



Finance Bill, 2026 Insights
Balancing Fiscal Realities with Public Expectations

MAY 2026



Introduction

In line with Section 39A of the Public Finance Management Act (PFMA), the Cabinet Secretary (CS) for the National Treasury and Planning presented the Finance Bill, 2026 (“The Bill”) to the National Assembly on 5th May 2026. The Bill sets out proposals on revenue raising measures including provisions relating to the imposition, administration, and collection of taxes.

The Bill proposes amendments to several tax statutes, including the Income Tax Act (Cap 470), the Value Added Tax Act (Cap. 476), the Excise Duty Act (Cap.472), the Tax Procedures Act (Cap.469B), the Miscellaneous Fees and Levies Act (Cap. 469C), Stamp Duty Act (Cap.480) and the Road Maintenance Levy Fund Act, (Cap 427)

Through these proposed tax changes, the Government seeks to broaden the tax base in alignment with the Medium-Term Revenue Strategy (MTRS). However, the frequency and recency of similar amendments suggest an increasingly unstable tax environment, as many of the proposals revisit areas that have only recently been legislated.

The Bill also responds to recent litigation outcomes by aligning statutory provisions with the Kenya Revenue Authority’s (KRA) interpretations especially in emerging and technology-driven areas.

Notable positive reforms include reduced taxation for Real Estate Investment Trusts (REITs) and the harmonisation of anti-avoidance rules under the Tax Procedures Act, aimed at ensuring greater consistency across different tax regimes. The tax amnesty proposal is also welcome move for those with unresolved tax matters.

There is some misalignment regarding the effective dates of certain proposals, which may create ambiguity in implementation.

The Bill will go through the public participation process and debate/review by Parliament before it is enacted.

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Corporate Tax



Corporate Tax

#	Proposal	Details	Our comments
1.	Clarification of the definition of 'Immovable property'	<ul style="list-style-type: none">• The Bill proposes to amend the definition of "immovable property" under section 2 of the Income Tax Act (ITA) by replacing the conjunction "and" with "or".• The current definition stipulates that, for income tax purposes, immovable property comprises both (a) and (b) as follows:<ul style="list-style-type: none">a) Land, whether covered by water or not, including 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. This also includes a debt secured by mortgage or charge on immovable property.b) A mining right, an interest in a petroleum agreement, mining information, or petroleum information.• The proposed amendment clarifies that the elements currently listed in the definition (a) and b)) will independently qualify as immovable property rather than requiring both conditions to be satisfied concurrently. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">• This is a welcome clarification that resolves ambiguity in the interpretation of key provisions within the Income Tax Act.• Under the current drafting, a strict interpretation could restrict the application of the definition to the extractive sector. The proposed amendment ensures broader applicability across provisions relating to rental income, capital gains tax, and indirect transfers.

Corporate Tax

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2.	Introduction of Non-Resident Rental Income Tax Framework	<ul style="list-style-type: none">The Bill proposes the introduction of a framework for the taxation and collection of rental income earned by non-residents.Non-resident persons deriving rental income from property situated in Kenya will be subject to tax at the applicable non-resident rate, treated as final tax. Compliance will be facilitated through a simplified registration framework prescribed by the Commissioner. Returns and payments of the tax will be due by the 20th day of the month following the receipt of rental income.Non-resident persons whose Kenyan rental income is received and collected on their behalf by resident property agents will be excluded from this regime if withholding tax is deducted at the point of payment. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">This measure aligns with KRA's recent efforts to enhance compliance in the real estate sector through property mapping and digital systems. The KRA has recently intensified its property mapping initiatives and introduced the electronic Rental Income Tax system (eRITS) as part of a broader strategy to address revenue leakage from residential rental income tax. These efforts are aimed at improving the identification and taxation of rental income across the country.This proposal targets non-resident by providing a mechanism for them to declare and account for tax on rental income accrued and earned in Kenya directly.Enforcing withholding tax provisions on payments made directly to landlords by tenants, most of whom are individuals, remains a significant challenge. The Bill addresses this by shifting the compliance obligation directly onto non-resident landlords, with the expectation that this would improve the tracking and collection of rental income tax.Additionally, the rise of short-term rentals and serviced apartments through digital platforms has created new complexities in tax enforcement. The Bill proposes that non-resident landlords register through a simplified framework, which will facilitate tax collection.It is important to note that the Bill does not propose a separate tax rate for non-resident rental income. Consequently, the prevailing non-resident tax rate of 30% on gross rental income will continue to apply.

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3.	Taxation of Non-Resident Shipping Income	<ul style="list-style-type: none"> The Bill introduces a requirement for non-resident ship owners or charterers to account for tax on income earned in Kenya within five days of either receiving payment or the ship departing from the port of lading, whichever event occurs first. Additionally, the Bill proposes to repeal the withholding tax mechanism applied to payments made to non-resident ship owners or charterers which was introduced by the Finance Act 2025. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This measure directly addresses concerns raised during the public participation exercise before and after the enactment of the Finance Act 2025. Stakeholders highlighted that the withholding tax regime decentralised compliance from a small group of maritime agents to thousands of traders and individuals, creating significant challenges for KRA in enforcement and increasing the risk of revenue leakage. By abolishing the withholding tax regime on payments to non-resident ship owners or charterers by importers, the Bill seeks to revert to the self-declaration system previously used for administering freight tax. This should streamline compliance.
4.	Rationalisation of Instalment tax provisions.	<ul style="list-style-type: none"> The Bill seeks to delete the existing provision, which exempts persons from the instalment tax regime if their minimum tax liability exceeds the instalment tax. Instead, it introduces a new exemption for persons who, to the best of their judgement and belief, will have no income chargeable to tax other than emoluments. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The Finance Act 2020 introduced a minimum tax regime, requiring taxpayers to pay 1% of their gross taxable turnover. This amendment also exempted taxpayers from paying instalment tax if their minimum tax liability exceeded the instalment tax due. The introduction of the minimum tax regime generated significant public concern and was legally challenged on constitutional grounds. The High Court declared the minimum tax unconstitutional, a decision later upheld by the Court of Appeal. The regime was subsequently repealed from the Income Tax Act through the Finance Act 2025. The current proposal seeks to repeal the now-obsolete provision exempting persons from instalment tax if their minimum tax liability is higher. In its place, the Bill introduces a new exemption for persons who, to the best of their judgement and belief, will have no income chargeable to tax other than emoluments. However, it is important to note that an existing provision already exempts a person from the instalment tax regime if they have reasonable grounds to believe that all tax payable on their emoluments will be recovered under section 37. The introduction of a further exemption for persons who, to the best of their judgement and belief, will have no income other than emoluments therefore appears to be a duplication.

Corporate Tax

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5	Interest Deductibility Exemptions for Non-Deposit Taking Institutions	<ul style="list-style-type: none"> The Bill proposes to amend the ITA to clarify that the EBITDA based interest restriction does not apply to non-deposit taking institutions involved in either lending, or leasing, or both. Under the current provision, the exemption from the interest restriction may be interpreted as applying only to institutions involved in both lending and leasing activities, rather than to those engaged in either activity or both. The proposed amendment clarifies that institutions involved in lending, leasing, or both are exempt. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposal seeks to extend the exemption to non-deposit taking institutions engaged in lending or leasing, whether independently or in combination. This amendment aligns with industry practice and ensures a level playing field for all participants in the sector.
6.	Simplification of Taxation Provisions for Trusts, Executors, and Administrators	<ul style="list-style-type: none"> The Bill proposes to repeal the current Section 11 of the Income Tax Act and replace it with a simplified version. The new Section 11 clarifies that: <ul style="list-style-type: none"> Income received by a trustee, executor, or administrator is deemed to be their income for tax purposes. Dividends or interest included in the income of a trustee, executor, or administrator will not be subject to further tax under the Act. Where tax has already been paid by the trustee, executor, or administrator on the trust's chargeable income, the beneficiary will not be liable to pay tax again on that income. This amendment streamlines the taxation of trusts, executors, and administrators, removes complex provisions regarding the designation and taxation of dividends and interest, and prevents double taxation for beneficiaries. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment eliminates complex and ambiguous language from the current provisions, thereby reducing the risk of inconsistent interpretations and tax disputes relating to the income of trustees, executors, administrators, and beneficiaries. If enacted, it will offer clear and straightforward tax guidance for families, business owners, and investors utilising registered trusts to manage their assets.

Corporate Tax

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7.	Clarification of Filing Timelines and Conditions for Country-by-Country Reports	<ul style="list-style-type: none"> The Bill proposes to amend Section 18D(1) of the Income Tax Act by replacing the reference to subsection (3) with subsection (2), which specifies the filing timelines for the country-by-country report. Additionally, the Bill seeks to amend Sections 18D(2) and 18D(5) to include a reference to subsection (1A), which outlines the conditions under which a country-by-country report must be filed in Kenya. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This proposal aims to correct cross-referencing errors in the current provisions, thereby enhancing the accuracy and clarity of country-by-country reporting obligations.
8.	Amendment of the definition of the "Ultimate Parent Entity" (UPE)	<ul style="list-style-type: none"> The Bill proposes to amend the definition of the Ultimate Parent Entity (UPE). Currently, a UPE is defined as an entity that is not controlled by another entity and owns or controls, directly or indirectly, one or more entities within a multinational group. The proposed amendment seeks to define a UPE as a constituent entity of a multinational enterprise group that meets the following criteria: <ul style="list-style-type: none"> a) The entity owns, directly or indirectly, a sufficient interest in one or more other constituent entities of the multinational enterprise group; b) The entity is required to prepare consolidated financial statements under accounting principles generally applied in its jurisdiction of tax residence, or would be required to do so if its equity interests were traded on a public securities exchange in that jurisdiction; and c) No other constituent entity within the multinational enterprise group owns, directly or indirectly, a sufficient interest in any of the other constituent entities of the group. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposal seeks to align the definition of an Ultimate Parent Entity (UPE) with the OECD BEPS Action 13 guidance, promoting consistency in the interpretation and application of the UPE concept across jurisdictions. However, the definition relies on the term “sufficient interest,” which is not explicitly defined and may be subject to varying interpretations across legal, accounting, and tax contexts. This ambiguity could lead to inconsistent application and potential disputes, especially in complex or atypical group structures. Therefore, additional guidance clarifying the meaning of “sufficient interest” would be valuable to enhance certainty and minimise interpretational disputes in practice.

