EFFECTS OF EXCHANGE RATES ON TAX REVENUE PERFORMANCE IN KENYA

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Abstract

Kenya Revenue Authority (KRA) collects more than 95% of all government revenue. Through taxation, government is able to raise revenue that is sufficient for public spending without too much borrowing. Tax is a compulsory payment imposed by the government on the incomes and profits of individuals and corporate bodies. Taxation is the main source of central government revenue. The amount of tax revenue realized or expected by any state is determined and influenced by various economic factors. The factors range from micro to macro-economic. In Kenya, tax revenues have for quite some time, remained low relative to the effort and tax policies in place. The Kenya government has always been in search for the appropriate policy strategy to enhance tax revenues and boost its revenue profile. This paper therefore attempted to examine the effects of a selected relevant macroeconomic policy variable that can serve as a foundation variable for achieving such policy objective. The main purpose of this study is to examine the effect of Exchange rate on tax revenue performance in Kenya. The approach for this study used annual time series secondary data for the period 2003 to 2018 to estimate a linear model of tax revenue performance and the selected macro-economic factor. The data was source from the Central Bank of Kenya, Kenya National Bureau Statistics (KNBS), Ministry of Finance data on National Budgets and other Government records. The study used correlation and regression analysis research design. The findings established that exchange rates had a negative relationship with tax revenue collection. The R^2 value which is used to show to what percent do the explanatory variables explain the dependent variable was found to be 0.9937 while the p values for all variables were found to be significant at 5% level of confidence. The findings will inform the government on what areas to invest its resources in order to boost and improve tax revenue performance.

Keywords: Tax revenue performance, Kenya revenue authority, Kenya national bureau of statistics, foreign direct investment, infrastructure development index, Tax modernization program, gross domestic product, human development index, international monetary fund

1. INTRODUCTION

Tax performance

Raising revenue is the most basic task of the state. For any state to perform its function well it needs to raise money e.g. provision of security to its citizens, provide justice or administer a bureaucracy and run other development agendas. Through its key role as the tie that binds the ruler and the ruled, taxation supports representation, accountability, and state capacity. Tax is a

compulsory contribution to the government, paid by individuals and corporate entities, which does not bear any relationship to the benefit received (Hyman, 1987). Taxation has been a topic of discussion for decades in the global arena as countries strive to maximize tax revenue collection in order to raise the revenue needed for economic development without eroding the tax base. Evidence from different countries globally shows that most countries rely on foreign direct investment (FDI) and taxation to boost tax revenue collection (Deloitte, 2013). The main challenge of national governments worldwide is to continually increase the welfare of its people through the implementation of appropriate economic policies and programs (Tripath, 2012)

Globally, Countries with a low tax yield or lax enforcement of tax laws have been facing tough times. Such international players as the Organization for Economic Co-operation and Development (OECD), the World Bank and the G20 have been calling for more determined action to combat tax evasion and avoidance. With the world fighting the global financial and economic crisis, there has been a growing pressure on tax havens to increase the transparency of their tax systems and put an end to unfair competitive practices. For instance, from the year 2003-2015 Malaysia, Colombia and Vietnam have been experiencing a decline in tax performance which was a result of Increase in non-tax revenue (Makis Ivanya, 2015). Countries with high tax performance predominate in Western Europe as well as in many formerly socialist states from Eastern Europe and the former Soviet Union. The highest income countries with tax ratios below the trend line) are the USA, Japan, Ireland and Switzerland (European Commission 2014). In contrast South and Southeast Asia., Bangladesh, Pakistan, Malaysia, Cambodia, Indonesia, Laos, Sri Lanka, India, Nepal and the Philippines are among the low performers. Similarly, Many Latin America and Caribbean countries find themselves below the trend line, with Guatemala, Venezuela, Paraguay, Panama, Dominican Republic and Colombia in the group of low tax performers. The only high tax performers in this region are Brazil and Guyana. (Peerson, 2013)

Regionally, many of the African developing countries face difficulties in generating revenues for the public purposes. In Africa most of the government budgets have deficits which hinder the government's investments in both human and capital investments which are necessary for economic growth. Programs supported by international monetary fund in sub-Saharan African countries in recent years have incorporated measures to raise tax revenues and restructure tax system in these countries. Countries with relative high tax revenues tend to have high tax index.

