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RSMEA Newsletter

Overview of the Kenya Finance Bill, 2026

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Key:

- ~~In red with strikethrough~~ – Changes being proposed by the Finance Bill 2026 to the existing provisions
- In purple – Changes being proposed to proviso by the Finance Bill 2026

Caveat

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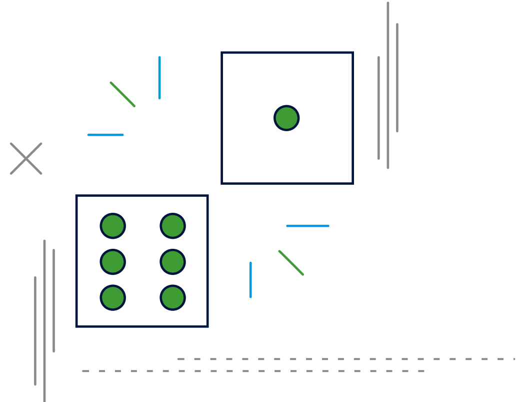
INTRODUCTION

The Gazetted Finance Bill, 2026, was released on 5th May 2026. These are proposals at this stage and will only become effective once passed into an Act, which is expected on or before 30th June 2026. This newsletter provides an overview of the proposed amendments across several tax laws.

Highlights of the key proposed changes

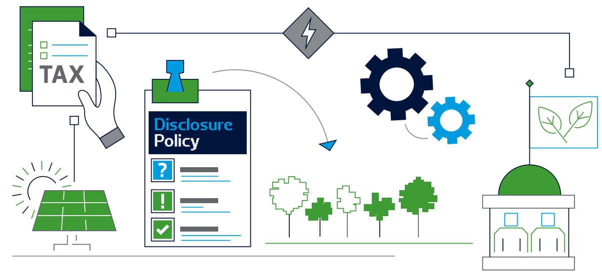
- Introduction of **a tax amnesty for liabilities relating to periods up to 31st December 2025**, with the amnesty expiring on 31st December 2026
- Introduction of withholding tax on ***interchange fees, merchant service fees and payment to card companie***s following the recent ruling by the Supreme Court that such fees are not subject to withholding tax
- **Change in the due date for filing income tax return** for both individuals and companies from 6 months after the end of year of income to 4 months after the end of year of income. Nil returns will be due by end of the first month after the end of year of income
- Reversal of the **calculation of timelines for objections and appeals** from working days to calendar days
- Introduction of Commissioner's power to **recover input VAT claimed** in respect of unsold supplies upon change of rate
- Proposed charge of VAT on digital and platform-based financial services
- Proposed increase in VAT-free threshold for accompanied baggage for returning passengers
- Exemption of non-residents from the requirement to obtain a PIN when opening an account with an investment bank



INCOME TAX ACT

DEFINITIONS (EFFECTIVE 1ST JULY 2026)

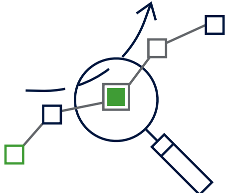
Item	Proposed Definition
Immovable property	The Bill proposes to amend the definition of "immovable property" in Section 2 of the Income Tax Act by removing the conjunction "and" and replacing it with disjunction "or". Under the current Income Tax Act, immovable property is defined as: *a) land, whether covered by water or not, any estate, rights, interest or easement in or over any land and things attached to the earth or permanently fastened to anything attached to the earth, and includes a debt secured by mortgage or charge on immovable property;* ***and*** *b) a mining right, an interest in a petroleum agreement, mining information or petroleum information;* As currently worded, the use of "**and**" suggests that both items (a) and (b) must be satisfied for property to qualify as immovable property, which is not the intended interpretation. The proposed amendment clarifies this by separating the two items, so that each category is treated independently and can qualify as immovable property on its own. In effect, the amendment confirms that land-based interests and extractive rights (such as mining and petroleum interests) each qualify as immovable property. It reinforces the taxation of income from the use of property under Section 6. It also clarifies that such income is treated as Kenyan-source income for non-residents under Section 9. In addition, it strengthens the application of capital gains tax on the disposal of such rights under the Eighth Schedule.
Withdrawal and Winnings	The Bill proposes to delete the current definition of "withdrawals," and replace it with a broader definition: "*withdrawals" means any amount of money, cash equivalent, or money's worth paid or disbursed to the account of a player by a person licensed under the Gambling Control Act, 2025.*" This amendment significantly expands the scope of what constitutes a withdrawal and align reference to the Gambling Control Act, 2025 which replaced Betting, Lotteries and Gaming Act, 1966. Previously, the taxable event was limited to amounts physically withdrawn from a betting or gaming wallet. Under the proposed definition, the focus shifts to any payout or transfer of value to the player's account, regardless of whether it is formally withdrawn from a wallet. In addition, the concept of "winnings," which had been deleted by the Finance Act, 2025, in place of withdrawals is reintroduced through a revised definition. The Bill defines winnings to mean *a payout of any amount paid out by a licensed person from a lottery or prize competition under the Gambling Control Act, 2025, excluding the amount staked or wagered.* This means that tax will apply to net winnings (i.e., payouts less the staked amount).



WITHHOLDING TAX (WHT) (EFFECTIVE 1ST JULY 2026)

Proposed Change	Details
Introduction of WHT on Interchange fees and merchant service fees	The Bill proposes to expand definition of management or professional fees to include: "*interchange fees and merchant service fees arising from transactions that use a card as a means of payment*." Consequently, withholding tax will be applicable on such fees. This appears to be a direct legislative response to the Supreme Court decision in ***Petition No. 12 (E014) of 2022: Barclays Bank of Kenya Limited (now Absa Bank Kenya PLC) v Commissioner for Domestic Taxes (Large Taxpayers Office).*** In this case, the Supreme Court held that the interchange fees paid by an acquiring bank to an issuing bank are not professional or management fees within the meaning of Section 2 of the Income Tax Act, hence not liable to withholding tax under Section 35 of the Income Tax Act. The Court emphasized that taxation must be grounded in clear statutory language and cannot be inferred or imposed by administrative interpretation. It stressed that the KRA had failed to precisely identify the taxable service category, which is a constitutional requirement under Article 210 — that no tax may be imposed except as clearly provided by law. The Bill seeks to cure this statutory deficiency identified by the Supreme Court by creating a clear legal basis for withholding tax going forward. It seeks to bring card network, and interbank fee flows within the withholding tax net, particularly in the rapidly growing digital payments sector.
WHT on payment to card companies and acquisition of software for distribution	The Bill proposes to delete the current definition of *'royalty'* and replace it with a substantially broader definition. However, the proposed definition is majorly similar to the current definition in the Income Tax Act except for the introduction of two additional items to be included as part of the definition of royalty listed below: • The use or the right to use a proprietary digital platform, payment network, payment-card scheme, payment processing system, switching system, clearing system or settlement system — including access, participation or usage rights in such systems through a card, whether the consideration is periodic or transaction-based and whether or not the payment is described as a service fee, transaction fee, network fee, assessment fee, processing fee or similar charge; and • The distribution of software where regular payments are made for the use of the software through the distributor. The proposed definition seems to be a direct reaction to the Supreme Court's determination that payments to card companies were not royalties under Section 2 of the Income Tax Act since the current definition does not cover such payments. The introduction thus remedies the perceived gap based on the Supreme Court's ruling. The proposed addition also seeks to expand the scope of the definition of royalties to explicitly cover acquisition of software for distribution where regular payments are made. This will increase the cost of software in Kenya.
Introduction of WHT on sale of scrap metals	The Bill seeks introduce WHT on sale of scrap metals at the rate 1.5% for both residents and non-residents. This marks the third legislative change relating to the taxation of scrap metal transactions within the past three years. The provision was initially introduced through the Tax Laws (Amendment) Act, 2024, subsequently repealed by the Finance Act, 2025, and is now proposed to be reintroduced.