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9	Taxation of Insurance Companies	<ul style="list-style-type: none"> The Bill amends the taxation provisions for insurance businesses by replacing all references to “life insurance fund” with “statutory fund.” It also deletes the definition of “life insurance fund” and introduces “statutory fund,” defined as a fund established under section 45 of the Insurance Act. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This proposal harmonises tax legislation with terminology used in the insurance industry, thereby minimising the risk of tax disputes stemming from inconsistent interpretations of definitions between tax and insurance laws.
10.	Transfer of the tax anti-avoidance provisions to the Tax Procedures Act.	<ul style="list-style-type: none"> The Bill proposes to delete the tax avoidance scheme provision from the Income Tax Act and introduce a corresponding provision within the Tax Procedures Act. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This proposal harmonises administrative procedures under the Tax Procedures Act, in order to enhance consistency and efficiency in the administration of tax laws.
11	Introduction of minimum deemed dividend distribution threshold	<ul style="list-style-type: none"> The Bill proposes to amend the Income Tax Act by granting the Commissioner explicit authority to deem at least 60% of a company’s undistributed income as distributed dividends to shareholders, provided this does not compromise the company’s business requirements. Currently, the law does not specify a percentage that the Commissioner may deem as distributed, resulting in potential arbitrariness in such determinations. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This measure aims to provide clear guidelines for the treatment of undistributed income. However, the proposed threshold of deeming at least 60% of undistributed income as dividends is relatively high and may restrict companies’ ability to retain earnings which would curtail reinvestment in business growth. We believe the current provisions are sufficient as they are to address tax avoidance without the need for a specific prescription as to the level of dividends that should be distributed. If enacted, taxpayers will be required to document their reasons for not distributing dividends and demonstrate how retained earnings are being utilised for ongoing or planned projects. This will necessitate robust internal policies and clear justification for the retention of profits to ensure compliance with the new provisions.

Corporate Tax

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12.	Reduction of Income Tax Return Filing Deadlines	<ul style="list-style-type: none"> The Bill proposes to amend Section 52B of the Income Tax Act by reducing the statutory period for filing income tax returns from six months to four months after year-end. For nil returns, the Bill further shortens the filing deadline to one month after year-end, compared to the current six-month period. <p>Effective date: 1 Jan 2027</p>	<ul style="list-style-type: none"> The proposed change seeks to accelerate tax reporting timelines with a view to enable the Commissioner to verify and validate tax returns and project tax collections earlier. By shortening the filing deadlines, Kenya aligns its tax administration practices with regional peers such as Rwanda and Ethiopia, who have implemented similar measures to streamline compliance and leverage advanced digital systems. However, immediate implementation of these new deadlines may pose challenges for taxpayers, particularly given the ongoing roll-out of e-TIMS for income and expense validation. Many taxpayers are still adapting to the new systems and experiencing difficulties in completing Self-Assessment Income Tax return filings. Additional support and transitional measures may be necessary to ensure a smooth adjustment and minimise compliance risks during the initial phase.
13	Fixed timelines for filing returns and related information upon KRA's request	<ul style="list-style-type: none"> The Bill seeks to amend Section 52(1) of the Income Tax Act by changing the deadline for submitting income tax returns and related information that is required to be submitted to the Commissioner upon request. Currently, taxpayers must respond to a notice from the Commissioner within at least 30 days. The Bill proposes to replace this with a requirement to submit returns by the last day of the fourth month after the end of the tax year. Additionally, the Bill introduces subsection 1A, which states that if a tax return shows no tax payable (a nil return), it must be submitted within one month after the end of the tax year. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendments to Section 52 of the Income Tax Act are aimed at providing greater clarity and certainty regarding filing deadlines for income tax returns. By specifying fixed timelines – four months for standard returns and one month for nil returns – the Bill eliminates ambiguity around what constitutes a "reasonable time." This change is likely to enhance compliance and administrative efficiency for both taxpayers and the tax authority.

Corporate Tax

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14.	Clarification of annual capital allowance rate for industrial buildings	<ul style="list-style-type: none">The Bill proposes to amend item (a)(viii) in the table under Paragraph 1(1) of the Second Schedule to the Income Tax Act to clarify that the capital allowance rate of 10% for industrial buildings is to be applied annually in equal instalments.Currently, the law states the rate as 10%, which could be interpreted as a one-off allowance rather than an annual deduction. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">The introduction of capital allowance for industrial buildings by the Finance Act, 2023 created ambiguity, as it did not specify the timing or manner in which the allowance should be claimed.This lack of clarity left room for varied interpretations, potentially enabling taxpayers to claim the allowance as a one-off deduction rather than annually. By specifying that the 10% capital allowance is to be claimed each year in equal instalments, the amendment promotes transparency and prevents misuse or unintended tax advantages.
15.	Revision of the Rates applicable to Non-Resident Contractors and Licensees in Mining and Petroleum Operations.	<ul style="list-style-type: none">The Bill proposes to amend the Ninth Schedule to the Income Tax Act by reducing the corporate income tax rate for non-resident contractors from 37.5% to 30%.Additionally, the Bill seeks to introduce a non-resident tax rate of 15% on repatriated income for licensees engaged in mining operations and contractors involved in petroleum operations. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">The reduction in the tax rate for contractors engaged in petroleum operations seeks to align their income tax obligations with those of Permanent Establishment (PE) entities across various sectors, following the Finance Act 2023, which reduced the tax rate for PEs to 30%.Similarly, the introduction of a non-resident tax rate on repatriated income for licensees in mining and contractors in petroleum operations is a move to update the provisions of the Ninth Schedule to provide for taxation of repatriated income for branch entities in this sector.

Withholding Tax



Withholding Tax

#	Proposal	Details	Our comments
1.	Expansion of royalty definition to include software distribution and payments for use of digital platforms and card transaction networks	<ul style="list-style-type: none"> • The Bill proposes to delete the existing definition of "royalty" in Section 2 of the Income Tax Act and replace it with an expanded definition. The new definition of "royalty" covers payments made as consideration for: <ul style="list-style-type: none"> a) The use or the right to use - <ul style="list-style-type: none"> i. Any copyright of a literary, artistic, or scientific work; ii. Any software, whether proprietary or off-the-shelf, including licence, development, training, maintenance, or support fees; iii. Any cinematograph film, including films or tapes for radio or television broadcasting; iv. Any patent, trademark, design or model, plan, formula, or process; v. Any industrial, commercial, or scientific equipment; vi. Information concerning industrial, commercial, or scientific equipment or experience, as well as gains derived from the sale or exchange of any right or property giving rise to that royalty; vii. <i>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 regardless of whether the payment is described as a service fee, transaction fee, network fee, assessment fee, processing fee, or similar charge.</i> a) <i>The distribution of software where regular payments are made for its use through a distributor.</i> 	<ul style="list-style-type: none"> • The two primary changes to the definition of 'royalty' are the inclusion of item (a)(vii), which covers payments for access to digital platforms and payment systems, and item (b), which addresses payments for software distribution. • The inclusion of item (a)(vii) appears to be a direct response to the Supreme Court of Kenya's decision in Barclays Bank of Kenya Limited (now ABSA Bank Kenya PLC) v Commissioner of Domestic Taxes (Petition No 12 (E014) of 2022). In this case, the court held that fees paid to card companies for accessing payment networks are service fees, not royalties, and therefore not subject to withholding tax under the royalty provision. The proposed amendment seeks to close this gap in the current law, aligning with the Kenya Revenue Authority's (KRA) position. • The addition of item (b) marks a third attempt to impose withholding tax on payments to software distributors, following similar proposals in the Finance Bills of 2024 and 2025. This broadened definition departs from the internationally recognised, rights-based approach to royalties as outlined by the OECD, which limits royalties to payments for the use of, or the right to use, copyrights and not merely copyrighted articles. This approach is consistent with the High Court's ruling in Kenya Revenue Authority vs Seven Seas Technologies Ltd [2021], where licence fees without copyright rights were not considered royalties. • The proposed changes are inconsistent with the definitions provided in the UN Model Tax Convention (UN MTC) and OECD guidelines, which serve as the basis for drafting and ratifying Double Taxation Agreements (DTAs). Under these agreements, the treaty definitions prevail over domestic tax law provisions, potentially creating uncertainty for taxpayers resident in countries with existing DTAs with Kenya.

Effective date: 1 July 2026

Withholding Tax

#	Proposal	Details	Our comments
2.	Expansion of the definition of 'management or professional fee' to include interchange fees and merchant service fees	<ul style="list-style-type: none"> The Bill proposes to amend the definition of "management or professional fee" to expressly include interchange fees and merchant service fees arising from card-based payment transactions. The revised definition will read as follows: <i>"management or professional fee" means a payment made to a person, other than a payment made to an employee by his employer, as consideration for managerial, technical, agency, contractual, professional or consultancy services however calculated, and includes interchange fees and merchant service fees arising from transactions that use a card as a means of payment.</i> <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> As highlighted previously, the expanded definition appears to be a direct response to the Supreme Court of Kenya's decision in Barclays Bank of Kenya Limited (now ABSA Bank Kenya PLC) v Commissioner of Domestic Taxes. The Court determined that interchange and merchant service fees are operational settlements between financial institutions, not management or professional fees, and therefore fall outside the scope of withholding tax. The Court also cautioned against broadening statutory definitions beyond their ordinary meaning, emphasising the importance of applying tax law as written. The proposed amendment seeks to address the legislative gap identified by the Supreme Court, aiming to provide greater legal clarity and precision in the tax treatment of such fees. However, as demonstrated in court, interchange and merchant service fees are components of the Merchant Discount Rate (MDR), which is distributed among various stakeholders in card-based payment transactions. Expanding the definition may increase compliance costs for these parties, as identifying the payer for withholding tax purposes is complex due to the distributed nature of payments within the network, unlike the single tax point for excise duty.

Withholding Tax

#	Proposal	Details	Our comments
3	"Re-introduction of withholding tax on winnings and amendment to the definition of 'withdrawals'"	<ul style="list-style-type: none"> The Bill proposes to amend the ITA to deem winnings as income accrued or derived from Kenya and introduces withholding tax on winnings paid to resident and non-resident persons. The Bill also proposes to introduce a definition of the term "winnings" to mean "<i>a pay-out, by a person licensed issued under the Gambling Control Act, 2025, from a lottery or prize competition under the Gambling Control Act, 2025, but does not include the amount staked or wagered</i>". The proposed withholding tax rate shall be 20% for both resident and non-resident persons. In addition, the Bill proposes to substitute the current definition to the term 'withdrawal' with a new definition to mean, '<i>any amount of money, cash equivalent, or money's worth paid or disbursed to the account of a player, by a person licensed issued under the Gambling Control Act, 2025</i>'. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This proposal demonstrates the Government's commitment to increasing tax collection from emerging gambling activities and enforcing the High Court's ruling in <i>Commissioner of Domestic Taxes Department v Pevans East Africa Limited and Shop and Deliver Limited and 5 Others (HCCOMMITA/E003/2019)</i>, which clarified that winnings do not include the amount staked or wagered. By implementing this interpretation, the Government aims to ensure accurate taxation of gambling proceeds. The proposal also reverses the changes introduced by the Finance Act 2025, which had replaced the term "winnings" with "withdrawals." This reinstatement signals a renewed focus on capturing revenue from gambling activities and aligns with recent judicial guidance. There is a clear effort to harmonise tax legislation with the Gambling Control Act, 2025 and the establishment of the Gambling Regulatory Authority of Kenya, both of which came into force in August 2025. These developments replaced the Betting, Lotteries and Gaming Act and the Betting Control and Licensing Board (BCLB), modernising Kenya's regulatory framework for gambling. Additionally, the revised definition of "withdrawals" means that all amounts won by players and disbursed to their accounts, including non-monetary winnings, will be subject to tax. However, the proposal as currently drafted may have negative implications for punters and could discourage participation in gambling activities. The Bill imposes a 20% withholding tax on winnings, in addition to the existing 5% tax on withdrawals, potentially resulting in a combined effective withholding tax rate of up to 25% for players who win.

