Mitigating Taxation Effects on Small Business Enterprises Performance in Kenya

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ABSTRACT

For small business enterprise performance to improve, the government needs to reduce taxation or even give tax relief or zero-rate the tax due. In Kenya, national government has taxes levied on all goods manufactured or produced locally and those imported. Kenya Revenue Authority assisted by other government agencies ensure nothing is left untaxed. The local governments are also trying to get their share of tax revenue by ensuring no small business enterprise operates without paying their respective licenses and rates. Cartels are not left behind in their fight for survival by raising their survival funds from the small business enterprises. Small business enterprises are the majority enterprises and the best victim for cartel enterprises. Every industry channel their goods and services to customers through the small enterprises. For each industry to survive, it has its charges to those interested in doing business with their products and services. Every small business enterprise will rate its performance through the market share it commands, it’s profit margin over a given period of time against its costs and the many variety goods or services the small business offers. This paper looks at how small business enterprises are mitigating the effect of taxation they find themselves in from the government, cartels and industry to survive.

Keywords: Cartel Taxes, Government Taxes, Industry Taxes, Small Business Enterprise Performance.

I. INTRODUCTION

Small Business Enterprises are an essential element in every nation’s economic growth and development (Ojuma, 2020). According to Britannica (2023), taxation is the imposition of compulsory levies on individuals or entities by governments or otherwise entities from business enterprises. Taxation is used primarily to raise revenue for government, to discourage or control consumption of certain products, to encourage or discourage location of businesses in certain areas and otherwise expenditures. In Kenya, the government levies include income tax, rental income tax, excise duty tax, capital gains tax value added tax, agency revenue tax and turnover tax (KRA, 2023) and several county governments levies. Many other levies are imposed by different agencies in Kenya, e.g. The National Environment Management Authority of Kenya (NEMA), Kenya Bureau of Standards (KEBS), Ministry of Lands, Insurances etc.

In Kenya, small business enterprises are small scale retailers either with shops or without shops who including single shops, kiosks, canteen, itinerant traders, roadside sellers, open air market sellers etc., referred to as hand to mouth businesses. Over and above national and county government and national agencies levies, there are many other levies imposed to Kenyan small business enterprises by cartels and the industry in the name of protection fee, bribes, monopoly, vigilant groups fees, cooperatives daily membership fee and many others.

II. TAXATION

Taxation is any compulsory levies imposed by the government or other entities on the enterprise to enable it to carry out the required business. Muturi (2016) asserts that Small Business performance in Kenya is affected by the compulsory levies as one has to pay and the resources available to the business. Taxation has been identified as a major threat to the growth of small business enterprises not only in highly industrialized countries such as USA but also in less industrialized countries, Kenya included. Taxation in general increases the costs of running small business enterprises leading to reduction in profit margin. Various principles, political pressures, and goals can direct a government’s tax policy to mitigate its effects either side. According to Britannica, (2023), under the benefit principle, taxes are seen as serving a function similar to that of prices in private transactions; that is, they help determine what activities the government will undertake and who will pay for them. If this principle could be implemented, the allocation of resources through the public sector would respond directly to consumer wishes. To compensate for the increased costs of operation, prices of goods are raised thus resulting to decline in demand for commodities and thus causing the sales volume to go down (Karugu, 2013). In Kenya it’s cheaper to import and sell several small business products, example food products, than those got locally.
A. Government

A government is a political system, national or local, by which a country or community is administered and regulated (Britannica, 2023). Governments impose compulsory levies to its citizen to raise funds. Government levies to different products increase the cost of production and the producers pass the tax burden to consumers thus resulting into increased prices of the products. Government of Kenya impose levies through different agencies; however, the main national government tax agency is Kenya Revenue authority (KRA). There are other national government agencies, National Environment Management Authority of Kenya (NEMA), Kenya Bureau of Standards (KEBS), Ministry of Lands, Insurances etc, that collect respective levies from manufacturers. The county government have administrative levies collected from business entities, like retail licences, shop or kiosk rates, etc.

1) Kenya Revenue Authority (KRA)

Kenya Revenue Authority, is an agency of the government of Kenya that is responsible for the assessment, collection and accounting for all revenues that are due to the national government in accordance with the laws of Kenya (KRA, 2023). The Authority’s core operations are to assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws; advise on matters relating to the administration of and collection of revenue under the written laws or the specified provisions of the written laws, and perform such other functions in relation to revenue as the Cabinet Secretary responsible for matters relating to finance may direct. Such levies include income tax, rental income tax, excise duty tax, capital gains tax, agency revenue tax and turnover tax.