Proposed Change	Details
	While the proposal may enhance government visibility and oversight over parts of the informal sector, the frequent changes in tax treatment undermine predictability and create uncertainty for businesses operating in the industry.
Introduction of WHT on winnings (for both residents and non-residents)	The Bill seeks to reinstate withholding tax on winnings, which had previously been repealed by the Finance Act, 2025 along with the definition of winnings at the rate of 20% for both residents and non-residents. As with the proposed taxation of scrap metal transactions, the repeated amendments to the tax treatment of winnings create uncertainty for taxpayers and businesses operating within the betting, gaming, and lottery sectors.
Increase in WHT on dividend paid to residents of EAC	The Bill proposes to remove the proviso under paragraph 3(d) of the Third Schedule to the Income Tax Act. The effect of deleting the proviso is that all dividends paid to non-residents will be subject to withholding tax at the rate of 15% of the gross amount payable. Currently, the Income Tax Act contains a proviso that provides for a reduced withholding tax rate of 5% on dividends paid to residents who are citizens of East African Community (EAC) Partner States. This preferential rate was introduced to encourage investment into Kenya from residents of the EAC. The proposed amendment removes this preferential treatment.
Exemption from WHT of payments made to ship and aircraft owners	Section 9(1) of the Income Tax Act provides that where a non-resident person carries on the business of a ship owner, charterer, or air transport operator, and any ship or aircraft owned or chartered by that person calls at a port or airport in Kenya, the gross amount received in respect of the carriage is deemed to be income derived from business in Kenya and is therefore subject to tax. The Bill proposes to abolish the WHT requirement on payments made to such ship owners. Instead, non-resident ship owners would be required to remit the full tax due within five days of receiving payment for carriage services relating to Kenyan ports, excluding transhipments. This proposal, coupled with the Commissioner's enforcement powers under Section 104 of the ITA, is intended to enhance the collection and remittance of the full tax due by non-resident ship owners.
Introduction of WHT on certain payments by national carrier to non-residents	The Bill proposes to repeal the exemption that excludes payments made by a national carrier to non-residents for specialised technical, maintenance, compliance, training, or digital systems support services that are not available locally from being classified as management or professional fees, and consequently from withholding tax. If enacted, such payments would be treated as management and professional fees subject to WHT. Notably, this exemption was only recently introduced through the Finance Act, 2025. Its proposed repeal within such a short period highlights the increasing frequency of changes to the tax framework creating uncertainty for taxpayers operating in the aviation sector.



PERSONAL INCOME TAX (EFFECTIVE 1ST JULY 2026)

THRESHOLD TO QUALIFY FOR TAX EXEMPTION OF GRATUITY

The Bill proposes to restrict the tax exemption applicable to gratuity or similar payments made by an employer in respect of employment or services rendered and paid into a registered pension scheme. The proposed amendment introduces an additional qualifying condition for such payments to qualify for tax exemption.

Currently, the law exempts gratuity or similar payments made by an employer and paid into a registered scheme after 1st July 2025 without any requirement on the length or continuity of employment. Employers could therefore make exempt gratuity contributions for employees regardless of how long they had served, including short-term or non-continuous engagements. This broad exemption allowed flexibility and enabled gratuity payments to be used as tax-efficient remuneration even where the employment relationship was brief.

Under the proposed changes, gratuity or similar payments shall only qualify for tax exemption where the employee receiving the payment has been engaged ***under a continuous contract of employment for a minimum period of three years***. Where gratuity or similar payments are made in respect of employees whose period of engagement is less than three years, such payments shall not qualify for exemption and shall be treated as taxable gains arising from employment.

EXPANDED SCOPE OF TAX-EXEMPT GRATUITY

The Bill proposes to broaden the scope of the tax exemption applicable to gratuity contributions by providing that any contribution made towards gratuity in respect of employment or services rendered shall qualify for exemption, subject to specified conditions.

Under the proposed amendments, any contribution to a gratuity in respect of employment or services rendered is exempt from tax; provided that—

- the gratuity was for a contract of service for a continuous period of at least three years;
- the total contributions do not exceed **thirty-one per cent of the basic salary** of the employee; and
- this shall not apply to any person who is eligible for deductions in respect of contributions made to a registered pension or provident fund.

Currently, Section 4(g) of the Income Tax Act exempts from tax only on gratuity payments made into a registered pension scheme. The proposed amendment seeks to expand the scope of this exemption by extending tax relief to gratuity payments to other schemes. This is a welcome move to encourage contribution by employers towards gratuity schemes for the employees however a cap has been put in place to restrict the total exempt contribution to 31% of the basic salary of the employee.

ALLOWABLE DEDUCTION OF INTEREST ON MORTGAGES PAID TO THE CBK

The Bill proposes to expand the scope of allowable expenses for employed persons by permitting a deduction of up to ***KShs. 360,000*** for interest paid to the Central Bank of Kenya in respect of the construction, purchase, or improvement of a residential house.

Currently, the Income Tax Act only permits a deduction for interest paid to institutions licensed under the Banking Act. Since the Central Bank of Kenya is not licensed under the Banking Act, any interest paid to it by an employee may not qualify as an allowable deduction against employment income.

PENSION BENEFITS AS A RESULT OF DEATH

The Bill proposes to amend the provisions on taxation of pension income by extending the existing tax exemption to pension-related benefits paid to beneficiaries or dependants upon the death of a member of a registered pension fund, provident fund, individual retirement fund, public pension scheme, or the National Social Security Fund.

Currently, while certain retirement benefits are exempt from tax, the law does not expressly provide clarity on the tax treatment of death benefits paid to beneficiaries or dependants, which may create uncertainty in practice. The proposed amendment seeks to address this gap by expressly exempting such payments from tax.

CAPITAL GAINS TAX (CGT) (EFFECTIVE 1ST JULY 2026)

CGT ON GAINS FROM ALIENATION OF SHARES

The Bill seeks to expand the definition of gains from alienation of shares charged to CGT to include "*gains derived from alienation of shares by a non- resident person where the shares derive their value in Kenya or the alienation results in a change of the group membership of a company resident in Kenya or of ownership of title in, or Interest in property located in Kenya*".

Under the current framework, Kenya imposes CGT on indirect transfers only where shares in a foreign entity derive more than 20% of their value from immovable property situated in Kenya, making the rule relatively targeted and threshold-based.

In contrast, the proposed amendment significantly broadens this position by extending CGT to gains derived by non-residents from the alienation of shares that derive their value more generally from Kenya (not limited to immovable property), does not mention any threshold, and further captures transactions that result in a change in group membership of a Kenyan resident company or changes in ownership of property or interests in property located in Kenya.

This proposal adds complexity to cross-border deals and internal reorganisations and may influence how investors structure and exit investments involving Kenyan assets.

EXEMPTION OF CGT ON TRANSFER OF PROPERTY TO REGISTERED REAL ESTATE INVESTMENT TRUSTS (REITs)

The Bill seeks to introduce a new exemption from tax on capital gains arising from the transfer of property to a Real Estate Investment Trust (REIT) that is registered by the Commissioner under the Collective Investment Schemes framework. Currently, transfers of property may trigger CGT where the transfer results in a gain to the transferor, unless a specific exemption applies which is not the case for REIT structures.

The proposed amendment seeks to remove this tax burden by exempting capital gains arising from the transfer of property to qualifying REITs. This is expected to encourage the establishment and growth of REITs by making it more tax-efficient for property owners and developers to inject assets into these structures.

CHANGE IN DUE DATE FOR FILING TAX RETURNS (EFFECTIVE 1ST JANUARY 2027)

The Bill proposes to amend Sections 52 and 52B by changing the statutory deadline for filing income tax returns from six (6) months to four (4) months after the end of the year of income. It further seeks to introduce a requirement that nil returns must be filed within one (1) month after the end of the year of income.

The intention is to accelerate tax reporting timelines, enhance the timeliness of revenue collection, and improve the availability of taxpayer data to the tax authority at an earlier stage in the fiscal cycle.

The revised four-month filing deadline will now coincide with the deadline for payment of the balance of tax, meaning that companies must finalise their tax computations and settle any outstanding liability within the same compressed timeframe.

In addition, for many companies, the first instalment tax payment is due on the 20th day of that same fourth month, effectively concentrating multiple compliance obligations - first instalment tax payment, final tax computation, return filing, and balance of tax payment - within a single period. This creates a substantial operational burden, requiring accelerated financial close processes, and earlier audit completion.

Further, the Bill proposes a change in the filing deadline applicable to returns filed in response to a notice issued by the Commissioner. Under the current framework, once the Commissioner issues a written notice requiring a person to furnish a return of income, the taxpayer is afforded a minimum of thirty days from the date of service of that notice to comply — a deadline that is both flexible, in that it is anchored to when the notice is actually served.

The Bill proposed to replace this with a fixed, calendar-based deadline that operates independently of when — or even whether — a notice is issued. Under the proposed amendment, the return must be submitted by the last day of the fourth month following the end of the taxpayer's year of income, effectively making the filing obligation automatic, predictable, and self-executing by operation of law rather than by administrative action of the Commissioner.

CORPORATE INCOME TAX (EFFECTIVE 1ST JULY 2026)

AVOIDANCE OF TAX LIABILITY BY NON-DISTRIBUTION OF DIVIDENDS

The Bill proposes to tighten the rules on deemed dividends by introducing a minimum threshold for undistributed profits. Specifically, where a company fails to distribute its income within twelve months after the end of the financial year, the Commissioner will be required to treat at least sixty per cent of that income as dividends, provided that, in the Commissioner's opinion, the company could have distributed the profits without prejudicing its operations.

Currently, the law grants the Commissioner broad discretion to determine the portion of a company's net income to be treated as dividends in such circumstances, without prescribing a minimum percentage. The proposed amendment fundamentally alters this position by setting a statutory floor of 60%, thereby limiting flexibility and increasing the likelihood of deemed dividend assessments.

This change comes at a time when the Kenya Revenue Authority (KRA) has demonstrated an increasingly aggressive stance in enforcing deemed dividend provisions, particularly targeting companies that retain earnings without clear commercial justification. In practice, KRA has been scrutinizing retained profits, especially in closely held companies, to assess whether such retention is driven by genuine reinvestment needs or is intended to defer withholding tax on dividends.