Withholding Tax

#	Proposal	Details	Our comments
4.	Re-introduction of withholding tax on payments for sale of scrap	<ul style="list-style-type: none"> The Bill proposes to amend the Income Tax Act by deeming payments received from the sale of scrap as income accrued in or derived from Kenya and introduce withholding tax on such payments. The Bill also proposes to amend the Third Schedule to the Income Tax Act to impose a withholding tax rate of 1.5% on the gross amount paid for the sale of scrap to both resident and non-resident persons. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The current proposal appears to be motivated by the need to increase tax revenue and enhance compliance within the scrap metal sector. Notably, this marks the third legislative change regarding the taxation of scrap metal in recent years. Withholding tax was first introduced by the Tax Laws (Amendment) Act, 2024, effective from 27 December 2024, then repealed by the Finance Act, 2025, effective 1 July 2025, and is now being reintroduced in the present Bill. This pattern of frequent legislative amendments highlights a lack of consistency and stability in tax policy, which is contrary to the principles set out in the National Tax Policy. The Policy advocates for a comprehensive review of tax laws every five years to promote predictability and coherence within the tax regime.
5.	Payments by the national carrier to non-residents for specific services reinstated in the scope of management or professional fees subject to withholding tax	<ul style="list-style-type: none"> The Bill proposes to repeal the amendment introduced by the Finance Act 2025 to section 35(1)(a) of the Income Tax Act, which excluded from withholding tax payments made by the national carrier to non-residents for specialised technical, maintenance, compliance, training, or digital systems support services where such services are not available in Kenya or the service provider is certified or accredited by an international regulatory, standard-setting, or licensing body. As a result, these payments will once again fall within the scope of management or professional fees subject to withholding tax. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Payments made by Kenya Airways (KQ) to non-resident providers for specialized services have not been subject to withholding tax with effect from 1 July 2025, offering significant financial relief to KQ. This is particularly important as contracts with non-resident service providers often include gross-up clauses, which require the contracting party to absorb any tax costs incurred. Should the proposed legislation be enacted, KQ and other national carriers will be required either to bear the additional tax burden or to deduct withholding tax at a rate of 20%, or at a preferential rate where a Double Tax Agreement applies. The proposal further illustrates how frequent amendments to tax legislation, including the introduction or repeal of exemptions, contribute to uncertainty within the aviation sector.

Withholding Tax

#	Proposal	Details	Our comments
6	Repeal of preferential withholding tax rate on dividends paid to Citizens of EAC Partner States	<ul style="list-style-type: none">The Bill proposes to amend the Third Schedule to the Income Tax Act by deleting the provision that grants a preferential withholding tax rate on dividends paid to citizens of East African Community (EAC) partner states.As a result, dividends paid to citizens of EAC partner states will be subject to the standard non-resident withholding tax rate of 15%, instead of the reduced rate of 5%. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">If enacted, the proposed legislation will significantly impact net returns for cross-border investors operating within the East African Community (EAC) region. The measure appears to be a temporary step, intended to encourage the ratification of the EAC multilateral tax treaty, which was designed to promote economic integration and facilitate cross-border investment among EAC member states.Although Kenya has entered into Double Taxation Agreements (DTAs) with several countries, EAC partner states have yet to ratify the regional treaty signed in 2010. This treaty was established to provide a unified framework for addressing double taxation within the region, but more than sixteen years have passed without its implementation.Currently, each EAC member state applies its own tax rate to dividends paid to non-resident investors. For example, Uganda imposes a 15% tax rate on dividends paid to non-resident individuals, a rate mirrored by Rwanda and Burundi, while Tanzania applies a lower rate of 10%. This lack of harmonisation results in varying tax burdens for investors depending on the jurisdiction.The ongoing expansion of the EAC to include additional neighbouring countries suggests that any increase in withholding tax rates on dividends paid to citizens of EAC partner states may prompt renewed discussions on regional tax harmonisation.

Withholding Tax

#	Proposal	Details	Our comments
7.	Exclusion of non-resident shipping income from the withholding tax regime	<ul style="list-style-type: none">The Bill proposes to amend the Income Tax Act by repealing the withholding tax on payments made to non-resident ship owners or charterers for business conducted in Kenya. This measure aligns with the amendment to Corporate Tax (item 3), which revises the timeline for non-resident ship owners or charterers to remit the full tax due directly to the Kenya Revenue Authority (KRA). <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">This measure directly responds to concerns raised during the public participation process surrounding the Finance Act 2025. Stakeholders noted that the withholding tax regime shifted compliance responsibility from a small group of maritime agents to thousands of traders and individuals, posing significant enforcement challenges for KRA and increasing the risk of revenue leakage.By reverting to the self-declaration system previously used for administering freight tax, the measure aims to streamline compliance and improve tax administration.

Capital Gains Tax



Capital Gains Tax

#	Proposal	Details	Our comments
1.	Expansion of the CGT scope	<ul style="list-style-type: none"> The Bill proposes to expand the scope of income subject to Capital Gains Tax (CGT) in Kenya under Paragraph 2 of the Eighth Schedule to the Income Tax Act. Currently, Paragraph 2 covers: <ul style="list-style-type: none"> a) Gains from the transfer of property situated in Kenya by companies, individuals, or partnerships, regardless of when the property was acquired; b) Gains from the alienation of shares or comparable interests (including partnerships or trusts) if, at any time during the 365 days preceding the alienation, more than 20% of their value is derived directly or indirectly from immovable property in Kenya; and c) Gains, other than those covered in (a), from the alienation of shares in a Kenyan resident company if the alienator held at least 20% of the company's capital at any time during the preceding 365 days. The Bill proposes to amend subparagraph (c) by replacing the reference to subparagraph (a) with subparagraph (b). Additionally, the Bill introduces a new subparagraph (d), which brings into scope: <p><i>“Gains derived from the alienation of shares by a non-resident person where the shares derive their value from Kenya, or where the alienation results in a change of group membership of a company resident in Kenya, or a change in ownership, title, or interest in property located in Kenya.”</i></p> The proposed changes will take effect from 1 July 2026. 	<ul style="list-style-type: none"> The amendment to subparagraph (c), replacing the reference to subparagraph (a) with subparagraph (b), has significant implications for the scope of CGT on share transfers. Previously, many interpreted subparagraph (c) narrowly because it referred to subparagraph (a). This led to the view that it only covered gains from direct transfers of shares in foreign companies that are treated as tax resident in Kenya. This was because direct transfers of shares in Kenyan companies were already covered under subparagraph (a), since such shares are considered property in Kenya. By referring to subparagraph (b) instead, the law now clarifies that subparagraph (c) applies to gains not covered by the indirect transfer rules in subparagraph (b). This reduces confusion and overlap. However, it may suggest that subparagraph (c) can apply more broadly, including to both direct and indirect share transfers, as long as the seller holds at least 20% (directly or indirectly) in a Kenyan company. The new subparagraph (d) further expands the scope of CGT. It brings into tax gains made by non-residents from share transfers where the shares derive value from Kenya or where the transaction changes ownership of Kenyan property. However, its broad wording may overlap with subparagraphs (a) to (c). Despite these changes, there is still a gap in the law which does not stipulate how to calculate the portion of gains taxable in Kenya for indirect transfers. More detailed rules or guidance would help improve clarity and compliance.

Personal Income Tax



Personal Income Tax

#	Proposal	Details	Our comments
1.	Limitation of the tax exemption on gratuity payments into registered pension schemes	<ul style="list-style-type: none"> The Bill seeks to amend Section 5(4)(g) of the Income Tax Act by introducing a new proviso (paragraph (c)), specifically addressing the tax exemption for gratuity transfers made by employers into registered pension schemes. Under the proposed proviso, this tax exemption will be restricted to gratuity transfers resulting from continuous contracts of service with a minimum duration of three years. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This provision would incentivize both employers and employees to enter-into longer-term contracts. However, it would disadvantage employees on short fixed-term contracts, who will not benefit from the exemption. Although the Pay As You Earn amounts involved may not be substantial, the government will continue to collect tax on gratuity payments that do not meet the qualifying criteria.
2.	Tax exemption on gratuity contributions	<ul style="list-style-type: none"> The Bill proposes to introduce subsection (ga) under Section 5(4) of the Income Tax Act, which aims to exempt from taxation any contributions to gratuity relating to employment or services rendered, provided that: <ul style="list-style-type: none"> The gratuity pertains to a contract of service lasting continuously for at least three years; The total contributions do not exceed thirty-one per cent of the employee's basic salary; and This exemption does not apply to individuals eligible for deductions under Section 22A (deductions relating to pension and provident funds). <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This amendment represents a positive step towards promoting long-term savings and enhancing retirement security for Kenyan workers, particularly those employed on fixed-term contracts. However, contributions made for employees on short-term contracts that do not meet the minimum qualifying period (e.g., less than 36 months) may not be eligible for tax exemption. In such cases, employer contributions could be treated as a taxable benefit to the employee, resulting in reduced net take-home pay and diminished purchasing power for affected employees. Additionally, organisations – especially Not-for-Profit Organisations (NPOs), where short-term contracts are prevalent due to project-based funding may need to reconsider their employment practices. Extending contract durations to meet the qualifying conditions could enable employees to benefit from the available tax relief. Conversely, policymakers should consider more flexible provisions that accommodate the realities of project-based and grant-funded employment.