Small business entities may not be paying the KRA levies directly, however, they pay indirectly. Whereby the tax is imposed on manufactured goods, the manufacturer passes the tax burden to the small business enterprises who eventually transfer to consumers. When the government prepare their annual budgets basing on the expected revenue generation, it is wise for the governments to be considerate to its small business enterprises whom their citizen depends on.

2) Agencies

There are other national government agencies that collect revenues from the manufacturers on addition to KRA levies. For example, the Kenya Bureau of Standards (KEBS) charges for every KEBS sticker/ stamp on products. The manufacturer of these products has already paid VAT for the same products. Other agencies would include National Environment Management Authority of Kenya (NEMA), Ministry of Lands, Insurances and the list is long. All these agencies’ levies add on to the cost of the products the small business enterprises deal in turn final product to the end user becomes expensive this reducing affordability and thus demand of the commodity.

3) County

The County governments have their respective levies which they directly charge the small business enterprises. These include business licenses fee, space rent and rates for those traders without premises etc. Every county is devising different types of levies to boost their revenue collection to mitigate on their low and untimely capitation from the national government. These levies overburden the small business enterprises who are the majority.

B. Cartels

A cartel is an organised group of people with an intention to control a certain businesses or enterprises for some gains (Merriam, 2023). In every set of small business in Kenya there are cartels controlling and dictating what and how to be done in that business. These ranges from monopoly, vigilant groups to acts of bribing cartels. For example, you can’t operate a tax (Matatu) business in any route unless subscribe to the route cartels; make compliance to the stage touts (manambas) and traffic police officers on that route by giving the respective fee and bribe. These cut across all sectors in small business enterprising; Matatu, mitumba, mboga, fruits, food products, electronics, drugs businesses, the list is endless and to survive you must subscribe.

1) Monopoly

According to Investopedia (2023), a monopoly is a market structure where a single seller or producer assumes a dominant position in an industry or a sector.
In every sector of small business industry in Kenya there is a power broker who dictates on how the business should be done. Traditionally, monopolies benefit the monopolist since they are the price makers, while the consumers of their products are only price takers. Monopolies tend to offer poor quality goods and services since they have no competitors or close substitutes for their commodities. This negatively impacts on consumers since they are denied choice and end up getting goods/services of inferior quality. Kenya has experienced increased prices most cases projected by monopoly cartels, e.g., Kenya Power and Lighting Company in provision of electricity. Duopoly market structures like monopolies also impact negatively on consumers for example the petroleum industry. Although the prices for fuel are regulated by the government, the cartel dictates the prices. When the government forced through some prices in April 2022, the country went without fuel for about two months (April and May 2022). Where a single or few firms form the industry tend to dictate the price of the commodity prices typically rise.

Despite the increase on prices, Kenyans have experienced flooding of inferior services and products in the market. A good example is the services given by the Kenya Power and Lighting Company supply of electricity. Many areas especially marginalised areas which are seemed less profitable are neglected. As a result, small business enterprises in such areas operate without electricity or with very unreliable supply making the business very unpredictable. Monopolies may also choose to use price discrimination in some areas thus negatively impacting on small-scale business enterprises in such areas, making it very expensive for them to afford.

2) Vigilant groups

Vigilant group could be a formal or informal group of community or business members to discuss their problems and identify their root causes and consequences and develop some mitigation methods. These vigilant groups could be of good cause to boost security for the small businesses but later turn up to be extortionist. According to Day (2019), when uncertainty increases, top performers stay ahead by knowing where to look for warning signs and how to explore their environment. Vigilant groups have taken advantage of the vulnerable small business enterprises and hold them hostage.

Small businesses have an incredible number of roadblocks that stand in their way to success including their competition, industry volatility, and even security threats. All these turn out to be vigilant group cartels to maintain their credibility and keep them from falling into despair and bankruptcy.