By introducing a minimum threshold, the amendment significantly raises the stakes for companies that accumulate profits. Businesses will now need to maintain robust documentation to justify the retention of earnings, including capital expenditure plans, working capital requirements, debt obligations, or other strategic business needs. Failure to substantiate the retention may result in at least 60% of profits after tax being deemed distributed, triggering withholding tax obligations regardless of whether an actual dividend has been declared.

From a practical perspective, this may have cash flow implications, as companies could face a tax liability on income that has not been physically distributed to shareholders. It also reduces the ability of businesses to reinvest profits organically without incurring additional tax costs. Consequently, companies may need to reassess their dividend policies, capital allocation strategies, and overall tax planning to mitigate exposure under the revised framework.

CLARIFICATION OF EXEMPTIONS FROM THIN CAPITALISATION RULES FOR LENDING AND LEASING BUSINESS

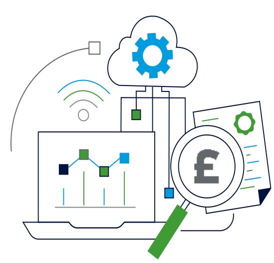
The Bill proposes to amend the current exemptions of Thin Capitalization Rules by replacing the phrase *'lending and leasing business'* with *'lending or leasing business, or both'.*

Under the current law, a non-deposit taking institution must be engaged in both lending **and** leasing simultaneously to enjoy the exemption. A strict interpretation of the current wording means a company doing only lending or only leasing arguably falls outside the exemption and is subject to the 30% EBITDA interest cap.

Under the proposed amendment, a non-deposit taking institution qualifies for the exemption if it is engaged in:

- Lending only; or
- Leasing only; or
- Both lending and leasing

The exemption is now significantly widened.



INTRODUCTION OF NON-RESIDENT RENTAL INCOME TAX (EFFECTIVE 1ST JULY 2026)

Currently, non-resident persons earning rental income from Kenya are subject to withholding tax at 30% on the gross rental income.

The Bill proposes to introduce a final tax, to be known as non-resident rental income tax, applicable to income accruing in or derived from the use or occupation of property situated in Kenya by a non-resident person. In addition, the Bill introduces compliance obligations for non-residents, including:

- Registration with the KRA under a simplified framework prescribed by the Commissioner; and
- Filing returns and paying the tax due by the **20th day of the month following receipt of rent**.

The Bill further provides that non-resident persons will not be required to account for or file returns in respect of such income where the rental income is received by a resident person on their behalf and has already been subjected to withholding tax.

The proposed non-resident rental income tax is not an additional tax but a more structured and enforceable framework to replace or complement the current 30% WHT regime. While WHT relies on third parties to deduct and remit tax, the new regime brings non-residents directly into the tax net through registration, filing, and payment obligations, improving compliance and reducing leakage. At the same time, it avoids duplication by exempting non-residents from further compliance where tax has already been withheld at source.

Notably, while the Bill introduces an obligation for non-resident property owners to register and account for tax in Kenya, it does not propose to repeal the existing withholding tax requirement on tenants. This suggests that both mechanisms may operate concurrently in practice. As a result, non-resident landlords may still be subject to withholding tax at source, while also being required to file returns under the new regime, with the ability to claim the withholding tax suffered as a credit against their final tax liability.

5-DAY TAX REMITTANCE RULE FOR NON-RESIDENT CARRIAGE INCOME (EFFECTIVE 1ST JULY 2026)

The Bill introduces a new subsection under Section 9(1) of the Income Tax Act requiring that tax on gains or profits earned by non-resident shipowners, charterers, or air transport operators from carrying passengers, cargo, or mail embarked in Kenya **must be remitted within five days of payment receipt or ship departure from the port of lading, whichever occurs earlier**.

Section 9(1) already deems such gross receipts as Kenyan-sourced income, except in cases of transshipment, and includes related income such as demurrage and delays in delivery as taxable in Kenya.

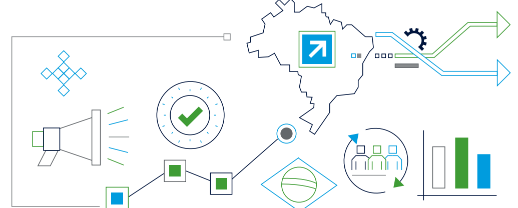
In effect, the amendment establishes a strict five-day statutory deadline for remitting tax on gross carriage income derived from Kenya by non-residents.

TAXATION OF TRUST INCOME (EFFECTIVE 1ST JULY 2026)

The Bill proposes to amend Section 11 by replacing the provision governing the taxation of trust income with a simplified framework. Under the proposed amendments, income received by a trustee, executor or administrator will continue to be treated as their income and taxed accordingly. However, the Bill introduces clarity that once tax has been paid at the trustee level, beneficiaries will not be subject to further tax on distributions received from that income.

Dividends or interest earned by the trustee, executor or administrator shall be deemed to be qualifying when paid out to the beneficiary.

Currently, the law taxes income earned by a trustee in the hands of the trustee; however, where such income is distributed to beneficiaries, it may again be deemed as their income and subjected to tax through complex attribution and gross-up mechanisms, including special rules for qualifying dividends and interest.



TAXATION OF INSURANCE COMPANIES (EFFECTIVE 1ST JULY 2026)

The Bill proposes to delete the words "*life insurance fund*" where it is used and replaced with the word "*statutory fund*", under Section 19(5), 19(5A), 19(6), 19(6A), thereby broadening the tax base.

Currently, life insurance fund" does not include the annuity fund, if any, nor such part of the life insurance fund as represents the liability of the company under any registered annuity contract, registered trust scheme, registered pension scheme or registered pension fund.

However, the definition of Statutory Fund under Section 45 of the Insurance Act allows an insurer to establish and maintain a separate statutory fund, under an appropriate name, in respect of any class or classes of his long-term insurance business. Therefore, Section 45 of Insurance Act covers all long-term insurance classes and not just life insurance fund. By replacing "life insurance fund" with "statutory fund" which is broader, the Bill seeks to capture more classes of long-term insurance business.

TAXATION OF NON-RESIDENT MINING AND PETROLEUM OPERATIONS (EFFECTIVE 1ST JANUARY 2027)

INTRODUCTION OF 15% TAX ON REPATRIATED INCOME FOR THE MINING SECTOR

The Bill introduces a specific 15% tax on repatriated income earned by mining licensees operating in Kenya, pursuant to Section 7B of the Income Tax Act, which provides that a non-resident person carrying on business in Kenya through a permanent establishment (PE) is subject to tax on repatriated income.

While Section 7B provides a general (umbrella) rule applicable to all non-resident PEs, the amendment to the Ninth Schedule now specifically targets mining licensees.

This clarifies and operationalizes the tax rate for the mining sector, ensuring profits are taxed when repatriated abroad.

TAXATION OF PETROLEUM CONTRACTORS

The Bill reduces the corporate tax rate for non-resident petroleum contractors from 37.5% to 30%. This aligns the rate with Kenya's standard corporate tax rate and takes into account the clarity on the taxation of repatriated income for petroleum contractors summarised below.

The Bill further seeks to introduce a 15% tax on repatriated income for non-resident petroleum contractors, again under Section 7B. This specifically applies to contractors operating through permanent establishments in Kenya.

TRANSFER PRICING (EFFECTIVE 1ST JULY 2026)

AMENDMENT TO THE DEFINITION OF "*COUNTRY-BY-COUNTRY REPORT*"

The Bill amends the definition of a "country-by-country report" by expanding its reference from "filed under Section 18D(1)" (which applied only to reports filed by the ultimate parent entity) to "filed under Section 18D(1) and (1A)" (covering reports filed by both the ultimate parent entity and constituent entities in Kenya).

This change ensures proper cross-referencing within the legislation and closes an existing gap by explicitly recognizing CbC reports filed by constituent entities, thereby strengthening the legal framework.

AMENDMENT TO THE DEFINITION OF "EXCLUDED MULTINATIONAL ENTERPRISE GROUP"

The Bill proposes to amend the definition of "*excluded multinational enterprise group*" by updating the reference from "Section 18D (1)" to "Section 18D(1B)". Previously, the definition focused only on groups where the ultimate parent entity had consolidated group revenue below EUR 750 million.

The revised provision broadens the scope by aligning the definition with the updated structure of Section 18D, ensuring that it appropriately captures both ultimate parent entities and relevant constituent entities. This enhances clarity and consistency in determining which groups fall outside the CbCR requirements.

DEFINITION OF ULTIMATE PARENT ENTITY (UPE)

The Bill replaces the existing definition of an UPE with a more detailed formulation aligned with international standards, particularly under the OECD BEPS Action 13 framework.

Currently, *a UPE was simply defined as an entity that is not controlled by another entity and owns or controls other entities within the group.*

The revised definition is more comprehensive. A UPE is now defined as a constituent entity of an MNE group that:

- *Holds sufficient ownership interest (directly or indirectly) in other group entities;*
- *Prepares, or is required to prepare, consolidated financial statements under applicable accounting standards (or would be required to do so if its equity were publicly traded); and*
- *Is not itself controlled (directly or indirectly) by another constituent entity within the group.*

The updated definition enhances alignment with global standards and raises the threshold for qualification as a UPE for CbCR purposes.