Personal Income Tax

#	Proposal	Details	Our comments
3.	Mortgage interest deduction on CBK loans	<ul style="list-style-type: none"> The Bill proposes to amend Section 15(2) by introducing paragraph (af), which will allow a deduction for interest paid by an employee on a loan advanced by the Central Bank of Kenya (CBK) for the construction, purchase, or improvement of a house occupied by the employee. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This proposal aligns with the Government’s agenda to encourage home ownership. It aims to extend the mortgage interest deduction benefit to Central Bank of Kenya (CBK) employees, who are currently excluded because CBK is not listed as a qualifying financial institution under the Fourth Schedule to the Income Tax Act. However, one may wonder why the same benefit should not be extended to all employees who have employer funded schemes.
4.	New annual self-assessment return filing dates	<ul style="list-style-type: none"> The Bill proposes to amend Section 52B(1)(l) by introducing a new deadline for individuals to submit their self-assessment returns by the fourth month following the end of the person’s year of income, i.e., 30 April. Additionally, the Bill introduces subsection 1A to Section 52B, requiring that if the tax return submitted under subsection (1) reflects a nil amount of tax payable, the individual must submit the return within one month after the end of the relevant year of income, i.e., by 31 January. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The government’s requirement for tax returns to be submitted by 30 April may be a strategic move. Although the fiscal year ends on 30 June, the budgeting process occurs in April–May. Early submission of self-assessment returns is likely to provide the KRA and the National Treasury with timely and accurate data on projected tax revenues, enabling more effective fiscal planning and resource allocation. The proposal to require taxpayers with nil tax returns to file by 31 January – three months earlier than other returns – appears to be motivated by the government’s desire to access tax data sooner and possibly scrutinise the returns. However, this approach raises concerns regarding equity and administrative consistency. It is also doubtful that earlier filing would by itself enhance revenue collection taking into account that with the implementation of e-TIMS, the revenue authority will already have visibility of transactions. If enacted, the alignment of tax payment and return filing deadlines will place both obligations on the same date. It is therefore essential for the KRA to ensure that the filing system is robust enough to handle increased traffic and prevent system downtimes.

Personal Income Tax

#	Proposal	Details	Our comments
5.	Tax exemption on benefits arising due to death	<ul style="list-style-type: none"> The Bill proposes to amend paragraph 53 of the First Schedule of the Income Tax Act, by introducing proviso (d) that exempts benefits arising due to death from tax. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The tax exemption of death benefits aligns with the government’s social welfare objectives by ensuring that bereaved families receive the full value of benefits designed to provide financial support following the loss of a loved one or the primary income earner. Additionally, exempting death benefits simplifies compliance for taxpayers and reduces the administrative burden for the KRA.

Value Added Tax



Value Added Tax

#	Proposal	Details	Our comments
1.	Definition of assessment	<ul style="list-style-type: none"> The Bill proposes to delete the definition of ‘assessment’ under Section 2 of the Value Added Tax Act, 2013 (“VAT Act”). <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The proposed change is aimed at aligning the definition of an assessment with the Tax Procedures Act 2015 (“TPA”). The TPA defines an ‘assessment’ to mean a self-assessment, default assessment, advance assessment, or amended assessment, and includes any other assessment made under a tax law. The VAT Act currently defines an ‘assessment’ to mean: <ul style="list-style-type: none"> a) a self-assessment return submitted under section 45; b) an assessment made by the Commissioner under section 45; or c) an amended assessment under section 46; However, the Finance Act, 2015 deleted Sections 45 and 46 of the VAT Act.
2.	Definition of information technology	<ul style="list-style-type: none"> The Bill proposes to delete the definition of ‘information technology’ under Section 2 of the VAT Act. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> Currently, the VAT Act defines ‘information technology’ to mean any equipment or software for use in storing, retrieving, processing or disseminating information. The proposed amendment seeks to align with Section 75 of the TPA with regards to administering tax laws through the electronic tax system. Specifically, Section 75 of the TPA provides that the Commissioner may authorize the application of tax registration, submission of returns and tax payments to be carried out through the use of information technology, including computer systems, mobile electronic devices, electronic and mobile communication systems.

Value Added Tax

#	Proposal	Details	Our comments
3.	Definition of tax computerized system	<ul style="list-style-type: none"> The Bill proposes to delete the definition of ‘tax computerized system’ under Section 2 of the VAT Act. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The VAT Act defines a ‘tax computerized system’ to mean any software or hardware for use in storing, retrieving, processing or disseminating information relating to tax. The proposed amendment seeks to align with Section 75 of the TPA with regards to administering tax laws through the electronic tax system.
4.	Consideration for a supply under a hire purchase agreement	<ul style="list-style-type: none"> The Bill proposes to amend Section 13(6) of the VAT Act by deleting paragraph (a) and substituting it with the following new paragraph – <p>(a) in the case of a supply of goods from a person licenced to carry on hire purchase business under a hire purchase agreement registered in accordance with the Hire Purchase Act, any financial charge payable in relation to the supply of credit under the agreement.</p> <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment introduces conditions that apply for the financial charge payable under a hire purchase agreement to be excluded from the taxable value. The conditions are: <ul style="list-style-type: none"> i. The supplier of goods must be a person licensed to carry on hire purchase business; and ii. The hire purchase agreement must be registered in accordance with the Hire Purchase Act.

Value Added Tax

#	Proposal	Details	Our comments
5.	Adjustment of input tax after supplies become exempt	<ul style="list-style-type: none"> The Bill proposes to introduce Section 17A in the VAT Act which provides that - 17A. (1) Where, on the date taxable supplies by a registered person become exempt and the person has deducted input tax on such supplies but the supplies remain unsold, the person shall account for an amount equal to the input tax relating to the supplies which remain unsold in the tax return of the period when the taxable supply became exempt. (2) When accounting for input tax under subsection (2), the person shall use the method used when input tax was deducted in respect of the supplies before the date the supplies became exempt. (3) Where the adjustment results in excess input tax, the person shall be liable to pay the resulting tax to the Commissioner. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment seeks to safeguard VAT revenues by preventing unintended retention of input VAT where taxable goods subsequently become exempt, and businesses still have the goods at the time of change of VAT status. That is, businesses will be required to disallow input tax that was claimed on the unsold goods, in the VAT return for the month in which the goods become exempt. Where the adjustment results in excess input tax, the excess amount will be payable to the Commissioner. If enacted, the amendment will result in cash outflows and pricing challenges for businesses holding significant stock at the time of the change in VAT status.

Value Added Tax

#	Proposal	Details	Our comments
6.	Timeline after which businesses can apply for refund of VAT paid on bad debts	<ul style="list-style-type: none"> The Bill proposes to amend Section 31(1)(a) of the VAT Act by changing the statutory timelines within which one may apply for a refund of VAT paid on bad debts from two years to three years. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Currently, the VAT Act allows taxpayers to apply for a refund of VAT paid on bad debts where the debt remains unpaid for a period of 2 years from the date of supply, provided that the refund application is made within 10 years. The proposed amendment will increase the time within which a taxpayer can apply for a refund of VAT paid on bad debts from 2 years to 3 years thus delaying any relief.
7.	Requirement for all taxpayers to issue a tax invoice	<ul style="list-style-type: none"> The Bill proposes to amend Section 42(1) of the VAT Act to require all taxpayers, VAT registered and non-registered, who make a supply to furnish a purchaser with a tax invoice containing the prescribed details for the supply at the time of supply. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed change seeks to extend the requirement to issue tax invoices to all suppliers, including non-VAT-registered persons. The proposed change also aligns with Section 23A of the TPA which requires all persons carrying on business in Kenya to issue electronic tax invoices. Whereas this proposal may enhance compliance with e-TIMS, it may still be necessary to stagger the implementation of e-TIMS.

Value Added Tax

#	Proposal	Details	Our comments
8.	Issuance of a tax invoice	<ul style="list-style-type: none"> The Bill proposes to amend Section 42 of the VAT Act by deleting subsection (2) and substituting it with the following new subsection – (2) An invoice showing an amount that purports to be tax shall only be issued in respect of a taxable supply. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed change seeks to reinforce the principle that VAT may only be charged on an invoice issued for a taxable supply.
9.	Tax avoidance schemes	<ul style="list-style-type: none"> The Bill proposes to repeal Section 66 of the VAT Act. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Section 66 of the VAT Act currently provides guidance on what constitutes a ‘tax avoidance scheme’ for VAT purposes and prescribes measures the Commissioner may take in issuing a tax assessment in respect to the scheme. The Bill proposes to repeal Section 66 of the VAT Act and introduce a new Section 18A in the TPA to provide a consolidated framework for dealing with tax avoidance schemes across all tax laws. The proposed provision provides that where the Commissioner determines that a person has entered into a tax avoidance scheme and obtained a tax benefit, the Commissioner may determine the person’s tax liability as if the scheme had not been entered into or carried out. The provision sets out the information sources that the Commissioner may rely on in making such a determination and provides a five-year timeline within which an assessment may be issued. A similar amendment has been proposed in the Income Tax Act.

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act	<ul style="list-style-type: none"> The Bill proposes to delete Paragraph 49 which exempts all goods and parts thereof of chapter 88. Under the East African Community Common External Tariff, Chapter 88 covers <i>Aircraft, spacecraft, and parts thereof.</i> <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Even though the Bill intends to delete Paragraph 49 which exempts all goods and parts thereof of chapter 88, specific tariff numbers under chapter 88 are still VAT exempt as below: <ul style="list-style-type: none"> 8802.30.00 - <i>Aeroplanes and other Aircrafts on unladen weight exceeding 2,000 kgs but not exceeding 15,000 kg.</i> 8802.40.00 - <i>Aeroplanes and other Aircraft of unladen weight exceeding 15,000 kgs.</i> 8802.60.00 - <i>Spacecraft (including satellites) and suborbital and spacecraft launch vehicles.</i> The proposed amendment will subject all other items under chapter 88, except the above listed items, to VAT at 16%.
		<ul style="list-style-type: none"> The Bill proposes to amend Paragraph 51 which exempts taxable goods, imported or purchased for direct and exclusive use in the implementation of official aid funded projects excluding fuels, lubricants and tyres for vehicles upon approval by the Cabinet Secretary responsible for the National Treasury. Specifically, the Bill proposes to insert the words “spare parts” immediately after the word “lubricants”. The Bill also proposes to add the following new proviso – Provided that any exemption granted for spare parts before the 30th June 2026, shall apply until the conclusion on the project. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment implies that spare parts imported or purchased for direct and exclusive use in implementation of official aid funded projects will be taxable at 16%. However, spare parts that were granted VAT exemption approval before 30 June 2026 will continue to be VAT exempt until the conclusion of the project.

