Several studies have been undertaken in various countries with the aim of assessing tax performance. The most common approach in these studies has been to determine the ratio of tax revenue to gross domestic product. Recent such studies have included several other variables in the analysis of tax performance. This particular study has attempted to assess tax performance in Kenya by analysing tax ratios, tax effort indices, tax ratio buoyancy, and per capita income elasticities of various tax ratios.

Data for 32 years on tax revenue, per capita income and on tax aspects of mining, manufacturing, quarrying, building, construction, agriculture, forestry, fishing, exports, imports, gross domestic product and inflation were collected. The data were converted to constant 1958 values by diving them through by cumulative inflation rate. The shares of various sectors in gross domestic product were obtained by diving their respective value added by gross domestic product.

The methodology employed in this study involved identifying major economic factors that influence the capacity to levy and to pay taxes. Relative influences of these factors on tax revenue were then measured using regression methods. Given the coefficients of explanatory variables, a tax ratio was predicted for each year and this ratio was divided by the actual tax ratio to obtain an index of tax effort. The influence of per capita income on tax ratio was taken as the estimate of tax ratio buoyancy. When estimating the income elasticity of the tax ratio, dummy variables were introduced to control for unobservable determinants of the tax ratio.

On the basis of empirical evidence the study concludes that:

(i) The tax ratio increases with per capita income, which means that a larger per capita income implies higher tax revenues. However, the tax ratio is inelastic with respect to per capita income, implying a less than proportionate response of the tax ratio to growth in per capita income.

(ii) An increase in the volume of international trade increases the tax ratio.

(iii) The tax ratio increases with GDP shares of manufacturing, mining, quarrying building and construction sectors.

(iv) The tax ratio is inversely correlated with GDP shares of agriculture, forestry and fishing sectors. This result, together with,

(v) Above, suggests that the tax ratio is greatly influenced by the structure of the economy. Other results, including their policy implications, are reported and discussed in the text.