CLEAN-UPS AND CLARIFICATIONS (EFFECTIVE 1ST JULY 2026)

Item	Proposed Clean-up
Commissioner's power in respect to tax avoidance schemes	The Bill seeks to delete Section 23 of the Income Tax Act, which empowers the Commissioner to make adjustments to a taxpayer's liability where, based on the Commissioner's opinion, the main purpose or one of the main purposes of a transaction was the avoidance or reduction of tax. The Bill proposes to move this section to the Tax Procedures Act albeit with some amendments. This proposed change appears to remove duplication, as similar anti-avoidance rules are already comprehensively provided for under the Tax Procedures Act. Notably, this aligns with the proposed amendment to the TPA introducing a new section 18A, which consolidates and expands the Commissioner's powers to address tax avoidance schemes across all tax laws using a unified framework.
Industrial Building Allowance	The Bill proposes to amend the provisions relating to industrial building deductions by clarifying that the applicable 10% deduction for industrial building shall be claimed **per year in equal instalments.** Currently, while the law provides for a 10% deduction on qualifying industrial buildings, it does not expressly specify the manner in which the deduction should be claimed. The proposed amendment seeks to expressly provide that the deduction will be spread evenly on an annual basis.
Deletion of historical rates of income tax	The Bill proposes to delete Paragraph 2(1) of the Third Schedule to the Income Tax Act. The provision prescribed the rates of taxation applicable to resident companies for the period between 1974 and 1990. As this period is long past and the provision has no continuing application, its retention serves no practical purpose. The proposed deletion is therefore a clean-up measure aimed at removing obsolete provisions and improving the clarity and currency of the Act.
Deletion of Section 5A	The Bill proposes to delete Section 5A of the ITA to remove an obsolete section.
Exemption from Paying Instalment Tax	The Bill proposes to replace paragraph (a) of Section 12 of the Income Tax Act which references Section 12D that was repealed by the Finance Act, 2025 with a provision exempting a person from paying instalment tax if: "*to the best of his judgement and belief he will have no income chargeable to tax for that year of income other than emoluments*".

<table>
<tr><th>Item</th><th>Proposed Clean-up</th></tr>
<tr><td>Taxation of gains from alienation of shares</td><td>The Bill seeks to amend Paragraph 2 of the Eighth schedule of the ITA by deleting "subparagraph(a)" which appears immediately after the words "to which" and substituting therefore the expression "subparagraph(b)".

The proposed change, aligns the reference to the appropriate subparagraph dealing with the alienation of shares, rather than subparagraph (a), which relates more broadly to gains from the transfer of property. As such, the correction ensures that the provision accurately points to the intended category of transactions.

It is important to clarify that this amendment is confined to the Eighth Schedule, which governs the taxation of gains from the transfer of property, including shares. The concept of alienation in this context relates specifically to capital gains tax under the Eighth Schedule and does not extend to the Ninth Schedule, which deals with other distinct tax matters. Therefore, the correction is technical in nature and is limited to ensuring internal consistency within the Eighth Schedule rather than expanding the scope of application across different schedules.</td></tr>
<tr><td>Clean-ups of Section 18D (CbC Reporting)</td><td>The proposed changes to Section 18D are primarily "clean-up" amendments aimed at correcting cross-references within the Income Tax Act to ensure the provisions are logically aligned and internally consistent.
Subsection (1) of Section 18D –Filing of Country-by-Country (CbC) report

Currently, subsection (1) provided that an ultimate parent entity resident in Kenya shall file CbC report "in accordance with subsection (3)".

However, subsection (3) relates to the filing of the master file and local file, not the CbC report. The Bill proposes to correct this by referencing subsection (2), which contains the filing timeline for CbC reports. This removes the error and ensures the provision correctly points to the relevant rule on CbC filing timelines.
Subsection (2) of Section 18D – Entities Required to File CbC Reports

The Bill proposes to amend subsection (2) to refer to "subsections (1) and (1A)" instead of only subsection (1). The 12-month CbCR filing deadline appeared to apply only to ultimate parent entities. The amendment now makes it clear that the deadline applies to both ultimate parent entities and Constituent entities required to file under subsection (1A).
Subsection (5) – Contents of a CbC Report

Subsection (5), which sets out the content requirements of a CbC report, currently referred only to reports filed under subsection (1) (by ultimate parent entities). The proposed amendment expands this to include subsections (1) and (1A). This confirms that CbC reports filed by constituent entities must meet the same full reporting requirements as those filed by ultimate parent entities.</td></tr>
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INDIRECT TAX – VALUE ADDED TAX ACT, 2013 (EFFECTIVE 1ST JULY 2026)

GENERAL PROVISIONS

ADJUSTMENT OF INPUT TAX ON SUPPLIES BECOMING EXEMPT

Value Added Tax (VAT) Act currently provides for the deduction of input tax incurred by registered persons in making taxable supplies. However, it does not expressly address the treatment of input tax where such supplies subsequently transition from taxable to exempt status while remaining unsold.

In practice, this has created uncertainty regarding whether previously claimed input tax should be reversed once the supplies are no longer taxable, particularly in cases involving changes in tax policy or reclassification of goods and services.

The Bill proposes to address this gap by introducing a new Section 17A to the VAT Act. The proposed provision requires that where a registered person has already deducted input tax on supplies that later become exempt and remain unsold, the person must account for an amount equivalent to the input tax attributable to those unsold supplies in the tax period in which the supplies become exempt.

Notably, the adjustment is to be computed using the same method that was originally applied in claiming the input tax. This means that where input tax had been apportioned, the same apportionment criteria will apply, and only the portion of input tax previously claimed will be subject to adjustment.

This proposed amendment seeks to enhance clarity and ensure consistency in the treatment of input tax, while safeguarding revenue by preventing the retention of input tax credits on supplies that no longer qualify as taxable.

VAT REFUNDS ON BAD DEBTS

The legislation currently permits taxpayers to apply for a refund of VAT on bad debts where the debt has remained unpaid for a period of two years from the date of supply, provided the claim is lodged within a ten-year period.

This position was introduced through the Finance Act, 2025, which reduced the minimum waiting period from three years to two years, thereby allowing taxpayers to claim VAT refunds on bad debts after a shorter period of non-payment.

The current Bill now proposes to amend Section 31(1)(a) of the VAT Act by reverting the waiting period from two years back to three years. If enacted, this change will effectively undo the amendment introduced by the Finance Act, 2025, restoring the longer duration before taxpayers can qualify for VAT refunds on bad debts.

This reversal may impact cash flow for businesses by delaying the point at which VAT on unpaid supplies can be recovered and further underscores the ongoing shifts in Kenya's VAT policy framework. Further, this rapid shift in policy within such a short timeframe introduces a level of uncertainty for taxpayers, particularly in planning for cash flow and compliance. Frequent changes to the VAT framework may undermine predictability and complicate long-term financial and tax planning for businesses.

AMENDMENTS TO TAX INVOICE REQUIREMENTS

Section 42 of the Value Added Tax (VAT) Act currently requires a registered person making a supply to issue a tax invoice to the purchaser at the time of supply. It further restricts the issuance of invoices showing VAT to taxable supplies and prohibits unregistered persons from issuing such invoices.

The Bill proposes to amend this provision by broadening the scope of persons required to issue invoices, replacing the term "registered person" with "person." This change suggests that the obligation to issue an invoice at the point of supply will apply more generally, regardless of VAT registration status. This aligns with the amendment introduced under the Tax Procedures Act (TPA) by the Finance Act, 2025, which requires all persons—whether registered for VAT or not—to issue tax invoices.

In addition, the Bill seeks to revise the restriction on issuing invoices that purport to include VAT. Under the proposed amendment, an invoice showing an amount of tax may only be issued in respect of a taxable supply. However, by failing to make reference to a "registered person," this change introduces ambiguity as to whether non-registered persons who make taxable supplies—such as those below the VAT registration threshold—would be required or permitted to indicate a tax amount on their invoices.

While the proposed amendment appears to streamline the provision and align it with broader invoicing requirements under the TPA, it raises interpretational concerns regarding the obligations of unregistered persons and may create uncertainty in compliance and enforcement, particularly in distinguishing between general invoicing requirements and VAT specific documentation.

AMENDMENTS TO EXEMPT FINANCIAL SERVICES

The Value Added Tax (VAT) Act currently exempts certain financial services, including the issue, transfer, receipt, or other dealings with money, as well as money transfer services and over-the-counter payment of household bills. However, it excludes specific services such as the carriage of cash, restocking of cash machines, and the sorting or counting of money from this exemption.

The Bill proposes to amend this provision by expanding the list of exclusions from the exemption. In addition to the existing exclusions, the amendment introduces a new category covering digital and platform-based financial services. Specifically, money transfers, payment processing, settlement, merchant acquiring, gateway, or aggregation services provided over a software or platform for a fee or commission by a payment service provider will no longer qualify as exempt supplies.