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act (cont.)	<ul style="list-style-type: none"> The Bill proposes to delete paragraph 58 which exempts direction-finding compasses, instruments and appliances for aircraft. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment will subject the items under the deleted Paragraph to VAT at 16%.
		<ul style="list-style-type: none"> The Bill proposes to delete paragraph 62 which exempts 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. The Bill also proposes to delete Paragraph 26 of Part II of the First Schedule to the VAT Act which exempts 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. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Goods and services used in the construction of tourism facilities, recreational parks, convention and conference facilities will be taxable at 16% should the proposed change pass into law. The removal of this exemption is likely to discourage developers and investors in the tourism and hospitality sector who may have been hoping to benefit from the exemption. Further, there seems to be no transitional period for businesses that may have been granted the VAT exemption.

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act (cont.)	<ul style="list-style-type: none"> Paragraph 89 exempts <i>any other aircraft spare parts</i> imported by aircraft operators or persons engaged in the business of aircraft maintenance upon recommendation by the competent authority responsible for civil aviation. The Bill proposes to amend Paragraph 89 by deleting the words “any other aircraft spare” and substituting therefor the word “aircraft”. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed measure aims to expand the VAT exemption under Paragraph 89 to all aircraft parts.
		<ul style="list-style-type: none"> The Bill proposes to amend Paragraph 99(i) by increasing the VAT exemption threshold for goods imported by travellers in accompanied baggage from USD 300 to USD 2,000, subject to the minimum 24 hour stay requirement outside Kenya. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed increase in the exemption threshold from USD 300 to USD 2,000 substantially broadens the value of goods that may be imported VAT free, provided the traveller has been outside Kenya for more than 24 hours and properly declares the goods. This is welcome measure and will reduce liabilities for returning residents and visitors bringing in personal goods.

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act (cont.)	<ul style="list-style-type: none">The Bill proposes to delete paragraph 109 which exempts 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. <p>Effective date: 1 July 2026</p> <ul style="list-style-type: none">The Bill proposes to delete paragraph 153 which exempts the supply of denatured ethanol of tariff number 2207.20.00. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">The proposed amendment will subject the items under the deleted Paragraph to VAT at 16%. This will result in an increase in costs of constructing the houses.The amendment will subject the items under the deleted paragraph to VAT at 16% resulting in higher costs for downstream users, including manufacturers and industrial consumers that rely on denatured ethanol as an input and raw material.

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act (cont.)	<ul style="list-style-type: none">The Bill proposes to introduce paragraph 158 which exempts dialyzers of tariff number 8421.29.00. Effective date: 1 July 2026	<ul style="list-style-type: none">If enacted, the proposed exemption will lower acquisition cost of dialyzers for hospitals, clinics and dialysis centres, which may in turn improve affordability of dialysis treatment for patients.
		<ul style="list-style-type: none">The Bill proposes to introduce paragraph 159 which exempts scrap metal. Effective date: 1 July 2026	<ul style="list-style-type: none">The proposed amendment is aimed at supporting the recycling, manufacturing and trade of scrap metal. It is hoped that measures will be put in place to deter cases of vandalism of metal structures with the aim of selling them as scrap metals.

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act (cont.)	<ul style="list-style-type: none"> The Bill proposes to introduce paragraph 161 which exempts 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. Relatedly, the Bill proposes to delete Paragraph 11 of Part A of the Second Schedule of the VAT Act which zero-rates inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved from time to time by the Cabinet Secretary in consultation with the Cabinet Secretary responsible for matters relating to health. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed move from zero-rating to exemption would mean that businesses bear the incidence of VAT incurred on taxable supplies that such businesses acquire for production purposes. Such VAT would expectedly result in higher business costs and, perhaps, a proportionate increment in pharmaceutical products. The replacement of the term ‘medicaments’ with ‘pharmaceutical products’ is welcome as it expands the VAT exemption scope to include both curative and preventive products.
		<ul style="list-style-type: none"> The Bill proposes to introduce paragraph 163 which exempts the supply of imported or locally purchased telephones for cellular networks and other wireless networks. Relatedly, the Bill proposes to delete Paragraph 29 of Part A of the Second Schedule of the VAT Act which zero-rates supply of locally assembled and manufactured mobile phones. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed move from zero-rating to exemption would mean that businesses bear the incidence of VAT incurred on taxable supplies that such businesses incur in the process of making the supply. The amendment will also remove the preferential zero-rating previously available only to locally assembled and manufactured devices, which may affect local manufacturing competitiveness.

Value Added Tax

#	Proposal	Details	Our comments
10.	Other goods moved from zero-rating to exemption schedule	<ul style="list-style-type: none">• The Bill proposes to introduce the following new paragraphs under Part I of the First schedule to the VAT Act. These goods in these paragraphs are currently listed in the Second Schedule to the VAT Act as zero-rated supplies.<ul style="list-style-type: none">- Paragraph 160 which exempts 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.- Paragraph 162 which exempts transportation of sugarcane from farms to milling factories.- Paragraph 164 which exempts the supply of motorcycles of tariff heading 8711.60.00.- Paragraph 165 which exempts the supply of electric bicycles.- Paragraph 166 which exempts the supply of solar and lithium-ion batteries.- Paragraph 167 which exempts the supply of electric buses of tariff heading 87.02.- Paragraph 168 which exempts bioethanol vapour (BEV) stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).	<ul style="list-style-type: none">• The move from zero-rating to exemption means that businesses will bear the incidence of VAT incurred on taxable supplies that such businesses acquire for production purposes. Such VAT will expectedly result in higher business costs and, perhaps, a proportionate increment in the prices charged to the customers purchasing these goods.• We note that the proposed amendments are aligned with the Government's intention of managing its tax expenditure of which VAT refunds emanating from zero-rating is one.

Effective date: 1 July 2026

Value Added Tax

#	Proposal	Details	Our comments
10.	Amendments to Part I of the First Schedule to the VAT Act (cont.)	<ul style="list-style-type: none"> The Bill proposes to introduce paragraph 169 which exempts worn clothing and other worn articles of tariff heading 6309, other than upon importation. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment seeks to exempt the local supply of worn clothing and other worn articles of tariff heading 6309.
		<ul style="list-style-type: none"> The Bill proposes to introduce paragraph 170 which exempts 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. The Bill also proposes to introduce Paragraph 39 under Part II of the First Schedule to the VAT Act which exempts the supply of services 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. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendments aim to support infrastructure development under the PPP framework by reducing the VAT cost associated with project inputs, while retaining oversight through a formal approval mechanism involving the relevant ministries.

Value Added Tax

#	Proposal	Details	Our comments
11.	Amendments to Part II of the First Schedule to the VAT Act	<ul style="list-style-type: none"> The Bill proposes to amend Paragraph 1 by deleting subparagraph (b) and substitute therefor the following new subparagraph: <ul style="list-style-type: none"> b) the issue, transfer, receipt or any other dealing with money, including money transfer services, and accepting over the counter payments of household bills, but does not include— <ul style="list-style-type: none"> i. the services of carriage of cash, restocking of cash machines, sorting or counting of money; and ii. money transfers, payment processing, settlement, merchants acquiring, gateway or aggregation services supplied over a software or platform for a fee or commission by a payment service provider; <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment seeks to exclude technology-enabled payment services from VAT exemption. Financial services primarily facilitate the flow of capital within the economy and taxing them may lead to cascading costs and an increase in the overall cost of doing business. In addition, imposing VAT on services provided by payment service providers (PSPs), while exempting similar services offered by other players, creates an uneven playing field and may render PSPs uncompetitive. The proposal is also likely to increase the cost of digital transactions, which could discourage adoption, slow innovation in the fintech sector and undermine the Government’s financial inclusion and digitization objectives under the National Payment Strategy (2022–2025). Maintaining the exemption would help keep digital transactions affordable and encourage the use of formal, traceable financial channels. Further, the proposal may be viewed as a response to the recent High Court decision that confirmed that commissions earned by PSPs are exempt from VAT. From a policy perspective, the VAT treatment of financial services should be based on the function performed, rather than the legal form or licensing status of the provider. International best practice (including the EU/Belgium model) adopts a functional approach, exempting services that are indispensable to the execution of payment transactions while taxing only ancillary services. Aligning with this approach would modernize Kenya’s VAT framework, reduce the risk of multiple layers of taxation and support the development of a competitive and inclusive digital payments ecosystem.

Value Added Tax

#	Proposal	Details	Our comments
11.	Amendments to Part II of the First Schedule to the VAT Act	<ul style="list-style-type: none">The Bill proposes to amend Paragraph 25 by inserting the following new definitions: For the purposes of this paragraph— “tour operator” means a tour or safari operator licensed as such by the competent authority responsible for regulating and overseeing the tourism sector; and “in-house supplies” means supplies made from a tour operator’s own resources; or bought from third parties but materially altered so that the supply made is substantially different to that purchased.	<ul style="list-style-type: none">Paragraph 25 exempts the services of tour operators, excluding in-house supplies.The proposed amendment seeks to provide clarity on the scope of the exemption by clearly distinguishing exempt tour-operator services from taxable supplies.

Effective date: 1 July 2026

Excise Duty



Excise Duty

#	Amendment	Details	Our comments
1.	Timing of liability for excise duty on locally purchased or imported telephones for cellular and other wireless networks	<ul style="list-style-type: none"> The Bill proposes to amend Section 6 of the Excise Duty Act (EDA) to provide that the liability for excise duty on locally purchased or imported telephones for cellular and other wireless networks will arise at the time of activation of the phone. Effective date: 1 July 2026 The Bill also proposes to amend Section 36 of the EDA to require that excise duty on telephones for cellular and other wireless networks be paid to the Commissioner by the time of activation of the phone. The Bill further provides that the Cabinet Secretary may make regulations for the better carrying out of the above provisions. Effective date: 1 January 2027 	<ul style="list-style-type: none"> Currently, excise duty on imported goods is accounted for at the point of importation, while for locally manufactured goods, it is accounted for upon removal from the manufacturer's premises. The Bill proposes to shift the timing of excise duty liability for both imported and locally manufactured mobile phones to the point of activation, which would generally coincide with the sale of the device to the end user. Consequently, although other import taxes will continue to be payable at the time of importation, excise duty would be deferred until the device is activated. However, under the existing legal framework, the obligation to account for excise duty would still rest with the importer or local manufacturer. It remains unclear how information on device activation will be relayed to these parties to enable accurate accounting and compliance. This proposal raises significant practical and operational concerns, particularly regarding the tracking of device activations and the determination of appropriate intervals for remitting excise duty, given that devices are activated at different times. Additionally, enforcement by the Kenya Revenue Authority (KRA) may prove challenging due to the need to monitor and verify activation data. Effective implementation will therefore require the development of robust systems and processes, including potential integration with telecommunications network operators to ensure reliable tracking and reporting of device activations. Notwithstanding these challenges, the proposed amendment is expected to provide cash flow relief to importers and manufacturers by deferring the payment of excise duty until the point of activation.