In Africa In the year 2012 taxes on goods and services accounted for the largest share with 5.2% of African GDP, International trade on taxes accounted for 5% of the GDP and taxes on profits and income accounted for 4.6% of the GDP (World Bank,2014). Some countries in sub Saharan Africa have made progress in improving their tax system in the recent times, for instance Benin has undertaken a comprehensive program of reform of both tax policy and administration resulting in improvement of the tax structure and increase in the tax share to GDP ratio. Similarly, countries such as Ghana, Burundi, Liberia, Morocco and Algeria have been ranked as the high tax performing countries in the recent study conducted in Africa by the World Bank, (World Bank, 2014). Whereas central African countries (for instance, Chad, Sudan, Central

African Republic, Nigeria) are counted as low tax performers who have been related to higher death toll in armed conflicts and a larger amount of displaced persons (OECD, 2013).

In Kenya, taxation is the single largest source of government budgetary resources. Between 1995 and 2004, tax revenue constituted 80.4% of total government revenue (including grants). Relatively, the importance of non-tax revenue is also significant in sustaining the public budget although, its importance is much less than the role of taxation given that its share over the same period was 15.1%. Foreign grants play a minimal role as they have averaged only 4.5%. Given its central role, taxation has been applied to meet two objectives. First, taxation is used to raise sufficient revenue to fund public spending without recourse to excessive public sector borrowing (Glenday, 2002). Second, it is used to mobilize revenue in ways that are equitable and that minimize its disincentive effects on economic activities.

Over time, Kenya has moved from being a low tax burden country to a high tax burden country yet the country faces the obvious need for more tax revenues to maintain public services. Given the high tax burden, prospects to raise additional revenue seem bleak. In addition, Kenyans are yet to accept a tax paying "culture". On one hand, those with political power and economic ability are few and do not want to pay tax. On the other hand, those without political power are many, have almost nothing to tax, and do also resist paying taxes. Since no one enjoys paying taxes, there is mistrust between those collecting taxes and taxpayers. This mistrust generates a game theoretic coexistence between tax agents and tax payers, with agents perceiving taxpayers as criminals unwilling to pay their taxes, and tax payers wary of government agencies" high-handedness in collection of taxes (KRA, 2004). This creates the need for the tax agents to improve their image by building trust and public confidence.

However, the tax system has continuously changed, in pursuit of the objectives of the Tax Modernization Program that came into force in 1986. The challenges that confront the tax authorities today are not much different from the pre-reform challenges. With Kenyan firms reporting that about 68.2% of profit is taken away in taxes, tax competitiveness is low and the country remains among the most tax unfriendly countries in the world. Tax evasion remains high, with a tax gap of about 35% and 33.1% in 2012 and 2013 respectively (KIPPRA, 2014). The tax code is still complex and cumbersome, characterized by uneven and unfair taxes, a narrow tax base with very high tax rates and rates dispersions with respect to trade, and low compliance (KIPPRA, 2004b).

Given the destabilizing effects of the deficits and the fact that the Government through Sessional Paper No 1 of 1986 (GOK, 1986)) came up with measures to address the problem. The most notable fiscal policy proposals were the Tax Modernization Program (TMP) that was adopted in 1986 and the Budget Rationalization Program that followed in 1987 (Muriithi and Moyi, 2003). The former program was aimed at enlarging the government revenue base whereas the latter involved regulating expenditure through strict fiscal controls. Kenya has various types of tax as a means of collecting revenue and Kenya Revenue Authority keeps on making amendments in order to achieve their target each financial year.

Exchange rates on Tax Revenue Performance

Exchange rate is the amount of local or home currency required to purchase one unit of a foreign currency. According to Schiller (2008), the exchange rate is determined by the demand and supply of the foreign currency, trade balance, current account balance and capital account balance. The exchange rate plays an important role in a country's trade performance. Whether determined by exogenous shocks or by policy, the relative valuations of currencies and their volatility often have important repercussions on international trade, the balance of payments, tax and overall economic performance. A more depreciated real exchange rate would increase the base of trade taxes in domestic currency terms, which would in turn increase trade tax collections. To the extent that a real depreciation leads to a lower level of imports, this would offset to some extent the higher collections induced by higher domestic currency values.

