

Abstract

The study was motivated by the increasing levels of taxation in Kenya as a result of the Increasing size of the Public Budget between over the years. The Study Period was between the years 2011 and 2020. The choice for the period was guided by the availability of Data and the increasing size of Kenya's public budget which has made it necessary to increase the level of Taxation to counter the Budget deficit. The government of Kenya uses taxes as a means to generate revenue for its development objectives and provision of public goods like security and education. The main problem was that while the government uses taxes as a means to generate revenue they in turn generate both positive and negative impacts to the economy. In addition, money collected as a result of charging taxes always fall short of government expenditure necessitating the need for the government to borrow money. Various reforms have been made on tax policies in Kenya such as the recent Finance act 2021 that was gazetted on 1st July 2021 which has broadened the coverage VAT tax increasing the prices of commodities therefore raising the standard of living. The general objective of the study was to investigate the effect of taxation on economic growth in Kenya while the specific objectives were to investigate the effect of income tax on economic growth in Kenya, to investigate the effect of VAT on economic growth in Kenya, To establish the effect of import duty on economic growth in Kenya and to investigate the effect of Excise duty on Economic growth as they are the four main forms of taxes the government of Kenya charges. The research aimed at answering the following research questions: Does income tax affect Economic growth in kenya? What is the effect of VAT on economic growth in Kenya and what is the effect of import duty on economic growth in Kenya? The study adopted the benefit theory, diffusion theory of tax incidence and endogenous growth theory and various previous researches like Nguluu (2017), Maingi (2010) and Murithii (2013) to show how economic growth in Kenya is impacted when Income tax, VAT, import duty and Excise duty are levied. Quantitative research design was applied with secondary data collected from C.B.K, K.N.B.S and K.R.A from the period 2011- 2020 u. A Time series ARIMA regression model was then used to identify the relationship between the dependent and the independent variable and how the variables relate among themselves using STATA and SPSS. The estimated results showed that a 1% increase in Income tax leads to an increase in GDP by 0.678% holding all the other variables constant. A 1% increase in VAT leads to an increase in GDP by 1.480% holding all the other variables constant. A 1% increase in import duty leads to a decrease in GDP by 0.663% holding all the other variables constant and a 1% increase in Excise Duty leads to an increase in GDP by 2.783% holding all the other variables constant. The study concluded that that total Tax has a statistically significant relationship with economic growth with a P-value of 0.00. The study recommended that policy makers in the country should induce optimal and enabling tax policies that promote Economic growth and at the same time reduce leakages that happen in the tax system through evasions and avoidance by enacting tough laws against evaders and embracing an Online tax system for all tax payers.