Excise Duty

#	Amendment	Details	Our comments
2.	Amendment of excise duty on imported cellular phones	<ul style="list-style-type: none">The Bill proposes to amend Part A of the First Schedule to the Excise Duty Act (EDA) by replacing the description “imported cellular phones” with “telephones for cellular and other wireless networks of Tariff Heading 8517,” and increasing the applicable excise duty rate from 10% to 25%. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none">The Excise Duty Act (EDA) currently imposes excise duty on imported cellular phones at a rate of 10%. In addition, such imports are subject to import duty at 25%, Import Declaration Fee (IDF) at 2.5%, and Railway Development Levy (RDL) at 2%, resulting in an effective tax burden of approximately 64% of the customs value.The Bill proposes to increase the excise duty on mobile phones from 10% to 25%, while exempting these products from VAT, IDF, and RDL. On a net basis, this proposal reduces the overall import tax burden on mobile phones to approximately 56%. It remains unclear whether the East African Community (EAC) Council of Ministers will revise the prevailing import duty rate.Further, the Bill introduces both excise duty and VAT on locally manufactured mobile phones. This development suggests a potential shift in policy direction, effectively withdrawing the existing tax incentives that were aimed at promoting investment in local mobile phone assembly in Kenya.

Excise Duty

#	Amendment	Details	Our comments
3.	Amendment of excise duty rate on fruit and vegetable juices	<ul style="list-style-type: none"> The Bill proposes to amend Part I of the First Schedule to EDA by introducing differentiated excise duty rates for unfermented fruit and vegetable juices, based on whether such products contain added sugar or other sweetening matter or do not contain such additives. Specifically, the Bill proposes that: <ul style="list-style-type: none"> Fruit juices (including grape must) and vegetable juice, unfermented and not containing added spirit, shall be subject to excise duty at the current rate of KES 14.14 per litre; and Fruit juices (including grape must) and vegetable juice, unfermented, containing added sugar or other sweetening matter and not containing added spirit, shall be subject to excise duty at a higher rate of KES 20 per litre. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> Currently, fruit and vegetable juices are subject to a uniform excise duty rate of KES 14.14 per litre, regardless of whether they contain added sugar or other sweetening matter. The proposed amendment therefore seeks to increase excise duty on fruit and vegetable juices containing added sugar or other sweetening matter. Whereas this measure is aimed at addressing the health concerns associated with consumption of products containing added sugars, it is likely to negatively impact manufacturers and importers of these juices due to a possible reduction in demand.
4.	Removal of excise duty on bottled or similarly packaged waters	<ul style="list-style-type: none"> The Bill proposes to amend the First Schedule of the EDA by removing bottled or similarly packaged waters from the ambit of excise duty. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The removal of excise duty on bottled or similarly packaged water is aimed at promoting greater access to safe drinking water by making it more affordable for a wider segment of the population. This is a welcome measure which will contribute to greater affordability and consumption of safe water thus reducing diseases associated with consumption of contaminated water. By reducing the retail price, the measure encourages consumers to choose water over less healthy alternatives such as sugary or carbonated beverages, thereby supporting broader public health objectives.

Excise Duty

#	Amendment	Details	Our comments
5.	Increase in excise duty rate on alcoholic beverages manufactured by licensed small independent brewers	<ul style="list-style-type: none"> The Bill proposes to amend Part I of the First Schedule to the EDA by deleting the proviso that provides for a reduced excise duty rate on beer, cider, perry, mead, opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages of alcoholic strength not exceeding 6% manufactured by licensed small independent brewers. Currently, these beverages are subject to excise duty at KES 22.50 per centilitre of pure alcohol, with a reduced rate of KES 10 per centilitre applicable to licensed small independent brewers. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> Under the current provisions, licensed small independent brewers benefit from a reduced excise duty rate of KES 10 per centilitre of pure alcohol on these beverages. The proposed amendment removes this preferential treatment, effectively subjecting all manufacturers to the standard excise duty rate of KES 22.50 per centilitre of pure alcohol.
6.	Amendment of excise duty on spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90%	<ul style="list-style-type: none"> The Bill proposes to amend Part I of the First Schedule to the EDA with respect to spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages by deleting the words <i>“purchased by licensed manufacturers of spirituous beverages”</i> The Bill further proposes to reduce the excise duty rate from KES 500 per litre to KES 80 per litre. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The Finance Act, 2025 reduced the excise duty rate on spirits of undenatured extra neutral alcohol (ENA) of alcoholic strength exceeding 90% from KES 10 per centilitre of pure alcohol to KES 500 per litre. The proposed amendment seeks to further reduce the rate to KES 80 per litre, representing a significant cumulative decrease in the applicable excise duty. Under the existing framework, this provision applies only where the ENA was purchased by licensed manufacturers of spirituous beverages, thereby excluding other categories of users. The proposed amendment removes this restriction, thereby broadening the scope of application irrespective of the purchaser. Extra neutral alcohol is a key input in the manufacture of spirituous beverages, as well as in other sectors such as pharmaceuticals and cosmetics. Accordingly, the continued reduction in the excise duty rate is expected to lower input costs across these industries.

Excise Duty

#	Amendment	Details	Our comments
7.	Increase in excise duty rate on tobacco products	<ul style="list-style-type: none"> The Bill proposes to amend Part I of the First Schedule to the EDA by increasing the excise duty rate on the following tobacco products:- <ol style="list-style-type: none"> Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes from Shs. 16,260.29 per kg to Shs. 18,000 per kg. Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences from Shs. 11,382.48 per kg to Shs. 12,550 per kg. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> Whereas this measure is aimed at addressing the health concerns associated with consumption of tobacco, it is likely to negatively impact manufacturers and importers of tobacco products.
8.	Change in the tax base for excise duty on imported sanitary wares	<ul style="list-style-type: none"> The Bill proposes to amend the basis for computing excise duty on the following items as follows: <ul style="list-style-type: none"> Imported ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals, and similar sanitary fixtures under tariff heading 6910 from 5% of the customs value or KES 50 per kilogram to 5% of the excisable value; and 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 from 5% or KES 300 per square metre, whichever is higher, to 5% of the excisable value. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> In our view, the proposed amendment is aimed at aligning the taxable value applied on imported ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of tariff heading 6910, 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 with the taxable value applied on other excisable goods. The taxable value for imported goods is customs value plus import duty.

Excise Duty

#	Amendment	Details	Our comments
9.	Introduction of excise duty on various products.	<ul style="list-style-type: none">The Bill proposes to introduce excise duty on the following products<ul style="list-style-type: none">Locally manufactured sugar confectionery of tariff heading 17.04 at KES 85.82 per kg.Locally manufactured articles of plastic of tariff heading 3923.30.00 and 3923.90.90 at 10%.Coal at 5% of the excisable value. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none">The proposed amendment broadens the scope of excise duty by extending its application to both imported and locally manufactured sugar confectionery, as well as articles of plastics falling under tariff headings 3923.30.00 and 3923.90.90.The inclusion of locally manufactured products is expected to increase production costs for domestic manufacturers, a burden that is likely to be passed on to consumers through higher prices.While the proposal aligns with the Government's policy objectives of reducing plastic pollution and curbing sugar consumption, it may have unintended economic implications by undermining the competitiveness of locally produced goods relative to imports.Excise duty on coal was initially introduced under the Tax Laws (Amendment) Act, 2024 as part of the Government's efforts to enhance revenue mobilisation and advance environmental objectives. The duty was subsequently repealed by the Finance Act, 2025 following stakeholder concerns, particularly regarding the higher cost of energy for manufacturers and other industries reliant on coal.The proposed reintroduction signals a renewed policy emphasis on both revenue generation and environmental considerations, given coal's classification as a high-carbon fossil fuel.Coal is used as a cheap source of energy by heavy industries such as cement and steel manufacturers to fire their plants. However, the mining and use of coal results in environmental degradation. The proposal is therefore geared towards discouraging the use of coal.In our view, the reintroduction of excise duty on coal is likely to increase energy and production costs for affected industries, with potential downstream effects on the prices of goods.

Excise Duty

#	Amendment	Details	Our comments
10.	Introduction of excise duty on various imported goods originating from the EAC	<ul style="list-style-type: none"> • The Bill proposes to amend the First Schedule to the EDA by deleting the proviso that excludes various imported goods originating from the EAC Partner States that meet the EAC Rules of Origin from the ambit of excise duty. • Specifically, the Bill proposes to introduce excise duty on the following products originating from the EAC: <ul style="list-style-type: none"> – Imported Glass bottles (excluding imported glass bottles for packaging of pharmaceutical products); – Imported furniture of tariff heading 9403; – Imported printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00; – Imported plates of plastic of tariff heading 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90; – Imported paper or paper board, labels of all kinds whether or not printed of tariff heading 4821.10.00 and 4821.90.00; – Imported printing ink of tariff 3215.11.00 and 3215.19.00; – Imported Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked of tariff 7005 but excluding those imported by a registered processor upon the recommendation by the Cabinet Secretary responsible for matter relating to industry; – Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number 3919.90.90; – Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90; 	<ul style="list-style-type: none"> • The Excise Duty Act (EDA) currently provides for the exclusion of certain excisable goods originating from East African Community (EAC) Partner States from excise duty, in line with the national treatment principle under the EAC Customs Union Protocol. Specifically, Article 15 of the Protocol prohibits Partner States from imposing internal taxes on products from other Partner States that are higher than those applied to like domestic products. • The proposed amendment to delete this exclusion would subject qualifying EAC-originating goods to excise duty. In effect, this introduces unequal tax treatment between imported goods from EAC Partner States compared to locally produced goods, thereby amounting to discrimination contrary to Article 15 of the Protocol. • From a trade perspective, the imposition of excise duty on these products is likely to undermine the principles of the Customs Union by creating a fiscal barrier to intra-EAC trade. Consequently, the measure may discourage cross-border trade in the affected goods and adversely impact economic integration within the region.