Regionally, the Ghana cedi has depreciated against its major trading currencies especially the US Dollar (Alagidede & Ibrahim, 2017). Most recently, the cedi has been very volatile. For instance, at the beginning of January 2014, a dollar was exchanged for GH¢ 2.21 and by the end of September 2014, the Cedi–Dollar exchange rate stood at GH¢3.20— denoting about 44.65 percent depreciation (Alagidede & Ibrahim, 2017). The depreciation of the cedi has largely contributed low performance of tax revenue to GDP ratio at an average of 14% compared to Sub Saharan Africa average of 18%

In Kenya Foreign exchange market is influenced by a number of factors such as the changing pattern of the international trade, institutional changes in the economy and structural shifts in production. Before the establishment of the Central Bank of Kenya (CBK) the enactment of the Exchange Control Act on foreign exchange was earned by private sectors and commercial banks which acted as agent for local exporters. The exchange rate is one of the intermediate policy variables through which monetary policy is transmitted to the larger economy through its impact on the value of domestic currency, domestic inflation, the external sector, macroeconomic credibility, capital flows, and monetary and financial stability. Thus exchange rate might induce changes in relative prices of goods and services, and the level of spending by individuals and firms, especially if significant levels of their wealth are held in foreign currencies. An appreciation in the value of an exchange rate rise makes imported goods and services relatively cheap, while depreciation makes export become cheaper to foreign buyers, thereby inducing higher competition in export markets at home of which may have an influence on tax revenue. Inflation is a strong weapon that fights Exchange rate and cause fluctuation in price of goods and services.

2. Objectives of the study

The main objective of the study is to examine the effect of exchange rates on tax revenue performance in Kenya.

Research Hypothesis

$H0_1$: There is no statistically significant relationship between exchange rates and tax revenue performance in Kenya.

3. Scope of the Study

The study has covered a period of sixteen years, starting from 2003 to 2018, with the variables measured at a national level. The period covered was extensive and therefore more likely to give accurate results.

4. Literature review

Ebrill et al (2001) conducted a study on the impact of currency devaluation on import tax performance in 22 developing countries. Using secondary data on the share of VAT revenue derived from imports for the 22 developing countries, the study found out that More than 50 percent of the VAT revenue came from importation stage in most of the sample countries. (The highest in the sample being 70 percent) .According to the findings a real depreciation of the currency would lead to an increase in excise tax and VAT or sales tax collections from imports. Similarly the study found out depreciation of exchange rate increases the relative price of imported goods (or good using imported inputs). Hence tax revenues would change in proportion to the change in the final price. However, in spite of the findings the researcher did not indicate whether there would be an offsetting demand effect induced by higher prices. This study will indicate the impact. The study only focused on devaluation. This study intent to analyze both depreciation and appreciation of currency value affects tax revenue performance in Kenya.

Tanzi (1989) presents several wide-ranging hypotheses of the relationship between various macroeconomic variables, including inflation and exchange rates, and tax revenue. He observes that there is often an inverse relationship between a country's tax revenue and the real level of its official exchange rate. The researcher argues that overvaluation has a direct effect by suppressing import and export bases measured in domestic currency terms. This reduces collections of international trade taxes and sales and excise taxes, which are usually levied on domestic and imported consumption. Overvaluation also has indirect effects by reducing the incentive to produce goods for export, encouraging capital flight and currency substitution, weakening the balance of payments, encouraging black markets, and encouraging trade restrictions. He concludes that even in heavily indebted countries, where it is generally assumed that devaluation weakens the fiscal balance through its effect on debt service, higher revenues may offset increases in debt service so that the overall effect of devaluation is offset.

Khattry and Mohan Rao (2002) examined the link between exchange rate and internal trade tax revenue, using a panel of 80 developing and industrialized countries, covering the period 1970 to 1998. Employing a fixed-effects regression framework, the study found that trade liberalization is negatively correlated with total tax revenue and international trade tax revenue, but they find no significant link between the exchange rate and international trade tax revenue. They also find that countries are in general already below their measured revenue-maximizing tariff rate, suggesting that tariff reductions would reduce international trade tax revenues. The study was however conducted amongst many countries hence it may not give a clear picture of how in Kenya exchange rate is affects tax performance. This proposed study will investigate the effect of exchange rate specifically in Kenya.

5. Research methodology

Model Specification

To investigate the dynamic relationship among tax revenue variable and the selected four macroeconomic variables Human Capital Development (HDI), Infrastructure Development Index (INF), Exchange rate (ER). This study specified a model which expresses tax revenue as a function of these macroeconomic variables. The model is specified

TAX REVENUE = f (HDI, INF, ER) …………………………………………… (1)

The Analytical model

To establish if there is a relationship between macro-economic factors (HDI, INF, ER) and tax revenue performance in Kenya, the researcher will conduct a multiple regression analysis using the following model;

$Y = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \varepsilon t$………………..