This proposed change effectively narrows the scope of VAT-exempt financial services by bringing a range of fintech and digital payment services into the taxable bracket. As a result, providers of such services may now be required to charge VAT on these offerings, potentially increasing the cost of digital financial transactions.

The amendment reflects a policy shift towards taxing modern, technology-driven financial services, aligning the VAT framework with the evolving digital economy while broadening the tax base.

CLARIFICATION ON EXEMPT TOUR OPERATOR SERVICES

The Value Added Tax (VAT) Act currently exempts the services of tour operators, excluding in-house supplies. However, the absence of clear definitions for key terms has created uncertainty in determining the exact scope of the exemption.

The Bill proposes to address this by introducing clarity around who qualifies as a tour operator and what constitutes in-house supplies. In this regard, a tour operator will be understood to mean an entity formally licensed by the relevant tourism regulatory authority, thereby limiting the exemption to recognized and regulated industry players.

Further, the concept of in-house supplies is clarified to cover services that are either directly provided using the operator's own resources or significantly transformed after being sourced from third parties. Such supplies will continue to fall outside the exemption.

These amendments bring greater certainty by clearly distinguishing between exempt and taxable services within the tourism sector, thereby improving consistency in VAT treatment and reducing interpretational disputes.

CLEAN-UPS – REMOVAL OF REDUNDANT DEFINITIONS AND PROVISIONS

The Bill proposes to amend Section 2(1) of the Value Added Tax (VAT) Act by deleting the definitions of "assessment," "information technology," and "tax computerized system."

The removal of the definition of "assessment" eliminates duplication, as the term is already defined under the Tax Procedures Act (TPA), which provides a uniform interpretation across tax laws.

The deletion of the definitions of "information technology" and "tax computerized system" reflects a shift in terminology within the VAT framework. These terms are no longer referenced in the Act, which has instead adopted more current concepts such as digital marketplaces and electronic services.

In addition, the Bill proposes to repeal Section 66 of the VAT Act, which currently grants the Commissioner powers to counteract tax avoidance schemes by disregarding arrangements entered into for the sole or dominant purpose of obtaining a tax benefit.

The repeal of this provision appears to remove duplication, as similar anti-avoidance rules are already comprehensively provided for under the Tax Procedures Act. Notably, this aligns with the proposed amendment to the TPA introducing a new Section 18A, which consolidates and expands the Commissioner's powers to address tax avoidance schemes across all tax laws using a unified framework.

Overall, these amendments are administrative in nature and are aimed at streamlining the VAT Act by removing redundant, outdated, and duplicative provisions, while aligning it with broader reforms under the Tax Procedures Act to enhance consistency and coherence within Kenya's tax framework.

VAT ON GOODS ACCOMPANYING RETURNING PASSANGERS

INCREASE IN VAT-FREE THRESHOLD FOR ACCOMPANIED BAGGAGE

The current provisions under the VAT Act allow returning passengers a VAT-free allowance on goods imported in their accompanied baggage or carried on their person, up to a value of three hundred United States Dollars (approximately Kenya Shillings 40,000), provided the traveller has been outside Kenya for more than twenty-four hours and declares the goods to a customs officer.

This threshold has remained unchanged for a considerable period despite evolving economic conditions, inflationary pressures, and increased travel-related spending patterns.

The Bill now proposes to amend this provision by increasing the duty-free threshold from three hundred United States Dollars (approximately Kenya Shillings 40,000) to two thousand United States Dollars (approximately Kenya Shillings 250,000). Under the proposed change, returning travellers will be eligible to import goods within this higher value limit free of duty, subject to the same conditions on declaration and minimum period spent outside the country.

This proposed adjustment is expected to ease the tax burden on returning passengers and align the exemption with current economic realities, although it may also have implications for revenue collection and customs enforcement.

OTHER CHANGES IN RATES

Supplies	Proposed Rate	Current Rate
HEALTH SECTOR		
Dialyzers of tariff number 8421.29.00	Exempt	16%
Inputs or raw materials locally purchased or imported for the manufacture of pharmaceutical products upon recommendation by the Cabinet Secretary for the time being responsible for matters relating to health	Exempt	0%
MANUFACTURING SECTOR		
Inputs or raw materials locally purchased or imported for the manufacture of animal feeds upon recommendation by the Cabinet Secretary for the time being responsible for matters relating to agriculture	Exempt	0%
The supply of imported or locally purchased telephones for cellular networks and other wireless networks	Exempt	0%

Supplies	Proposed Rate	Current Rate
TOURISM SECTOR		
Taxable goods for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon recommendation by the Cabinet Secretary responsible for matters relating to recreational parks. For the purposes of this paragraph, "recreational parks" means an area or a building where a person can voluntarily participate in a physical or mental activity for enjoyment, improvement of general health, well-being and the development of skills	16%	Exempt
Taxable services for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon the recommendation by the Cabinet Secretary responsible for matters relating to recreational parks	16%	Exempt
AVIATION SECTOR		
All goods and parts thereof of chapter 88;	16%	Exempt
Any ~~other aircraft spare~~ aircraft parts imported by aircraft operators or persons engaged in the business of aircraft maintenance upon recommendation by the competent authority responsible for civil aviation	Exempt	Exempt
Direction-finding compasses, instruments and appliances for aircraft	16%	Exempt
TRANSPORT SECTOR		
The supply of motorcycles of tariff heading 8711.60.00	Exempt	0%
The supply of electric bicycles	Exempt	0%
The supply of electric buses of tariff heading 87.02	Exempt	0%
AGRICULTURAL SECTOR		
Transportation of sugarcane from farms to milling factories	Exempt	0%
MINING AND ENERGY SECTOR		
The supply of solar and lithium-ion batteries	Exempt	0%
Bioethanol vapour (BEV) stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel)	Exempt	0%
CONSTRUCTION SECTOR		
Goods imported or purchased locally for the direct and exclusive use in the construction of houses under an affordable housing scheme approved by the Cabinet Secretary on the recommendation of the Cabinet Secretary responsible for matters relating to housing	16%	Exempt
OTHER SECTORS		
Denatured ethanol of tariff number 2207.20.00	16%	Exempt
Taxable goods imported or purchased for direct and exclusive use in the implementation of official aid funded projects excluding fuels, lubricants spare parts and tyres for vehicles upon approval by the Cabinet Secretary responsible for the National Treasury Provided that an exemption that had been granted before 30th June 2026 the exemption shall remain in force until the completion of the project	Exempt	Exempt

Supplies	Proposed Rate	Current Rate
Scrap metal	Exempt	16%
Worn clothing and other worn articles of tariff heading 6309, other than upon importation	Exempt	16%
The supply of goods for the direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework, upon approval by the Cabinet Secretary on the recommendation of the Cabinet Secretary for the Ministry responsible for the implementation of the project	Exempt	16%

INDIRECT TAX – EXCISE DUTY ACT, 2015

DEFINITIONS (EFFECTIVE 1ST JULY 2026)

The Bill proposes to amend Section 2 of the Excise Duty Act by introducing a new definition for antique, vintage, or classic vehicles.

The Bill introduces a definition for antique, vintage, or classic vehicles, establishing objective criteria based on age and value. This provides clarity for classification purposes and supports consistent tax treatment of such vehicles under the Act.

Currently, imported cars attract excise duty ranging from 20% to 35%, depending on the make and year of manufacture. However, the Bill proposes to subject vintage and classic cars to a higher rate of 50%.

TIMING AND PAYMENT OF EXCISE DUTY ON MOBILE PHONES (EFFECTIVE 1ST JANUARY 2027)

The Excise Duty Act currently provides that excise duty on imported goods is payable at the time of importation, while for locally manufactured goods, the liability arises upon removal from the factory, with payment due within prescribed timelines. This establishes a supply-based trigger for both the liability and payment of excise duty.

The Bill proposes to introduce a specific regime for telephones for cellular and other wireless networks by amending both the timing of liability and payment provisions. Under the proposed changes, excise duty on such devices will be payable to the Commissioner at the point of activation of the phone, rather than at importation or removal from the factory.

This marks a significant shift from a supply-based to a usage-based trigger, effectively linking the tax point to when the device becomes operational on a network. From a policy perspective, this may enhance revenue assurance by ensuring that duty is only paid on devices that are actually activated for use within the country.

However, the proposal raises practical and operational considerations, particularly regarding the tracking of phone activations, the party responsible for accounting for the tax, and the timing of remittance. The Bill empowers the Cabinet Secretary to issue regulations to facilitate implementation, which will be critical in addressing these uncertainties.

Overall, while the amendment introduces a more targeted approach to taxing mobile devices, its effectiveness will largely depend on the clarity and robustness of the supporting regulations and the administrative capacity to enforce compliance.

