revenue Authority (KRA) is establishing 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 high-net-worth individuals, Kenya has taken proactive steps to strengthen its enforcement capabilities. The Kenya Revenue Authority (KRA) is in the process of establishing a dedicated High Net Worth Individual (HNWI) unit. The establishment of this specialised unit represents a significant advancement in Kenya's tax administration strategy. It acknowledges the unique challenges posed by high-net-worth individuals, who often have complex financial structures and may have access to sophisticated tax planning strategies. 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, the report will analyse the insights gathered from key stakeholders. Francis Omondi conducted interviews with individuals, corporations, revenue authority officials, treasury officers, and other experts, yielding valuable perspectives on the current tax landscape and potential for wealth taxation in Kenya. This analysis will serve as a foundation for developing an effective and contextually appropriate wealth tax system for the country.

The 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, we can identify patterns, concerns, and opportunities that will inform the report's approach to designing a wealth tax regime tailored to Kenya's unique economic and social environment.

Interviews with taxpayers:

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: 5% of property value
- Rental income tax: 10%
- Business income: 30%
- Land rates: 0.115% of property value (in Nairobi City County)
- Property tax: 8% monthly
- Corporate tax: 30%
- Fuel tax: 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:

- Integrate systems between relevant government agencies
- Increase public awareness and education on wealth taxation
- Improve transparency and accountability in tax collection and usage
- Simplify tax filing processes
- Target wealth taxation more effectively
- Address land value issues

Respondents indicated they might accept more wealth taxation if:

- The government adheres to principles of equity and certainty in taxation
- There's increased transparency in tax collection and usage
- Loopholes in the tax system are closed
- Public participation in tax policy is encouraged
- Better social amenities and infrastructure are provided and maintained
- The government demonstrates greater accountability

Suggestions for expanding the wealth tax base included:

- | |
|--|
| <ul style="list-style-type: none">- 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:

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

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

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

The first step in introducing a wealth tax in Kenya would be to clearly define its scope. To focus on the wealthy, Kenya could consider setting a high threshold for the tax to apply. This approach would ensure that only individuals with significant wealth are subject to the tax. For instance, Kenya could look at the example of [Argentina, which introduced a one-time wealth tax in 2020 targeting individuals with assets over 200 million pesos](#) (approximately \$2.5 million at the time). By setting a high threshold, Argentina ensured that the tax only affected the wealthiest 0.8% of the population.

In the Kenyan context, a thorough analysis of wealth distribution would be 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.

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 such as:

1. 1.5% tax on wealth between \$1 million and \$3 million
2. 3% tax on wealth between \$3 million and \$100 million
3. 5% tax on wealth exceeding \$100 million.

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).

5.4.7. Administration and Enforcement

Effective administration and enforcement would be crucial for the success of a wealth tax. A dedicated HNWI 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)³⁹ 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 could involve:

Phase 1:	Enhance data collection and establish HNWI register
Phase 2:	Implement comprehensive asset declaration requirements for HNWIs
Phase 3:	Introduce a limited wealth tax on easily valued assets (e.g., real estate, listed securities)
Phase 4:	Expand to a comprehensive wealth tax including business assets and offshore wealth

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.](#)

³⁹ Advani, A and Tarrant, H., '[Behavioural responses to a wealth tax](#)', *Fiscal Studies Special Issue on a Wealth Tax: Time for Another Look?* (2021)

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.

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:

1. Clearly defining the scope and thresholds to target only the very wealthy
2. Developing robust systems for identifying HNWIs and valuing diverse assets
3. Implementing strong enforcement mechanisms and international cooperation
4. Carefully designing the tax to minimise economic distortions
5. Building public support by linking the tax to tangible improvements in public services

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.