

# Understanding KRA income and expense validation

The Kenya Revenue Authority (KRA) has announced that, effective 1<sup>st</sup> January 2026, it will begin the process of validating all incomes and expenses declared in both individual and non-individual income tax returns. This is a strategic move among many that KRA is putting in place to strengthen compliance, enhance accuracy in tax filings, and align the declared amounts with verified data sources as a way of ensuring the instances of income tax audits are mitigated in the foreseeable future. The validation will be taking place upon submission of the 2025 year of income/accounting period return via the iTax platform.

## Key dates

- **Effective date:** 1<sup>st</sup> January 2026
- **Applies to:** 2025 year of income returns
- **Action required:** Reconcile all income and expenses with TIMS/eTIMS, WHT, and Customs records before filing.

## Data sources for validation

KRA will cross-check the declared amounts against the following sources:

- **TIMS / eTIMS:** Schedules of incomes and expenses reported electronically.
- **Withholding Income Tax (WHT) gross:** Amounts withheld and remitted by payers.
- **Import records from Customs:** Supporting evidence for expenses that are related to importation of goods and services.

All the declared incomes and expenses will have to be supported by a valid electronic tax invoice, correctly transmitted with the buyer's PIN, where applicable, subject to Section 16(1)(c) of the Income Tax Act and the following **exemptions** under Section 23A of the Tax Procedures Act, Cap 469B and the Tax Procedures (Electronic Tax Invoice) Regulations, 2024:

1. Emoluments received or subject to PAYE under the Income Tax Act;
2. Importation of goods under the East Africa Community Customs Management Act;
3. Investment allowances including internal accounting adjustments;
4. Airline passenger ticketing;
5. Interest income for financial institutions as defined in the Income Tax Act;

## 6. Fees charged by financial institutions as listed below:

- A bank or financial institution or mortgage finance company licensed under the Banking Act (Cap. 488);
- An insurance company licensed under the Insurance Act (Cap. 487);
- The Kenya Reinsurance Corporation established by the Reinsurance Corporation Act;
- A building society registered under the Building Societies Act (Cap. 489);
- The National Housing Corporation established under the Housing Act (Cap. 117);
- A co-operative society registered under the Co-operative Societies Act (Cap. 490);
- The Kenya Post Office Savings Bank established by the Kenya Post Office Savings Bank Act (Cap. 493B);
- The Agricultural Finance Corporation established by the Agricultural Finance Corporation Act (Cap. 323); and
- A person licensed under Part VII of the Hire-purchase Act (Cap. 507)

## 7. Expenses subject to withholding tax that is a final tax such as rent payment to non-residents, qualifying interest among other expenses;

## 8. Services provided by a non-resident person without a permanent establishment in Kenya; and

## 9. Any other exclusion as may be provided under section 23A of the Act - This is a catch-all provision that allows the Commissioner to grant additional exemptions by notice in the Gazette to specific persons, transactions, or categories not explicitly listed above.



## Who will be impacted?

- **Individual taxpayers:** Taxpayers will be required to ensure that all sources of income and deductible expenses are fully supported by valid electronic tax invoices.
- **Business and non-individual entities:** They will have to maintain accurate records and ensure they transmit all electronic tax invoices for all transactions, ensuring compliance with TIMS / eTIMS requirements. Further, they will have to request their suppliers to comply with electronic tax invoicing requirements.
- **KRA:** The Kenya Revenue Authority will leverage this automated cross-checking to improve compliance monitoring and reduce misreporting. This greatly simplifies their work and will reduce instances of audit reports.
- **Tax Professionals and Advisors:** They will have to guide their clients on reconciling the declared figures with validated data and supporting documentation, something that may end up necessitating client training sessions.

## Practical implications

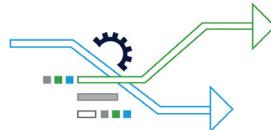
- Taxpayers will have to review their income and expenses records to ensure they are in alignment with the TIMS / eTIMS, WHT and Customs data.
- Businesses may be forced to update their internal reporting systems to ensure all electronic invoices are transmitted accurately with the buyer's PIN.
- Taxpayers will have to reconcile their accounts early as potential discrepancies will trigger queries or audits from KRA.
- Taxpayers will have to properly maintain supporting documentation to be able to make them readily available once required to facilitate smooth validation.

## Our view

The move by KRA to validate income and expenses marks a significant advancement toward enhanced automation in tax compliance and underscores the critical importance of timely, accurate, and well-supported record-keeping. Notwithstanding this positive development, KRA has not provided clarity on how the validation framework will address purchases from government entities that remain non-compliant with eTIMS requirements, despite the fact that such entities do not fall within the exemptions provided under Section 23A of the Tax Procedures Act.

This gap in guidance presents a practical challenge for taxpayers who routinely transact with government bodies and depend on them to issue compliant electronic tax invoices to substantiate legitimate business expenses. In the absence of a clear position from KRA, the risk of inconsistencies during return validation remains a concern.

Given that the new framework will require taxpayers to ensure that all claimed expenses are supported by electronic tax invoices transmitted through eTIMS, **it is imperative for taxpayers and advisors to maintain comprehensive supporting documentation for transactions involving non-compliant government entities.** Proactively reconciling tax returns with available eTIMS data and monitoring further guidance from KRA will be essential to mitigating the likelihood of disputes, disallowances, or penalties once the validation procedures take effect.



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