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**CHALLENGES IN HARMONIZING TAX LAW (AND POLICY)
UNDER EAST AFRICAN COOPERATION: HOW FEASIBLE?**

By

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DECLARATION

I, HANDA E., do hereby declare that this dissertation is my original work and has not been submitted and is not currently being submitted for a Degree of any University.

Signature:



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This dissertation has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this dissertation to my mother – Zadorozhnaya Mariya.

Everything I am – you and your unrelenting support made me.

ABBREVIATIONS

AGOA	African Growth and Opportunity Act
AIDS/HIV	Acquired Immunodeficiency Syndrome/ Human Immunodeficiency Virus
BAFICAA	Business Action for Improving Customs Administration in Africa
CBI	Cross-Border Initiative
CET	Common External Tariff
CHOGM	Commonwealth Heads of Government Meeting
COMESA	Common Market for East and Southern Africa
EAC	East African Community
EACCU	East African Community Customs Union
EACSO	East African Common Services Organization
EADB	East African Development Bank
EAF	East African Federation
EALA	East African Legislative Assembly
EAPMP	East Africa Power Master Plan
ECJ	European Court of Justice
EPPO	Export Promotion Programmes Office
EPZs	Export Processing Zones
ERP	Economic Recovery Program
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Growth Domestic Product
HIPC	Highly Indebted Poor Countries
IGAD	Inter-governmental Authority on Development
IGADD	Inter Governmental Authority on Drought and Development

IMF	International Monetary Fund
IUCEA	Inter-University Council for East Africa
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KRA	Kenya Revenue Authority
LVFO	Lake Victoria Fisheries Organization
MDGs	Millennium Development Goals
MUB	Manufacturing Under Bond
NAFTA	Northern American Freed Trade Agreement
NIC	Newly Industrialized Country
NPV	Net Present Value
NTB	Non-Trade Barriers
OECD	Organization for Economic Cooperation and Development
PIT	Personal Income Tax
PTA	Preferential Trade Area
QR	Quantitative Restrictions
RIAs	Regional Integration Arrangements
RI	Regional Integration
ROW	Rest of the World
SACU	South Africa Customs Union
SADC	Southern Africa Development Community
SAPs	Structural Adjustment Programs
SSA	Sub-Saharan Africa
VAT	Value Added Tax
UN	United Nations
WCO	World Customs Organization
WTO	World Trade Organization

ABSTRACT

This Dissertation focuses on the problem of tax law (and policy) harmonization in the East African Community.

We set out to prove that it is difficult to bargain for tax law and policy harmonization in the context of regional integration and EAC co-operation in particular.

This Dissertation starts by providing a general historical background of East African Cooperation from pre-independence period, outlining reasons for past failures, to the time when the new East African Community Customs Union comes into existence. The dissertation offers a different dimension to the existent explanations as to why the 1967 East African Community did not survive and argues that polarized developmental visions of the three East African countries were partly to blame for unsuccessful integration experience. The paper goes further to explore the new circumstances under which current cooperation efforts are being conducted and emphasize the instrumental role of taxation in the process of regional integration in terms of facilitating the achievement of EAC CU goals and objectives. The study identifies challenges, benefits and implications of the EAC Customs Union but at the same time pinpoints that without tax law and policy harmonization meaningful economic integration is not viable.

We observe that economic regional integration with the attendant consequences such as revenue losses, trade and financial liberalization has had an impact on taxation systems of the integrating countries producing a number of departures in municipal tax laws, which have not been synchronized despite years of cooperation. It is with this observation in mind that the paper appraises the process of tax harmonization and illustrates on the example of property taxation the disparities present in the municipal tax laws of three countries and the difficulties involved in harmonizing them.

The dissertation finds that due to the diversity of the opinions that exist on the type of tax harmonization, method of determination of appropriate rates and tax bases as well as relatively low cost of maintaining the status quo harmonization of tax law is difficult to achieve. Other factors that complicate successful bargaining on common taxation law and

policy in EAC are issues of state sovereignty, diversity of jurisdictional interests and preferences, countries' divergent and at time conflicting obligations under various regional arrangements as well as institutional framework of EAC, among other reasons.

An overview of European Union experience with tax law and policy harmonization is offered so as to gain insights into the dynamics of the process and borrow some of the time-tested approaches.

Despite our finding that harmonization of tax law (and policy) in the context of EAC regional integration is an arena where change is slow as governments do not want to take risks with policy and promulgate laws that might change or influence their political, economic or social positions, we are of the opinion that on the balance, tax harmonization under EAC integration is viable but the political, social and economic challenges elaborated in this study have to be addressed.

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REPUBLIC OF KENYA

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The Entertainment Tax Act (Cap.479 Laws of Kenya);
The Income Tax Act (Cap.470 Laws of Kenya);
Local Government Act (Cap. Laws of Kenya);
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The Rating Act (Cap. 267 Laws of Kenya);
The Road Maintenance Levy Fund Act (Act No 9 of 1993 Laws of Kenya);
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- The Local Government (Urban Authorities) Act of 1982;
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