ABSTRACT

Agribusiness is the “sum total of all operations involved in the manufacture and distribution of farm supplies, production operations on the farm, and the storage, processing, and distribution of farm commodities” Davis and Goldenberg(1957). Agribusiness has three major components that is agricultural inputs, agricultural production, and agricultural products. Agricultural inputs deals with the supply of inputs required by producers for the production of crops and raising of livestock. These inputs include; seeds, fertilizers, chemicals, machinery and fuel. Agricultural production deals with the transformation of inputs into products and therefore includes; crop production, livestock and fisheries breeding. Agricultural products deals with the various aspects of managing agricultural outputs. It involves the storage, packaging, processing and marketing of finished products in order to meet the dynamic needs of the customers. Tax is a compulsory contribution to the government from its citizens which is used for the expenses incurred in the common interest of all persons without the preferences to special benefits confined to the taxpayer. Collection of tax is the mandate of the authority vested with responsibility, in Kenya, it is the Kenya Revenue Authority which is tasked with thus function and it includes: providing advice on matters pertaining to the administration and collection of revenue, enhancing efficiency, eliminating tax evasion, facilitating economic stability and control of entry and exit points to the country. Value added tax is an indirect tax levied on the difference between what the producer pays for inputs (raw materials and services such as advertising and the producer charges for the finished goods or services hence the word “value added”. Value added tax was first introduced on 1st January 1990. It was introduced as a broad-based tax to be levied on the consumption of not only locally manufactured and imported goods, but also on services with a view of generating substantial revenue. Although Kenya experienced a shortfall in the revenue collected in the initial period of

the introduction of the Value Added Tax, the performance has substantially led to an increased revenue collection at a lower administrative and compliance cost. The importance of value added tax is solidified by the fact that it contributes to about 28% of the total tax revenue collected in Kenya. Taxation of the agricultural sector more efficiently and effectively becomes central to the development of the economy. More often, the policy makers use tax policies and laws to attract investments, facilitate productivity and sustainable outcomes to farmers and create a strong business environment. However, while doing so the government has to ensure that the tax measures do not distort the markets or create disincentives in the sector.