Where; Y = tax revenue performance which will be measured using tax revenue figures from the year 2003-2018 available on KRA website.

α = Constants.

β_1… β_3 = the slope which represents the degree with which tax revenue performance changes as the independent variable change by one unit variable.

X_1 = Human Development Index (independent variable). Annual figures for the year 2003-2018 will be retrieved from KNBS website.

X_2 = Infrastructure Development Index (independent variable) will be measured using…….The annual figures for the year 2003-2018 are available on KNBS website.

X_3 = Exchange Rate (independent variable). Annual figures from the year 2003-2018 will be retrieved from World Bank website.

ε = error term

t = time series

Variables of the Study

Tax Revenue Performance: Tax is a compulsory contribution to the government which is paid by both individuals and corporate entities and does not bear any relationship to the benefit received (Hyman, 1987). The study will evaluate tax revenue performances that are charged on incomes in terms of corporate profits, direct taxes and income.

Exchange rates; Exchange rate is the amount of local or home currency required to purchase one unit of a foreign currency. According to Schiller (2008), the exchange rate is determined by the demand and supply of the foreign currency, trade balance, current account balance and

capital account balance. The exchange rate plays an important role in a country's trade performance. Whether determined by exogenous shocks or by policy, the relative valuations of currencies and their volatility often have important repercussions on international trade, the balance of payments, tax and overall economic performance.

Data Analysis

Data was first tested using the pre diagnostic tests for consistency in measurement and outliers were removed after confirmation. The data was also refined run using STATA 13 software for analysis. The software is preferred for time series analysis as it can be used to conduct various tests.

Pre- Diagnostic test
Pairwise Correlation Matrix

Linear relationships on the explanatory variables were tested using the pairwise correlation matrix.

Unit root test

Unit root tests was carried out to appraise the effect of shock and to avoid spurious regression related to non-stationary variables by using Augmented Dickey Fuller test (ADF) statistics. The null hypothesis is H0: $\delta = 0$ the alternative hypothesis is H1: < 0. If the computed ADF statistics is greater than the ADF critical value at a given significance level, do not reject the null hypothesis because unit root exists. If the computed ADF statistics is less than the ADF critical value, reject the null hypothesis because unit root does not exist thus the series is stationary. If the series are not stationary at given significance level, then all the series are differenced once to make them stationary (Gujarati, 2009). The Stationarity of Human development index was achieved at levels but for the others it was achieved at second difference.

Optimum length determination

Optimum lag length was determined by checking the majority of the statistics (FPE, AIC, HQIC, SBIC) which suggested only four lag lengths.

Co-integration test

Co-integration tests deal with the relationship of many variables whereby each has a unit root. The regression of two non-stationary time series variables would lead to spurious results. One way to guard against spurious regression is to find out if the time series are co-integrated. Variables are said to be co-integrated if they have a long-term or equilibrium relationship between them. Two variables x and y are said to be co-integrated of order one, I (1) if both are integrated of order one and there exists a linear combination of the two variables that is stationary, I (0). The linear combination is given by either:

$Y_t = \alpha 0 + \beta 0 x_t + \mu 0_t$ ....Equation 1

$X_t = \alpha 1 + \beta 1 y_t + \mu 1_t$ .... Equation 2

Co-integration test was performed in the chapter using the Johansen Co-integration test and it was fond out that there were no co-integrating equations by checking at the trace statistic against the critical value at 5% level of confidence.

Regression analysis

This study used ordinary Vector Auto-regression for determining long-term and short-term causality. Regression analysis was later performed in STATA version 13. The following necessary tests were conducted to ensure data accuracy and reliability.

Post Diagnostic test

Normality

This test was used to determine if a data set was well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed. Skewness Kurtosis was used to test for normality and it was established that the probability chi2 value of skewness was above 0.05 for all variables which is an indication that the amount and direction of distribution of variables around their means were asymptotically normally distributed. The Kurtosis probability chi2 value for all variables was above 0.05 hence the variables around their means were asymptotically distributed.