PROPOSED CHANGES AFFECTING THE BETTING SECTOR AND TAXATION OF VIRTUAL ASSETS (EFFECTIVE 1ST JULY 2026)

The Bill proposes significant amendments to the excise duty framework applicable to the betting and gaming sector by revising the basis upon which excise duty is computed. Currently, excise duty is charged at 5% on the amount deposited into a customer's betting or gaming wallet. The proposed amendments replace this concept with a broader definition of "amount deposited," shifting the focus from funds held in a specific wallet to any funds made available for betting or gambling purposes. This includes money paid, transferred, credited, or otherwise provided, whether in cash or cash equivalents, and regardless of whether such amounts are held in a wallet, converted into tokens, or otherwise structured.

In addition, the removal of references to "customer betting wallets" and the deletion of the proviso excluding horse racing indicate a move towards a more expansive and uniform tax base across betting and gaming activities. The effect of these changes is to widen the scope of transactions subject to excise duty, potentially capturing a broader range of funding mechanisms and reducing opportunities for tax arbitrage through alternative payment structures. This may lead to increased tax exposure for operators and, indirectly, higher costs for players.

With respect to virtual assets, the amendment introduces a clarification by specifying that excise duty applies to fees charged on virtual asset transactions by "virtual asset service providers." This aligns the provision with emerging regulatory frameworks and ensures that the tax applies specifically to licensed or recognized service providers operating in the virtual asset ecosystem.

Overall, these amendments signal a policy shift towards broadening the excise duty base within the digital and betting economy. While this enhances revenue collection and closes potential loopholes, it may also increase compliance burdens for operators and impact pricing structures within both the betting and virtual asset markets.

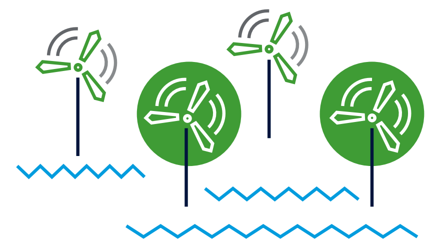
CHANGES TO EXCISE DUTY RATES AND DESCRIPTIONS (EFFECTIVE 1ST JULY 2026)

PROPOSED CHANGES ON INCENTIVES ACCORDED TO EXCISABLE GOODS ORIGINATING FROM THE EAST AFRICA COMMUNITY

The bill seeks to remove various incentives from goods originating from the East African community and those aligned with the EAC rules of origin. Below is the summary of goods that will be affected should this proposal be enacted.

Goods	Proposed Change	Impact
Plastics and related products: ▪ Imported plates of plastic (tariff headings 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90, 3921.19.90) ▪ Other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes of plastics (tariff 3919.90.90) ▪ Imported printed polymers of ethylene (tariff 3920.10.90) ▪ Imported printed polymers of vinyl chloride (tariff 3920.43.90) ▪ Imported printed poly (ethylene terephthalate), polycarbonates and other polyesters (tariff 3920.62.90) ▪ Imported printed cellular plastics (tariff 3921.19.90) **Paper and paperboard products:** ▪ Imported printed paper or paperboard (tariff 4811.41.90, 4811.49.00) ▪ Printed self-adhesive paper (tariff 4811.41.90) ▪ Gummed paper and paperboard (tariff 4811.49.00) ▪ Imported paper or paperboard labels (tariff 4821.10.00, 4821.90.00) ▪ Uncoated kraft paper and paperboard; kraftliner (tariff 4804.11.00) ▪ Other kraft paper or paperboard ≤150g/m^2 (tariff 4804.31.00)	Removal of the exclusion for goods originating from East African Community (EAC) Partner States by deleting references to the EAC Rules of Origin exemption	The removal of the exemption for goods originating from East African Community (EAC) Partner States means that a wide range of products—including plastics, paper, and packaging materials—will now be subject to excise duty regardless of origin. This eliminates the previous tax advantage enjoyed by EAC imports, increasing the cost of sourcing such goods from the region. As a result, businesses that rely on regional supply chains for packaging and manufacturing inputs may face higher input costs, which could translate into increased prices for finished goods and disruptions in established sourcing strategies. More broadly, the application of excise duty across all imports is likely to raise costs in key sectors such as construction, manufacturing, printing, and retail. Building materials such as glass and related products may become more expensive, potentially impacting infrastructure development and real estate pricing. Similarly, businesses in printing, publishing, and furniture retail will face higher acquisition costs, which may reduce

Goods	Proposed Change	Impact
▪ Other kraft paper or paperboard >150g/m^2 but <225g/m^2 (tariff 4804.41.00) ▪ Other kraft paper or paperboard ≥225g/m^2 (tariff 4804.51.00) **Glass products:** ▪ Float glass and surface ground or polished glass in sheets (tariff 7005) ▪ Worked glass (bent, engraved, drilled, etc.) (tariff 7003, 7004, 7005, 7006) ▪ Safety glass (tariff 7007.19.00, 7007.29.00) Multiple-walled insulating glass units (tariff 7008) **Other goods:** ▪ Printing inks (tariff 3215.11.00, 3215.19.00) ▪ Imported furniture (tariff 9403)		their competitiveness and lead to higher end-user prices. While the amendment promotes uniformity in tax treatment, it significantly broadens the excise duty base and may have wider implications for regional trade dynamics, cost structures, and overall industrial competitiveness.



OTHER CHANGES IN RATES AND DESCRIPTIONS

The Bill proposes to amend the following:

Goods	Rate
~~Imported cellular phones;~~ Telephones for cellular networks and other wireless networks of tariff heading 8517	~~10%~~ 25% of the excisable value
~~Bottled or similarly packaged waters and other~~ non-alcoholic beverages, not including fruit or vegetable juices	KShs. 6.41 per litre
Beer, Cider, Perry, Mead, Opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages of alcoholic strength not exceeding 6%	KShs. 22.50 per centilitre of pure alcohol: ~~Provided that, Beer, cider, perry, mead, opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages manufactured by licensed small independent brewers shall be subject to the rate of "KSh 10 per centilitre of pure alcohol~~;
Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% ~~purchased by licensed manufacturers of spirituous beverages~~	KShs. 500 per litre
Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	~~KShs. 16,260.29 per kg~~ "KShs. 18,000 per kg"
Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences	~~KShs. 11,382.48 per kg~~ KShs. 12,550 per kg
~~Imported~~ sugar confectionary of tariff heading 17.04	KShs. 85.82 per kg
Imported Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of tariff heading 6910	~~5% of custom value or KShs. 50 per kg~~ 5% of the excisable value
Imported ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics of tariff 6907	~~5% or Ksh 300 per square metre, whichever is higher~~ 5% of the excisable value

The Bill proposes to remove excise duty on the following goods:

Goods	Rate
Fruit juices (including grape must), and vegetable juice, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter	KShs. 14.14 per litre
Imported Articles of plastic of tariff heading 3923.30.00 and 3923.90.90	10%
Imported Articles of plastic of tariff heading 3923.30.00	10%

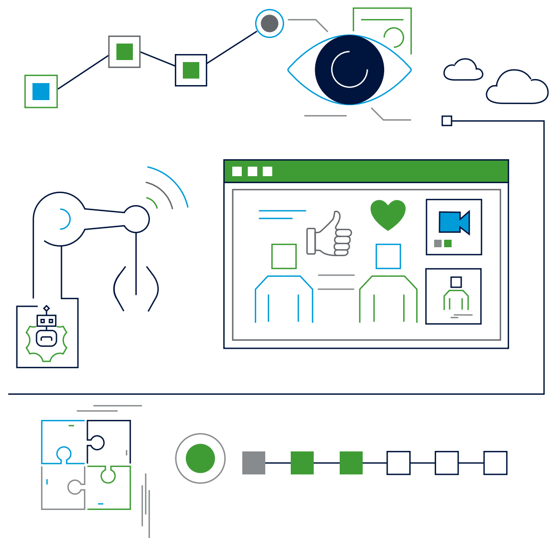
The Bill seeks to introduce excise duty on the following items:

Goods	Rate
Articles of plastic of tariff heading 3923.30.00 and 3923.90.90	10%
Coal	5% of the excisable value
Antique, vintage and classic vehicles	50% of the excisable value
Fruit juices (including grape must) and vegetable juice, unfermented and not containing added spirit.	KShs. 14.14 per litre
Locally manufactured sugar confectionary of tariff heading 17.04	KShs. 85.82 per kg

Goods	Rate
Fruit juices (including grape must) and vegetable juice, unfermented, containing added sugar or other sweetening matter and not containing added spirit	KShs. 20 per litre
Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages	KShs. 80 per litre

Proposed changes on excisable services;

Services
Excise duty on betting shall be five percent on the amount deposited ~~into a customer's betting wallet: Provided that this paragraph shall not apply to horse racing.~~for betting purposes
Excise duty on gaming shall be five per cent on the amount deposited ~~into a customer's gaming wallet~~ for gambling purposes
Excise duty on fees charged on virtual assets transactions by virtual asset service providers shall be ten percent of the excisable value



TAX PROCEDURES ACT, 2015 (EFFECTIVE 1ST JULY 2026)

VIRTUAL ASSETS

DEFINITIONS

The Bill proposes to adopt the definitions of the terms "Virtual Asset" and "Virtual Asset Provider" from the Virtual Asset Providers Act (**VASPA**).

i. A virtual asset is defined under the VASPA as a digital representation of value that can be digitally traded or transferred and can be used for payment or investment. However, digital representations of fiat currencies, securities and other financial assets are excluded from this definition.
ii. The Bill has also taken a similar approach by defining a Virtual Asset Provider (VASP) as a company licensed to offer virtual asset services.
iii. The Bill defines Information return as a report setting out the prescribed information which a reporting VASP is required to file with the Commissioner.