Excise Duty

#	Amendment	Details	Our comments
10.	Introduction of excise duty on various imported goods originating from the EAC	<ul style="list-style-type: none"> – Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other polyesters of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90; – Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90; – Imported printed self-adhesive paper of tariff number 4811.41.90; – Imported gummed paper and paperboard of tariff number 4811.49.00; – Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; unbleached of tariff number 4804.11.00; – Imported other kraft paper or paperboard weighing 150g/m² or less, in rolls or sheets; unbleached of tariff number 4804.31.00; – Imported other kraft paper or paperboard weighing more than 150g/m² but less than 225 g/m², in rolls or sheets; unbleached of tariff number 4804.41.00; – Imported other kraft paper or paperboard weighing 225 g/m² or more others in rolls or sheets; unbleached of tariff number 4804.51.00; – Imported Glass of heading 70.03, 70.04 or 70.05, bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials of Tariff Heading 70.06; – Imported safety glass of tariff numbers 7007.19.00 and 7007.29.00; and – Imported Multiple-walled insulating units of glass of Tariff Heading 70.08; 	
<p>Effective date: 1 January 2027</p>			

Excise Duty

#	Amendment	Details	Our comments
11.	Increase in excise duty on antique, vintage and classic vehicles	<ul style="list-style-type: none">The Bill proposes to increase excise duty on antique, vintage and classic vehicles from a range of 20% to 35% to a rate of 50% of the excisable value.The Bill further proposes to define “antique, vintage or “classic vehicle” as a motor vehicles whose year of first registration is at least thirty years before the date of purchase of the motor vehicle and whose value is at least ten million shillings exclusive of depreciation. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none">Currently, motor vehicles, including antique, vintage, and classic vehicles, are subject to excise duty at rates ranging from 10% to 35%. The proposed amendment seeks to increase the excise duty to 50% of the taxable value for motor vehicles that are over 30 years old and valued at more than KES 10 million.The amendment is expected to enhance revenue collection.Notwithstanding the above, the overall impact on the broader automotive sector is likely to be limited, as the affected vehicles are typically owned by high-net-worth individuals and constitute a niche segment of the market.

Excise Duty

#	Amendment	Details	Our comments
12.	Change in the tax base for excise duty on betting, horse racing and gaming	<ul style="list-style-type: none"> The Bill proposes to amend the basis for computing excise duty on betting and gaming activities from amount deposited into a customer's betting wallet to amount deposited for betting or gambling purposes. The Bill further proposes to delete the proviso under Paragraph 4A, thereby bringing betting on horse racing within the ambit of excise duty. <p>In addition, the Bill deletes the existing definition of "amount deposited into a customer's betting wallet" and introduces a new definition of "amount deposited" to mean the total value of money or money's worth paid, transferred, credited, or otherwise made available for betting or gambling purposes to a person who has been issued a license under the Gambling Control Act, whether provided by a player or the operator, whether in cash or cash equivalents, whether or not such amount is held in an account operated by a player, operator or licensed person, or converted into chips, tokens, tickets, credits, or similar instruments.</p> <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The amendments shift excise duty from a wallet-based trigger to a broader, substance-based approach, taxing any value made available for betting or gambling purposes rather than only amounts deposited into betting wallets. This significantly expands the tax base by bringing into scope operator-funded value (such as bonuses and free bets) and non-cash instruments (including credits, tokens, and chips), regardless of whether they are held in a wallet or formal account. As a result, operators are likely to face higher tax exposure, earlier taxation (including on promotional credits), and increased compliance requirements to track all betting-related value flows. The inclusion of horse racing further widens the scope of tax.

Excise Duty

#	Amendment	Details	Our comments
13.	Excise duty on virtual asset transactions	<ul style="list-style-type: none"> The Bill proposes to amend Paragraph 9 of Part II of the First Schedule to the EDA by replacing reference to “virtual asset providers” with “virtual asset service providers.” Accordingly, the provision will apply to fees charged on virtual asset transactions by virtual asset service providers at the rate of 10% of the excisable value. Additionally, the Bill proposes to amend the EDA by introducing definitions of “virtual asset” and “virtual asset service provider” referencing the meanings assigned to these terms under the Virtual Asset Service Providers Act, 2025. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The Excise Duty Act currently imposes excise duty at 10% on fees charged on virtual asset transactions by “virtual asset providers.” The Bill replaces this term with “virtual asset service providers,” aligning the provision with the terminology used under the Virtual Asset Service Providers Act, 2025 and clarifying that the tax applies specifically to service-based entities involved in virtual asset transactions. Notably, while excise duty on such fees was introduced under the Finance Act, 2025, the Excise Duty Act did not previously define “virtual asset” or “virtual asset service provider.” The Bill addresses this gap by adopting definitions from the Virtual Asset Service Providers Act, 2025, under which a virtual asset refers to a tradable or transferable digital representation of value used for payment or investment (excluding fiat currency, e-money, and securities), and a virtual asset service provider refers to a person conducting activities such as the exchange, transfer, or custody of virtual assets. Overall, these changes are primarily clarificatory in nature, enhancing alignment between the tax and regulatory frameworks, and are expected to improve certainty in the application of excise duty while reducing the risk of interpretational disputes.

Miscellaneous Fees and Levies



Miscellaneous Fees and Levies

#	Amendment	Details	Our comments
1.	Use and distribution of IDF levy	<ul style="list-style-type: none"> The Bill proposes to amend Section 7(6) of the Miscellaneous Fees and Levies Act (MFLA) by reducing the allocation of the Import declaration fee (IDF) collections paid to a Fund established under the Public Finance and Management Act (PFMA), from 20 % to 10%. The Bill further proposes to amend Section 7(7) of the MFLA by deleting the provision that allocates 10% of the IDF collected to revenue enforcement initiatives. Currently the Act provides that 10% of the IDF collected is earmarked for revenue enforcement initiatives. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment seeks to reverse changes that were introduced vide the Finance Act, 2025 perhaps in a bid to increase the revenue available for expenditure by the Government by reducing the earmarked allocations provided for in the MFLA.
2.	Applicability of EACCMA	<ul style="list-style-type: none"> The Bill proposes to amend Section 9 of the Miscellaneous Fees and Levies Act (MFLA) to state that the provisions of the East African Community Customs Management Act, 2004, relating to the determination of the value of imported goods, as well as the collection and enforcement of duty payments, shall apply to the assessment, collection, and enforcement of fees and levies imposed under Part III of the MFLA. Currently, Section 9 of the MFLA references the payment of Import Declaration Fee (IDF), Railway Development Levy (RDL), and export levy. However, Part III of the MFLA also provides for additional fees and levies, such as the anti-adulteration levy, which are not presently listed in Section 9. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposed amendment seeks to include other fees and levies provided for under the MFLA, under provision of Section 9 of the MFLA, for uniformity on assessment and collection of fees and levies imposed on imported goods. Further, the proposed amendment, if adopted, will future proof this section against further amendments by providing that all fees and levies provided for under the Act would be subject to the collection and enforcements as per the EACCMA without necessarily listing them within these provisions. In the event additional taxes and levies are included in Part III of the Act, they will be included automatically reducing the need for further legislative intervention.

Miscellaneous Fees and Levies

#	Amendment	Details	Our comments
3.	IDF and RDL exemption on aircraft, spacecraft, and parts thereof	<ul style="list-style-type: none"> The Bill proposes to amend the Second Schedule to the MFLA to limit the scope for IDF and RDL exemption on goods of Chapter 88 by only exempting all parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00. Currently, all goods and parts thereof of Chapter 88 are exempt from IDF and RDL. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The proposed amendment limits the scope of the exemption to only aeroplanes of unladen weight of between 2000kg and 15000kg and those of an unladen weight exceeding 15000kg, and all parts of Chapter 88. The proposed amendment is likely to increase the cost of aircrafts and spacecrafts that are not covered by the exemption.
4.	IDF and RDL Exemption on imported telephones for cellular networks and other wireless networks	<ul style="list-style-type: none"> The Bill proposes to amend the Second Schedule to the MFLA to exempt imported telephones for cellular networks and other wireless networks from IDF and RDL. <p>Effective date: 1 January 2027</p>	<ul style="list-style-type: none"> The exemption of IDF and RDL on importation of telephones will lower the cost of imported of telephones. This is in addition to the proposed VAT exemption included in the Bill. On the other hand, the Bill proposes to increase the excise duty rate from 10% to 25% on telephones, so it appears the intention is to change the tax type and tax point. This change is likely in line with the GOK efforts in enhancing the technology penetration and advancement in Kenya but the glaring inconsistency in policy may erode the intended gains.

Tax Procedures



Tax Procedures

#	Proposal	Details	Our comments
1.	Deletion of the requirement for Certificate of Origin for all goods imported into Kenya	<ul style="list-style-type: none"> The Bill proposes to delete the definition of “certificate of origin” from Section 3 of the Tax Procedures Act (“TPA”), and further proposes to repeal Section 44A, which presently requires that all goods imported into Kenya must be accompanied by a valid Certificate of Origin (“COO”). <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The Bill proposes to delete the requirement for a COO to accompany all goods imported into Kenya, less than 1 year after its introduction by the Finance Act, 2025. In our view, this is a welcome proposal which recognizes the challenges encountered in implementing the requirement, given that there was no corresponding amendment made to the primary legal framework governing customs administration: the East African Community Customs Management Act (EACCOMA). In addition, its implementation may have placed Kenyan importers at a disadvantage and could be construed as a non-tariff barrier to trade.
2.	Filing obligations for virtual asset service providers	<ul style="list-style-type: none"> The Bill proposes to introduce a definition of “virtual asset” and “virtual asset service provider” (VASP) to adopt the terms’ respective meanings in the Virtual Asset Service Providers Act, 2025. The Bill further proposes to require each VASP to file annual information returns with the Commissioner in respect of all reportable virtual-asset users. The VASPs covered by this proposal include any provider of a service or platform for the exchange or trading of virtual assets, including those acting as counterparties or intermediaries. The Bill also proposes a KES 100,000 penalty, or imprisonment for a term not exceeding 3 years, for making false statements in an information return. Other penalties include a KES 100,000 penalty for omitting any required information from the return and a KES 1 million penalty for failing to file an information return. Additionally, the Bill proposes to introduce a new Section 6D to the TPA, which shall allow Kenya to conclude agreements with other countries for the automatic exchange of information relating to virtual asset transactions. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This proposal comes 5 years after the TPA was amended to introduce almost similar reporting obligations for financial institutions under the Common Reporting Standards (CRS). The TPA was also amended at the time to allow for the automatic exchange of information (AEOI) on financial accounts with other jurisdictions. With the increasing use of virtual assets and a move from the traditional financial sector to crypto assets, the current proposal seeks to extend reporting obligations and AEOI to virtual assets. This proposal is also in line with international developments, including the OECD’s Crypto-Asset Reporting Framework (CARF), which extends AEOI between tax authorities to virtual assets. If implemented, the main aim of the proposal is to equip the KRA with the information they need on both local and cross-border virtual assets transactions to ensure tax compliance. We expect the provisions to be updated to define terms such as “reportable user”, and to empower the Commissioner to enact regulations for the implementation of the proposed obligations.