Test for Autocorrelation

Autocorrelation occurs in time series data when the error is occurring at one period crosses over into another period. It may also occur when the error term relating to any observation is influenced by the error term relating to any other observation. The error term in the linear regression requires that successive values of the error term be sequentially independent (Mukras, 1993). The OLS estimators remain unbiased, consistent and asymptotically normally distributed in the presence of autocorrelation, but the estimators become inefficient. This study used Breusch-Godfrey LM test to check for the presence of autocorrelation. The test involved testing of the null hypothesis of absence of autocorrelation against the alternative hypothesis of the presence of autocorrelation. That is;

H0: $\rho >= 0.05$

H1: $\rho < 0.05$

The null hypothesis states that the error term is free from autocorrelation while the alternative hypothesis shows the presence of autocorrelation in the error term (Gujarati, 2009). The results in the next chapter showed that a statistic of 0.9910 was obtained which shows absence of serial correlation and hence no need for correction of the serial correlation.

Test for multi-collinearity

Multi-collinearity arises from the presence of interdependence or lack of independence among independent variables in a multivariate regression model. Multicollinearity poses difficulties only when inter-correlation among the independent variables is high. The degree of

multicollinearity is what matters since multicollinearity is common among variables. To test for the presence of multicollinearity, this study used Variance Inflation Factor (VIF). For VIF values greater than 10, multicollinearity is deemed to be present (Nachtscheim, 2004). From the study findings in the next chapter it is evident that there was Multicollinearity among all variables (HDI, INF and ER). This is because all the variables had a VIF of greater than 10.

Test for heteroscedasticity

Heteroscedasticity takes place when the variance of the error term keeps changing for all the values of independent variables.

$$E\,(\varepsilon i2) = \zeta\varepsilon i2 \quad\text{..Equation 3}$$

The error term can vary from one observation to another meaning the variance of error terms is dependent on the magnitude of the independent/explanatory variables.

$$E\,(\varepsilon i2) = \zeta\varepsilon i2 = f\,(xi) \quad\text{...Equation 4}$$

The unbiased character of the OLS estimator is not affected by the presence of heteroscedasticity though it renders it inefficient. This is because in small samples OLS estimator we will not have the minimum variance among the class of unbiased estimators and in large samples it will be asymptotically inefficient. This study used the Breusch-Pagan test to check for the presence of heteroscedasticity (Gujarati, 2009).

6. Research findings

Descriptive summary

The study statistics namely mean, standard deviation, skewness and kurtosis were investigated. Mean is used to locate the center of the relative frequency distribution, kurtosis characterizes the relative peakedness or flatness of a distribution compared with the normal distribution, skewness characterizes the degree of asymmetry of a distribution around its mean while the standard deviation measures the spread of a set of observations. Other statistics include minima and maxima values as shown on Table 4.1 below.

Table 4.1 Descriptive Statistics

Variables	Observations	mean	Std. Dev.	Min	Max	skewedness	kurtosis
Tax Revenue	16	329300.1	200551.2	91661	708427	.5456068	1.964897
HDI	16	5.405	.4016798	4.68	5.9	-.3838459	1.889071
INF	16	15.24437	6.764746	7.85	25.3	.400115	1.501697
ER	16	84.225	11.80675	67.3	103.4	.3452256	1.889897

Source: Author's Computation based on STATA 2019

From the above table, it is clear that there is high spread of data among variables. From its nature, it was so anticipated since time series data especially those, which include aggregates follows a random or stochastic process. The tax revenue performance had an average value of 329300.1, least value of 91661, maximum value of 708427, standard deviation of 200551.2, and skewness value of .5456068 and Kurtosis value of 1.964897. Human development Index had an average value of 5.405, least value of 4.68, the maximum value of 5.9, the standard deviation of .4016798, skewness value of -.3838459 and Kurtosis value of 1.889071. Infrastructure Development Index had an average value of 15.24437, least value of 7.85, maximum value of 25.3, standard deviation of 6.764746, skewness value of .400115 and Kurtosis value of 1.501697. Exchange rate had an average value of 84.225, least value of 67.3, maximum value of 103.4, a standard deviation of 11.80675, and skewness value of .3452256 and Kurtosis value of 1.889897.