We note that VASPA became law in October 2025 to regulate the activities of virtual asset service providers in Kenya. Thus far, neither the Bill nor any taxing Act has expressly provided for taxation of virtual assets. If these definitions pass into law, the TPA will become the first Act to bring virtual assets within Kenya's tax framework.

FILING OF INFORMATION RETURNS

The Bill proposes that VASPs file an information return with the Commissioner in respect of all virtual-asset users with which it maintains a relationship in every calendar year and that are identified as reportable users or have controlling persons that are reportable persons.

The information return shall be required if the VASP provides a service that effectuates exchange transactions or making available trading platform on behalf of a customer, and includes acting as a counterparty. or as an intermediary, to the exchange transactions.

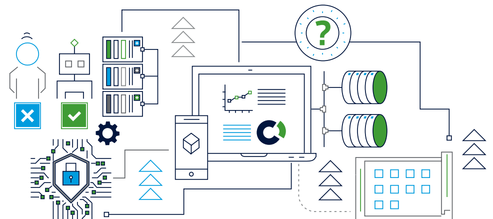
False on the information return would attract a fine of KShs. 100,000 for each false statement or imprisonment not exceeding three years or both. Omission of any information required will attract a penalty of KShs. 100,000 for each omission. A VASP who fails to file an information return or a "nil" information return will be liable to a penalty of KShs. 1,000,000 for each failure.

AGREEMENTS FOR AUTOMATIC EXCHANGE OF INFORMATION

The Bill proposes to empower the Government to enter into an agreement with another country for the automatic exchange of information relating to transactions involving Virtual Assets. The agreement shall provide information relating to:

- Information return filed;
- Due diligence reporting and record keeping obligations;
- The virtual asset users with which a virtual VASP maintains a relationship in every calendar year and that are identified as reportable users or as having controlling persons that are reportable persons;
- Nil return filing by VASP who do not maintain a relationship with virtual asset service providers who do not maintain a relationship with reportable virtual asset users; and
- Arrangements or practices by VASP, the main purpose of which can reasonably be considered to avoid taxes.

The Bill proposes to empower the Cabinet Secretary to make necessary regulations for the implementation of the above Sections.



TAX AMNESTY

The Bill proposes to reintroduce a tax amnesty covering all tax obligations for periods up to 31st December 2025. This follows the lapse of the previous tax amnesty on 30th June 2025, which had applied to tax liabilities accrued up to 31st December 2024.

Under the proposed framework, taxpayers who have fully settled all principal taxes accrued on or before 31st December 2025 will qualify for a full waiver of any related penalties and interest. In such cases, the waiver is expected to be automatic, meaning that taxpayers will not be required to submit a formal application to benefit from the relief.

For taxpayers with outstanding principal taxes as at 31st December 2025, the Bill allows for a waiver of penalties and interest on condition that they apply to the Commissioner and enter into a structured payment plan. The payment plan must ensure that all outstanding principal taxes are fully settled by 31st December 2026. The waiver will only apply to penalties and interest relating to the principal tax accrued up to 31st December 2025.

While this proposal extends the amnesty period beyond the previous regime, which covered tax liabilities up to 31st December 2023, it is expected that the implementation process will largely mirror that of the earlier amnesty. Under the previous framework, taxpayers who had already settled their principal taxes benefited from an automatic waiver of penalties and interest without the need for an application. Conversely, taxpayers with outstanding principal taxes were required to apply for amnesty and submit a payment plan to the Commissioner, with the commitment to settle the principal tax within the prescribed timeline.

Accordingly, it is anticipated that a similar approach will apply under the proposed amnesty, with a distinction between taxpayers who have already settled their principal liabilities and those who will need to regularize their position through an application and agreed payment arrangement.

Overall, the reintroduction of the tax amnesty provides an opportunity for taxpayers to clean up historical tax exposures at a reduced cost, while also enabling the Kenya Revenue Authority to enhance revenue collection and broaden compliance within the tax system.

MORE STRIGENT PENALTIES FOR FAILURE TO BE ETIMS COMPLIANT

Previously, the TPA prescribed a penalty of double the value of tax due if a taxpayer who was otherwise required to issue an eTims compliant invoice did not. The Commissioner could only penalize the taxpayer if the reasons the taxpayer gave were not satisfactory to the Commissioner.

The Bill proposes that the taxpayer found to have failed to issue an eTims compliant invoice to pay the higher of:

- two times the value of the tax due;
- a fine of KShs. 10,000 for individuals; or
- a penalty of KShs. 100,000 for companies.

The above penalties are meant to ensure that taxpayers remain eTims compliant and do not fail to issue eTims compliant invoices in their transactions. This is seen as part of the Commissioner's efforts to ensure that all transactions in Kenya can have an electronic trace, increasing transparency in the amounts of taxes due and payable for each transaction.

FROM WORKING DAYS TO CALENDAR DAYS IN COMPUTATION OF TIME

The Tax Laws Amendment Act, 2024 introduced Section 77 (2) to the TPA, which allowed taxpayers to exclude weekends and public holidays in computation of time for objection and appeals.

The Bill now proposes to remove this leeway, leaving taxpayers to thirty calendar days to either object to, or appeal a decision to the Tribunal, or the Courts. This reverting to the pre-2024 model of computing days limits the amount of time within which taxpayers can challenge the Commissioner's assessments.

REVERSION OF WITHHOLDER OBLIGATION

The Finance Act 2025 introduced Section 39A(2) to the TPA, allowing either player in withholding tax transaction to withhold and remit WHT to the KRA. The Bill now proposes to delete this subsection, retaining the primary obligation to deduct and remit WHT with the withholder in any transaction.

OBLIGATION REINSTATEMENT

The Bill proposes to introduce a requirement where a person who was deregistered and qualifies for registration to apply to the Commissioner for reinstatement of the registration. Where the Commissioner is satisfied that the applicant is liable for tax, the person shall be registered and issued with the same PIN that had been issued to the person prior to the deregistration.

NON-RESIDENT PIN APPLICATION

The Bill proposes to exempt non-resident persons from the requirements of a Personal Identification Number when opening an account with an investment Bank.

TAX AVOIDANCE SCHEMES

The Bill proposes to empower the Commissioner to assess tax where it is satisfied that a taxpayer benefitted from a tax avoidance scheme, as if the tax avoidance scheme had not been entered into. The Commissioner will rely on the following information in their assessment:

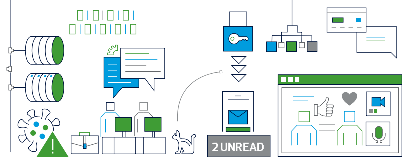
- information submitted on withholding taxes deductions;
- the accounting of tax deducted from employee emoluments;
- any information submitted to the Commissioner that would lead to the identification or recovery of unassessed taxes or duties as per the KRA Act;
- information submitted to the Commissioner via eTims;
- information provided from third party returns;
- information obtained from the inspection of goods and records conducted by the Commissioner or authorised officer;
- information obtained from the auditing of the records produced by the person to the Commissioner;
- information submitted to the data management and reporting system established; and
- information submitted to the Commissioner under any other written law.

The Bill proposes that if at all, the Commissioner issues a tax assessment based on findings from the above exercise within 5 years from the last day of the tax period which the tax liability relates.

For clarity, the Bill proposes a definition of the term 'Scheme' as a course of action, agreement, promise, plan, proposal or undertaking whether or not it is express or implied, and whether or not legally enforceable. Further, the Bill defines a 'Tax benefit to mean;

- reduction in tax liability of a person;
- increase and/or acceleration in a person's entitlement to Input tax deductions;
- entitlement to a refund;
- a postponement of a liability for the payment of tax;
- any other advantage arising because of a delay in payment of tax or an acceleration of the entitlement to an input tax deduction;
- anything that causes a taxable supply or taxable import not to be a taxable supply or taxable import; and
- anything that gives rise to an input tax deduction for an acquisition or import that is used or intended to be used other than in making taxable supplies.

If passed into law, this proposal aims at curbing aggressive tax planning initiatives and mechanisms that would easily be interpreted as tax avoidance.



INFORMATION ON ISSUING DEFAULT ASSESSTMENTS

The Bill proposes allowing the Commissioner to issue an assessment on the income of a person as he may deem necessary, using information obtained from a wide range of legally recognized sources.

The Bill lists the data sources that may support the Commissioners assessment to include:

- Withholding tax returns filed by customers, banks or employers;
- PAYE records submitted by employers;
- Third-party data obtained under the Kenya Revenue Authority Act which includes information leading to the identification or recovery of unassessed taxes or duties;
- Electronic tax systems such as iTax;
- Electronic Tax Invoice Management System (e-TIMS) data;
- Information from inspections and audits;
- Sector-based and data-reporting systems; and
- Any information submitted under written law.

