The Relationship Between Tax Revenue And Economic Growth In Kenya

The objective of this study was to analyze the relationship between tax revenue and economic growth in Kenya for the period 2002 to 2012. The study applied the concepts of elasticity and buoyancy to examine the relationship between tax revenue and economic growth in Kenya for the period 2002 to 2012. Elasticity and buoyancy coefficients were computed for individual taxes and the tax system as a whole. The elasticity of individual tax taxes was decomposed into tax to base elasticity and base to income elasticity in order to determine the major cause of high or low elasticity. The buoyancy estimates were obtained by regressing the natural logarithms of actual tax revenue against the natural logarithms of gross domestic product. The elasticity estimates were obtained by regressing the natural logarithms of adjusted tax revenue against the natural logarithms of gross domestic product. The adjusted tax revenues were obtained by eliminating the revenue effects of discretionary tax measures from the actual tax revenue series. The proportional adjustment method was used to remove the effects of discretionary tax measures from the actual tax revenue. The study relied on secondary data obtained from various statistical abstracts, economic surveys and budget speeches for the period 2002 to 2012. The study found out that there was a significant relationship between total tax revenue and economic growth in Kenya in the period 2003 to 2012. However, import duties were not responsive to changes in national income while discretionary tax measures implemented during the period failed to increase total tax revenue. It was recommended that there is need to reform the import duty and to redesign the discretionary tax measures to ensure that they are more effective in raising additional tax revenue.