From table 4.2, data for tax revenue was widely spread than other variables 200551.2 million USD. This is mainly because of the fluctuations in the tax revenue collection over the period of study. A lot of factors played in contributing to the low revenue collection year's back such as low foreign direct invest high rates of unemployment, political instability. It also had a large mean which is an indication of the fact that economy revolve around tax collection. Exchange rate also had a large mean value because of the growing desire for a balanced balance of payment. The range of data that is the difference between the maximum value and minimum value was a huge gap which demonstrates different exchange rates that have been set due to the need to increase exports. Analysis of skewness showed that tax revenue performance, infrastructure development index, exchange rates are asymmetrical to the right around their mean, while human development index is negatively skewed. Consequently, human development index has the highest peaked regressor compared to other variables.

Regression analysis

Table 4.9 Regression Analysis

Dltxr	Coefficients	Std. Err.	Z	P>|z|	[95% Conf. Interval]	
lhdi	.4507323	.0588646	7.66	0.000	.3224775	.5789872
linf	.3089879	.0133781	2.91	0.000	.0098397	.0681362
Ller	-.2038345	.0939479	-2.17	0.577	-.150861	.2585289
Cons	1.583694	.1693715	9.35	0.000	1.214665	1.952723
Number of obs = 16 F(4, 37) = 631.72		Prob > F = 0.0000 R-squared = 0.9937		Adj R-squared= 0.9921	Root MSE = 0.00466	

Source: Author's Computation based on STATA 2019

From table 4.9, the results reveal that the model was good in terms of goodness of fit and overall significance with a (R^2) of 0.9937 and a probability value of 0.0000. These means that 99.37% of the variation in tax revenue is explained by the explanatory variable in the model while the other proportion 0.63% is explained by other factors not considered in this study. Probability value of (0.0000) implies that the variables in the model are jointly significant in explaining tax revenue at 5% level of significance.

The key objective of this paper is to establish the level of association between Exchange rates and tax revenue performance. The necessary diagnostic tests have been carried out, and the logarithmic model shows a positive relationship between the two. The following is the regression equation obtained;

$LLTXR = .0319441 + .4507323LHDI_t + .3089879LINF_t - .5038345LLER_t + e_t$ ………………………………..

Where LLTXR = second natural log of tax revenue

LHDI = natural log of foreign direct investment.

LINF = natural log of Infrastructural development.

LLER = second natural log of exchange rate.

e = the error term.

$_t$ = time series data

Interpretation of results

The above estimating model shows that if all other explanatory factors are held constant, the annual FDI share of GDP will reduce by .0319441 units.

Exchange rate

The Coefficient in the model indicates that exchange rate is statistically significant and had an expected negative impact on tax revenue performance. The coefficient of exchange rate in the model run showed that a unit increase in exchange rate would decrease tax revenue .5038345 by millions. The t-value was (-2.17) which mean that there was a negative relationship between exchange rate and tax revenue performance; this can be seen on the data. Tanzi (1989) presents several wide-ranging hypotheses of the relationship between various macroeconomic variables, including inflation and exchange rates, and tax revenue. He observes that there is often an inverse relationship between a country's tax revenue and the real level of its official exchange rate. The researcher argues that overvaluation has a direct effect by suppressing import and export bases measured in domestic currency terms. This reduces collections of international trade taxes and sales and excise taxes, which are usually levied on domestic and imported consumption. Overvaluation also has indirect effects by reducing the incentive to produce goods for export, encouraging capital flight and currency substitution, weakening the balance of payments, encouraging black markets, and encouraging trade restrictions. He concludes that even in heavily indebted countries, where it is generally assumed that devaluation weakens the fiscal balance through its effect on debt service, higher revenues may offset increases in debt service so that the overall effect of devaluation is offset.

7. Summary and Conclusion

Summary of findings

The empirical results shows that a unit increase in exchange rate would result to a decrease in tax revenue performance. This observation can be explained by the fact that, as the government tends to overvalue the currency the net effect is that exports are reduced while imports are increased. This contributes to increase in both income and corporate tax.

Conclusions

From the results and findings, there is a link between exchange rates and tax revenue performance. This findings indicates that exchange rates is statistically significant with a negative relationship with tax revenue performance,. Therefore the null hypothesis that states that exchange rate has no statistical significance to tax revenue performance was rejected. In conclusion for the Kenya government to achieve both the big 4 agendas and the vision 2030 major funding from revenue collection is essential so as to reduce borrowing of development funds that results to increase in country's debt burden. However in order to increase tax revenue performance, the exchange rates have to be balanced has to be increased in order to increase the labour force output. Similarly better policies have to be put in place by the Kenya tax revenue commission in order to achieve maximum revenue collection. Herein are the recommended policies and suggestions from the study findings.

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