Tax Procedures

#	Proposal	Details	Our comments
3.	Re-registration of taxpayers after deregistration	<ul style="list-style-type: none"> The Bill proposes to allow taxpayers who have successfully deregistered or cancelled their PINs to apply to the Commissioner for re-registration, in cases where they qualify for registration in Kenya again. Upon application for re-registration, the Bill proposes to empower the Commissioner to issue the taxpayer with the same PIN they had prior to deregistration. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This is a welcome proposal aimed at resolving an existing administrative inefficiency, wherein taxpayers who need to re-register for tax in Kenya are required to apply afresh for registration and obtain a new PIN. If enacted, the proposal will allow taxpayers to have their old PIN re-instated upon submitting a written application to the Commissioner.
4.	Non-residents opening accounts with investment banks to be exempt from PIN requirements	<ul style="list-style-type: none"> The Bill proposes to exempt non-resident persons from the requirement of a PIN when opening an account with an investment bank. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Presently, the TPA requires persons opening accounts with financial institutions and investment banks to have a PIN. The proposal seeks to exempt non-residents from this mandatory requirement in respect of investment banks. The proposal is likely aimed at reducing barriers for investment and incentivizing foreign capital inflow.

Tax Procedures

#	Proposal	Details	Our comments
5.	Tax avoidance provisions moved to the TPA	<ul style="list-style-type: none"> The Bill proposes to delete the tax avoidance provisions in the Income Tax Act and the VAT Act, and have the same within a new provision in the TPA. The Bill also proposes to empower the Commissioner to use information in their possession, including eTIMS, WHT, PAYE and audit data to make a determination of tax avoidance. Further, the Bill proposes to empower the Commissioner to issue an assessment of tax liability under the tax avoidance provision within 5 years of the period to which it relates. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposal seeks to codify within the TPA the Commissioner's power to apply anti-avoidance provisions. Noting that the TPA is the main statute on tax administration, the proposal is a clean-up in order to house these powers in one statute, as opposed to having them in multiple tax laws. Above said, we note that the proposal may need to be revised to delete similar tax avoidance provisions in the Excise Duty Act. That said, noting that the application of a tax avoidance provision attracts a steep penalty of 200% of the tax due, the proposal may need to be relooked at to allow taxpayers to respond to the Commissioner's finding of tax avoidance before an assessment is issued. The proposed use of information such as eTIMS data is an indicator of the increased use of technology in tax administration to reduce the time and effort expended in assessing tax liabilities. This trend is visible in other ongoing tax administration efforts, including the implementation of eTIMS and the roll-out of prepopulated VAT and income tax returns. For this measure to succeed, the data applied must be accurate; otherwise it will lead to numerous disputes and increased administrative burden to reconcile information and resolve the disputes.
6.	Commissioner to issue assessments based on information in their possession	<ul style="list-style-type: none"> The Bill proposes to empower the Commissioner to issue assessments based on information in their possession, including eTIMS, WHT, PAYE and audit data. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> Similar to the above proposal, this proposed amendment is a further indicator of the KRA seeking to use the taxpayer information on its platforms such as iTax and eTIMS to issue assessments. We note that the proposal as currently worded seems not to have a time limitation similar to other assessments i.e., 5 years. This may need to be addressed before the Bill is signed into law to safeguard taxpayer rights.

Tax Procedures

#	Proposal	Details	Our comments
7.	Re-introduction of the tax amnesty programme	<ul style="list-style-type: none"> The Bill proposes to amend Section 37E of the TPA to re-introduce the tax amnesty programme, which lapsed on 30 June 2025. Under the programme, taxpayers will be entitled to seek full remission of penalties and interest on unpaid tax that had accrued up to 31 December 2025, precedent on the condition that all the principal tax due will be cleared by 31 December 2026. In addition, any penalties and interest relating to principal taxes which had been paid in full before 31 December 2025 shall be automatically waived. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This is a welcome move that would grant taxpayers additional time to re-evaluate their tax compliance status for periods up to 31 December 2025, to clear any outstanding principal taxes and to enjoy a full waiver of the attendant penalties and interest. The extension will also likely result in higher revenue collection, with the initial tax amnesty programme having yielded KES 43.9 billion in the fiscal year 2023/2024.
8.	Penalty for failure to deduct or withhold tax.	<ul style="list-style-type: none"> The Bill proposes to repeal Section 39A(2) of the TPA, which currently provides that where a person does not deduct taxes on payments (e.g., WHT, withholding VAT), they shall not be required to remit the un-deducted tax if the recipient of the payment has accounted for the full principal tax in their hands. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposal seeks to repeal a provision introduced barely 1-year ago vide the Finance Act, 2025. If adopted into law, the proposal would occasion double taxation where the Commissioner assesses WHT and withholding VAT from a payer, even where the recipients of the payments have already accounted for the full taxes.
9.	Agency notices to be issued where a taxpayer has appealed against a TAT or court decision	<ul style="list-style-type: none"> The Bill proposes an amendment to Section 42 of the TPA to allow the Commissioner to issue an agency notice where a taxpayer has appealed against an assessment specified in a decision of the Tax Appeals Tribunal (TAT) or court of law. Currently, the Commissioner is precluded from issuing an agency notice where a taxpayer has appealed against an adverse TAT or court decision within the required statutory timelines. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> If enacted into law, this proposal will empower the Commissioner to enforce adverse judgements against taxpayers through agency notices, even in cases where an appeal has been filed at higher courts. This would be a negative development in our view, which would result into unnecessary cashflow problems for taxpayers and could encourage inflated assessments as witnessed in jurisdictions which have adopted the ‘pay first, argue later’ policy. There is also the challenge of recovering money collected by the KRA should the taxpayers’ appeals prevail in court. Due to existing administrative inefficiencies and cashflow limitations, refunds are problematic. The Government should therefore consider dropping this proposal from the Bill.

Tax Procedures

#	Proposal	Details	Our comments
10.	Offset of overpaid taxes against import VAT.	<ul style="list-style-type: none"> The Bill proposes to repeal part of Section 47(1)(a), which currently provides that taxpayers can offset overpaid taxes against import VAT. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This is yet another proposal which the Bill seeks to delete from the TPA barely 1 year from its enactment vide the Finance Act, 2025. The proposal may have negative impacts on businesses which incur significant import VAT such as the importers of petroleum products, who may now be precluded from utilizing tax overpayments against import VAT.
11.	Commissioner to be empowered by law to generate prepopulated returns	<ul style="list-style-type: none"> The Bill proposes to amend Section 75 of the TPA to empower the Commissioner to use information technology e.g., iTax and eTIMS to generate prepopulated returns. Taxpayers, however, will retain the option of submitting a self-assessment return. The Bill also proposes to empower the Commissioner to enact regulations outlining the procedure for the submission of returns based on prepopulated tax returns. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposal seeks to codify in the TPA measures which are already being implemented by the KRA, notably the pre-population of VAT and income tax returns. In addition to being an indicator of the increased use of technology in tax administration, the proposal may also indicate a move towards a dual assessment regime i.e., both self-assessment by taxpayers and assessment by the Commissioner.
12.	Computation of time for the lodgment of objections and appeals	<ul style="list-style-type: none"> The Bill proposes to repeal Section 77(2) of the TPA, which currently provides that in computing the period for the lodgment of appeals and objections, the computation shall not include weekends and public holidays. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The proposal seeks to undo a provision that was introduced recently in December 2024. If enacted into law, the computation of the 30 days required for taxpayers to lodge appeals to the TAT or courts of law, or to object against a tax decision, shall now include non-working days. There is no clear justification why this is being reversed 1.5 years after its introduction in the law.

Tax Procedures

#	Proposal	Details	Our comments
13.	Penalties for failure to comply with electronic tax systems	<ul style="list-style-type: none"> The Bill seeks to repeal Section 86 of the TPA and replace it with a provision that will state as follows: <ol style="list-style-type: none"> That where a taxpayer fails to issue electronic invoices, submit returns electronically or make payments via the KRA's platforms, the Commissioner shall issue a notice to the taxpayer requiring them to provide reasons for their non-compliance. The Commissioner shall consider any response to the notice, especially where the non-compliance is due to factors e.g., reasons beyond the taxpayer's control. Where the reasons are not satisfactory, the taxpayer shall be liable to a penalty which shall be the higher of: (a) two times the tax due; (b) KES 100,000; or (c) KES 10,000 for individuals. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> The first and second proposals are a welcome move as they will afford taxpayers the opportunity to justify any non-compliance with electronic tax systems e.g., eTIMS, particularly where such non-compliance is a result of factors beyond their control. Such factors are currently not recognized in the TPA. The third proposal seeks to introduce minimum penalties for companies and individuals, which are presently not legislated in the TPA.
14.	Waiver of penalties or interest arising due to errors	<ul style="list-style-type: none"> The Bill proposes to amend Section 89 of the TPA to empower the Commissioner to waive penalties or interest arising due to system errors without seeking the approval of the Cabinet Secretary, National Treasury. However, this discretion is limited to penalties or interest not exceeding KES 2 million. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none"> This is a welcome proposal which would resolve the current administrative hurdle of requiring the Cabinet Secretary's approval for the resolution of all penalties and interest arising from system errors. However, the limit imposed on the Commissioner is on the lower side.

Stamp Duty



Stamp Duty

#	Proposal	Details	Our comments
1.	Stamp Duty Exemption for Transfers of Beneficial Interests to REITs	<ul style="list-style-type: none">The Bill proposes to amend section 96A of the Stamp Duty Act by introducing a new subsection 96A(1)(c) to exempt an instrument from stamp duty where it is shown, to the satisfaction of the Collector, that the instrument effects a transfer of a beneficial interest in property from a person or persons to a real estate investment trust (“REITs”) <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">This is a welcome proposal.Currently, under section 96A(1)(b) of the Stamp Duty Act, the exemption is transaction-specific and applies only where property is transferred into a REIT in exchange for the issuance of units.Further, Section 96A(4), limits the exemption to instruments executed on or before 31 December 2022. Therefore, section 96A(1)(b) is largely spent and no longer provides relief for new REIT transactions.The proposed amendment provides relief from stamp duty where beneficial ownership in property is transferred to a REIT whether for units, cash, or other value.The proposed amendment shall encourage ongoing REIT formation, asset acquisition, and restructuring, rather than confining the relief to a one-off seeding phase.

Road Maintenance Levy Fund Act



Road Maintenance Levy Fund Act

#	Proposal	Details	Our comments
1.	Reduction of Amount Paid into the Road Annuity Fund.	<ul style="list-style-type: none">The Bill proposes to amend Section 3(2) of the Road Maintenance Levy Fund Act by reducing the statutory amount of the road maintenance levy paid into the Road Annuity Fund from three shillings per litre to one and a half shillings per litre of petroleum sold. <p>Effective date: 1 July 2026</p>	<ul style="list-style-type: none">The reduction in funding to the Road Annuity Fund may slow the pace of new road construction and upgrades, potentially impacting infrastructure development and economic growth.

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