This proposal legitimizes data matching and system generated assessments. It further means that the Commissioner may issue assessments based on third-party and electronic data which means that taxpayers can now be assessed even if they do not file returns. Henceforth, the Commissioner can rely on information from employers, banks, e-invoicing platforms to estimate income and tax payable. As a result, non-filing no longer delays taxation and may instead lead to estimated assessments, penalties and interest.

Taxpayers will need to ensure that their tax returns and records are accurate and consistent, as the burden of disputing a data-based assessment falls on the taxpayer after the assessment has been issued.

RELIEF TO TAXPAYERS WITH TAXES IN DISPUTE

The Bill proposes to restrain the Commissioner from issuing an agency Notice where the taxpayer has appealed or challenged the Commissioner's decision before a court or a Tribunal. This provides the much needed clarity to taxpayers who have recently been receiving agency notices when appeals are active in court.

REMOVAL OF CERTIFICATE OF ORIGIN DURING IMPORTATION

The Finance Act 2025 introduced a mandatory requirement for importers to produce a Certificate of Origin for all imports. This requirement barred the Commissioner from processing imports in the absence of a Certificate of Origin.

The Bill proposes to remove this requirement, as it is already provided for under the EACCMA. Accordingly, this amendment is intended as a clean-up measure.

LIMITATION OF OFFSETS OR REFUNDS AGAINST VAT ON IMPORTS

The Finance Act 2025 introduced leeway for taxpayers to offset their tax credit against their obligation for VAT on importation.

The Bill now proposes to limit offsets only to overpaid tax against a taxpayer's outstanding tax debts and future tax liabilities including instalment taxes. This proposed amendment will limit the flexibility introduced in 2025, where taxpayers would utilize their credit against VAT on importation, managing the business cashflows.

SUBMISSION OF AUTOPOPULATED RETURNS

The Bill proposes to empower the Commissioner to amend a taxpayer's returns based on the information obtained from auto-populated tax return. This will enable the Commissioner to rely on the available information to generate tax returns, which may be to the detriment of the affected taxpayer, especially where the information relied upon is not sufficient.

Further, the Bill proposals to formalize the taxpayer's filing of tax returns using the information provided in the auto-populated returns.

COMMISSIONER'S POWER TO WAIVE PENALTIES & INTEREST

The Bill proposes to amend Section 89 (5A) of the Tax Procedures Act to clearly distinguish the circumstances under which penalties and interest may be waived where such penalties or interest arise from issues related to an electronic tax system. Specifically, the Bill separates cases of duplication of penalties or interest from those arising from a malfunction of an electronic tax system, thereby improving clarity and precision in the application of the waiver provisions.

The Bill further proposes to introduce a new Section 89(5B), which vests the Commissioner with the power to waive, in whole or in part, any penalty or interest not exceeding KShs. 2 million, where the liability arose from an error generated by an electronic tax system. This power applies notwithstanding Section 89(5A).

The effect of this amendment is to decentralize and expedite relief for taxpayers by allowing the Commissioner to grant waivers for relatively smaller amounts attributable to system-generated errors, without the need for a recommendation to, or approval by, the Cabinet Secretary. Waivers exceeding the KShs. 2 million threshold or arising from other causes remain subject to the Cabinet Secretary's approval under section 89(5A).

TAX PROCEDURES REGULATIONS

The Bill proposes to enhance regulations to be provided by the Cabinet Secretary, to include the procedure for the submission or lodging of returns based on prepopulated tax returns generated by the Commissioner.

This aims at resolving the challenges that taxpayers have been experiencing while filing auto-populated tax returns, which is already effective.

MISCELLANEOUS FEES AND LEVIES ACT

CHANGES TO THE USES OF IMPORT DECLARATION FEES (EFFECTIVE 1ST JULY 2026)

The Bill proposes to reduce the portion of import declaration fees allocated to a fund established and managed in accordance with the Public Finance Management framework from 20% to 10%.

The Bill further proposes that the entire 10% collected be applied solely towards Kenya's contributions to the African Union and other international organizations, removing the previous allocation of part of these funds to revenue enforcement initiatives.

The effect of the amendment is that no portion of import declaration fees will be set aside for domestic revenue enforcement activities, with the reduced allocation now being fully redirected to meet Kenya's international contribution commitments.

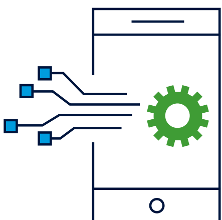
RESTRICTION OF IDF AND RDF EXEMPTIONS ON AIRCRAFT IMPORTS (EFFECTIVE 1ST JULY 2026)

The Bill proposes to amend the goods exempt from Import Declaration Fee (IDF) and Railway Development Levy (RDLRIDF) by narrowing the scope of exemption available to aircraft-related imports.

Currently, all aircraft, spacecraft, and their parts falling under tariff heading 88 were exempt from both IDF and RDL. This broad exemption covered a wide range of aircraft, spacecraft, and related parts imported into the country. Under the proposed amendment, the exemption will now be restricted to only the following tariff codes:

- 8802.30.00 – Aeroplanes and other aircraft of an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg; and
- 8802.40.00 – Aeroplanes and other aircraft of an unladen weight exceeding 15,000 kg.

This means that aircraft parts, spacecraft, and other items previously covered under tariff heading 88 but not falling within the above tariff codes will no longer qualify for exemption from IDF and RDL.



If enacted, the amendment will increase the cost of importing aircraft parts, spacecraft equipment, and other aircraft previously exempt under tariff heading 88 but now excluded from the exemption. This is likely to raise operational and maintenance costs for airlines, aviation service providers, and related businesses, which may ultimately be passed on to consumers through higher air transport and cargo charges. While the change may generate additional revenue for the government through IDF and RDL collections, it could also discourage investment in the aviation sector by making the acquisition and maintenance of aircraft more expensive.

EXEMPTION OF IMPORTED TELEPHONES FOR CELLULAR AND WIRELESS NETWORKS FROM IDF AND RDF (EFFECTIVE 1ST JANUARY 2027)

The Bill proposes to exempt the importation of telephones designed for cellular networks and other wireless networks from Import Declaration Fee (IDF) and Railway Development Levy (RDF).

This exemption is expected to reduce the cost of importing mobile phones and other wireless communication devices, which may lower retail prices for consumers and improve access to affordable communication technology.

SCOPE OF IMPOSITION OF LEVIES AND FEES (EFFECTIVE 1ST JULY 2026)

The Bill proposes to expand the scope of imposition of levies and fees to cover anti-adulteration levy, processing fees on duty free motor vehicles and export & investment promotion levy which are not covered in the current provisions. This aims at enhancing clarity on the covered levies and fees.

STAMP DUTY ACT

EXPANSION OF STAMP DUTY EXEMPTION FOR REIT TRANSFERS (EFFECTIVE 1ST JULY 2026)

The Bill seeks to amend Section 96A of the Stamp Duty Act by expanding the scope of the stamp duty exemption on transfers relating to real estate investment trusts (REITs) to include transactions that convey or transfer a beneficial interest in property to a REITs.

If enacted, this amendment is likely to reduce transaction costs for investors and property owners transferring assets into REIT structures, thereby enhancing the tax efficiency and attractiveness of REITs and potentially encouraging greater participation in the REITs market in Kenya.

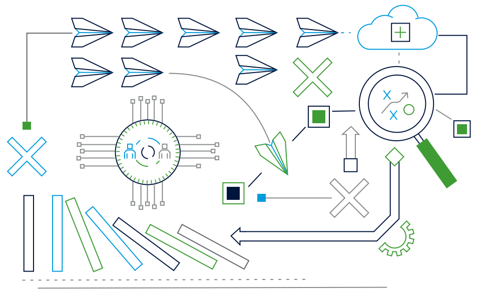
ROAD MAINTENANCE LEVY FUND ACT

IMPOSITION OF ROAD MAINTENANCE LEVY (EFFECTIVE 1ST JULY 2026)

The Bill seeks to reduce the Road Maintenance levy portion that is paid into the Road Annuity Fund from KShs. 3 to KShs. 1.50.

The Fund provides the necessary finances to meet the national government's annuity payment obligations for road development and maintenance under the Annuity Programme.

For taxpayers and consumers, there is no direct reduction in fuel costs; however, the change may have long-term implications for infrastructure funding and delivery, which in turn affects economic activity and logistics efficiency.



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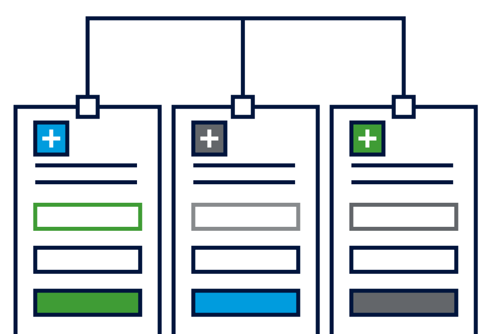

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