3) Bribery

Bribery is corruption. A bribe is money or money's worth offered or given to someone to entice them to do something you wish them to do, especially something they’re not supposed to do (Dictionary, 2023). In small business industry, for one to get rid of his competitor, one just gets these teams who are paid to finish others. The County government guards moves around collecting bribes from those small business entrepreneurs they protect and harass and intimidate their competitors. When corruption is rife in any business, the general business climate is affected, because the environment is unpredictable. Unfortunately, this is the case in Kenya. Bribing in Kenya is baptised as tea or something small (kitu kidogo). Kenyan small business entrepreneur sees this as the only best option to survive in the business. Due to high taxation, Kenyans are actually the ones pushing bribes to all government officers to corrupt on good consignments. The government officers on their end, to survive from the high taxation on their wages, find the environment suitable to recover and make ends meet. This then led to bribery cartels, who the small business enterprises approach to push through their goods to the market. These experiences are rampant to all national and local government and agencies offices.

C. Industry

For the purpose of this paper, industry is the several types of small business enterprises which sell commodities to the ultimate consumer. Industry will cut across agriculture, finance, education, energy, etc services and products. Small business entrepreneurs deal with almost all types of fast-moving household products. In some industries, particular products will require that you pay some fee, for example the tax (Matatu) industry where they have to pay daily fee to their cooperatives to get passengers from their designated points. Some other industry, small business entrepreneur would have to pay some fee to assess the products on and above the cost of the goods. On other industry you will require to acquire some license from their regulator to sell the products, for example drugs, cooking gas etc.

1) Cooperative daily fee

According to Collins dictionary, Cooperatives are people-centred enterprises owned, controlled and run by and for their members to realise their common economic, social, and cultural needs and aspirations. Although the spirit is good, these cooperatives have overheads which forces them to use their own members to get funds to run such. Some of these cooperatives for small business enterprises charge members daily fee to access their services, space, customers etc. A good example is the tax (Matatu) and motorbike rider business were when each tax or motorbike gets to their designated cooperative loading point, they have to pay a fee to get passengers. Many other hawking cooperatives raises fee for preserving a space for the particular vendor which is paid on reporting that day. The cooperatives dictate the passenger charges and at times it can be very low depending on the day season. In order to mitigate these charges, lost time when cueing and low earnings, many opt to get passengers off the designated points.

A business cooperative can be a private group of small businesses that opt to pool their resources to benefit all members. In some industries, these cooperatives can be a requirement according to Kenyan laws to instil order and discipline. A member can borrow money from the cooperative to expand the business. Although being part of a business collective can increase an enterprise’s purchasing power and cut its costs through service sharing, joining a cooperative can also have drawbacks which include losing some control over operations and becoming less competitive.

2) Access products fee

Access product is the ability for customers to access your products. There are some industries where the entrepreneur
has to pay some fee for customers to be allowed to access the product. For example, an entrepreneur to operate a courier business, one would be required to pay a fee to Kenya Communications Authority for customers to be allowed to access that product from the vendor. To get a loan from any commercial bank in Kenya, there is a fee for one to access it. All these runs against the performance of small business entrepreneur who more than often do not have the capital to pay the required fees. To get or raise some of this access product fee is tedious and expensive and many small business entrepreneurs will opt to use the back-door business instead. That is how you find small business entrepreneurs going to shyllocks or table banking forums who charge very exorbitant interests and poor repayment terms.

3) Licenses

A license is a document that gives permission business in a certain field it is formal permission from a government or other legal authority. The local government, agencies and industry institutions give various licenses for a small business enterprise permitting them to offer services or products to consumers. This means for a business enterprise to do business on some products/services one has to get the business, professional or otherwise licence over and above all other industry fees.

According to Abuodha (2000), Kenya has pursued a business deregulation programme as part of a wider policy of liberalizing the economy and encouraging enterprise development. One component of this deregulation programme has been a transition from a system requiring enterprises to hold multiple business licenses covering each of an enterprise's activities to a simplified system under which each enterprise requires only a Single Business Permit (SBP). The move to simplifying business licensing has been to some degree undermined by a parallel effort to revitalize local authority and other agencies finances. To date this has not been realised and the challenge still affect doing small business enterprises in Kenya. Small business enterprises are getting multiple of licenses to be able to do business in Kenya.

III. SMALL BUSINESS ENTERPRISE PERFORMANCE

In Kenya, small business enterprises are small scale retailers either with shops or without shops including single shops, kiosks, canteen, itinerant traders, roadside sellers, open air market sellers, mahindi choma, jua kali, mama uji, mbogha, githeri etc, referred to as hand to mouth businesses. They are small in size and sell their goods directly to their consumers (offer personalised services). The performance of any business is measured by its profit margin, size of market they serve and volume of products they offer among many others. The higher the taxation imposed on small business enterprises, the harder it becomes for these businesses to do well. The growth of any economy is dependent on how vibrant small business enterprises are and when the reverse seems the case, the entire economy suffers. The stunted growth of the economy has often been blamed on many factors, top of which is the challenge of uncoordinated tax administration that has crippled small business enterprises (Karugu, 2013).

