Digital financial services are growing in Kenya and play an important role in supporting the financial inclusion of the poor.

In 2018, the Kenyan Government increased the excise tax on money transfer services by banks and on mobile phone-based financial transactions.

### Why are digital payments important for Kenya?

Digital financial services are growing in Kenya and play an important role in supporting the financial inclusion of the poor.

#### Total population: 53.8 million

- Working age (15-64) population: 23.7 million

- 79% of adults are using digital payments

#### Growth in mobile money usage

- In 2021, an average of 6 million mobile money transactions were conducted daily.

### How are digital payments taxed?

In 2018, the Kenyan Government increased the excise tax on money transfer services by banks and on mobile phone-based financial transactions.

#### Tax to GDP ratio 2020

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax to GDP 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>13%</td>
</tr>
<tr>
<td>EAC</td>
<td>14%</td>
</tr>
<tr>
<td>SSA</td>
<td>15%</td>
</tr>
</tbody>
</table>

#### Rate | Tax

- **20%** | Excise duty on money transfer services by banks, money transfer agencies and other financial service providers
- **12%** | Excise duty on money transfer fees by cellular phone service providers
- **0%**  | No value-added tax applied to financial or mobile money services

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*Poorest 40% of the population*
What do these taxes contribute to government revenue?

In 2020/2021 total revenue collected from all taxes was:

**1.6 trillion KSh** (14 billion USD)

Taxes on all bank charges and mobile money contributed:

**22.6 billion KSh** (1.4% of total revenue)

This is the equivalent of:

- 12.5% of the road maintenance budget
- 22.1% of the health sector budget

What do these taxes mean in practice?

Grace has received her monthly salary and wants to send 560 KSh (4.98 USD) to her mother in the village for upkeep. She prefers to use digital payment methods because they are faster and more secure. But should she do a bank transfer or a mobile money transfer? She decides to compare the options:

**Step 1: Depositing the cash**

**Scenario 1:** Mobile to mobile

- Free

**Scenario 2:** Bank to mobile

- 40 KSh cost

**Scenario 3:** Bank to bank

- 222 KSh cost

**Step 2: Transfer to mother’s account**

**Scenario 1:**

- 10.71 KSh fee
- 1.29 KSh tax on fee
- Total = 12 KSh

**Scenario 2:**

- 40 KSh fee
- 8 KSh tax on fee
- Total = 48 KSh

**Scenario 3:**

- 150 KSh fee (based on EFT)
- 30 KSh tax on fee
- Total = 180 KSh

**Step 3: Mother withdraws cash**

**Scenario 1:**

- 25 KSh fee
- 3 KSh tax on fee
- Total = 28 KSh

**Scenario 2:**

- 25 KSh fee
- 3 KSh tax on fee
- Total = 28 KSh

**Scenario 3:**

- 35 KSh fee (ATM)
- 7 KSh tax on fee
- Total = 42 KSh

**Total cost and taxes**

- Scenario 1: 40 KSh cost + 12 KSh tax = 52 KSh
- Scenario 2: 76 KSh cost + 11 KSh tax = 87 KSh
- Scenario 3: 222 KSh cost + 37 KSh tax = 259 KSh

Data sources:
7. Mobile to mobile tariffs: Safaricom, M-Pesa tariffs (January 2022)
8. Bank to mobile: Standard Chartered Kenya online banking tariffs (September 2021)
9. Bank to bank: Standard Chartered Kenya electronic fund transfer tariffs and ATM withdrawal (September 2021)