The performance of any small business enterprise could be measured by the size of market the business has, the profit the business is making and the different variety of goods the business is dealing with.

A. Market

Market is the availability of customers to buy products. It may also be said to be the presence or buyers, sellers and the product on sale as well as the medium of exchange. When the products quality and price are favourable to the customer, the business has high demand hence good and reliable market share. For the small business enterprise to marshal a good share of the market, one needs to have adequate supply of the products which have value for the money and meet the customers expectation. A SBE would only sustain the market demands if only the tax parameters are correct. SBE usually have very limited capital investment any small tax interference can jeopardise the business continuity and interrupt the market share. A market can be sustained by continuity of variety of products and fair prices.

Another challenge small business enterprises are finding themselves in, is the overcrowding. One business starts a particular business at a point, only to find in very short of time, other similar business enterprises dealing with the same product or service. While this may be beneficial to consumers, it may pose a serious threat to the localised business enterprises which pose very stiff competition to each other. This scenario makes them share the available market and thus lower sales and prices.

B. Profit

The main aim of any business venture is to maximize profits. For any business to continue existing, it must be making profits. A business can only make profit if the sales revenue exceeds the costs (overheads). The business costs will include the cost of acquiring the product and all other associated overhead expenses taxes included. Many small business enterprises are largely jeopardised by cartel and industry taxes which in some cases have no recorded policies and give no receipts. The overall government taxes imposed and retail commodities from manufacture to distributions makes it difficult for small business enterprises to offer competitive pricing.

C. Varieties

Small business enterprises are mostly retailers. For one to excel in this business one should stock different variety of products so that when one type has low demand, another is booming up. One can do well on this if the taxes levied are favourable. Policies and other legal requirements are curtailting small business enterprises from dealing with a variety of products. A good example could be retailing on cooking gas. The current legislation requires business enterprises to sell a brand which they are licenced of only. Because of the fees involved most small business enterprises are only able to sell one brand only, thus loose customers of the other brands. Some other producers/manufacturers may not be willing to give a small business enterprise some products if they are selling their competitors’ products.

A good example is the business of spirits and wine outlets. Some brewers like Kenya Breweries limited demand their business dealers to only stock their products and in case they
find a competitor’s product like Keroche Breweries, they cancel the dealership altogether. All these challenges are curtailing the small business performance on variety of products.

IV. CONCLUSION

Success of small business enterprises will depend on how they mitigate costs and make even. It’s on the public domain that taxes imposed on the Kenyan small business enterprises either formal or non-formal are quite too many. The national and local governments are doing whatever it takes to ensure they raise as much revenue as possible to meet their proposed budgets. The harder they press their muscles the harder it becomes to run the small business enterprises. This non-balancing of the tax act at the government levels has fuelled the cartel and industry taxes to flourish. If the government reduces the taxes imposed to small business enterprises, cartels and industry taxations will also go low or get extinct.

For small business enterprise performance to improve, the government needs to reduce taxation or even give tax relief to small business enterprises to thrive. On applying the reason behind the economic theory that investors and consumers are rational and “efficient machines”, the governments can go low on taxes and benefit from excelling small business enterprises of which the multiplier effect would mean that the Kenyan manufacturing industry would also be doing better thus higher tax returns.

Failure for the government to reduce the number taxes and lower the tax rates, doing small scale business has become very difficult. To mitigate the scenario, many counterfeiters’ goods have been siphoned to the market to cushion the effect on pricing. Examples are the flooded electronic goods, fruits and eggs from neighbouring countries, generic drugs, etc. Small business enterprises find themselves relaxing on some regulations to cushion the taxation effect. A good example is the overloading on public transport, emerging bars on residential areas, hawking on highways, itinerant traders, roadside sellers, open air market sellers etc.

Evasion of taxation has become a practice of the day. When goods evade government taxation, they usually have a low sale price, thus making it another tax mitigation approach for small business enterprises. Selling of Charcoal in Kenya is illegal, but go to every slum in Kenya, you will find a charcoal vender. How do these charcoals reach the market with all the police patrols and checkpoints in Kenya? To survive, many small business enterprises have a hidden and illegal business they operate only known by the respective protection cartels, suppliers and customers of the same product.

REFERENCES


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