



Kenya Budget Highlights 2026/27

Balancing Fiscal Realities with Public Expectations

Message from the CEO



Anne Muraya
CEO

Kenya enters fiscal year 2026/27 with a clear imperative: **balancing fiscal realities with public expectations** while sustaining growth and competitiveness.

In fiscal year 2025/26, Kenya's GDP grew by 4.6%. Growth was supported by agriculture and services, while manufacturing and transport recovered as supply conditions improved. Construction and real estate also steadied, supported by infrastructure activity and renewed private sector momentum.

However, financing conditions remain tight. Household spending power is still under pressure, and confidence remains highly sensitive to policy direction and tax-driven cost pass-throughs.

The key macro indicators have remained broadly stable over the past year. Inflation, which had been contained at around 4%, rose to 6.7% in May 2026, driven mainly by high fuel prices and the resulting increases in transport, food, and utility costs. Meanwhile, the benchmark interest rate was reduced to 8.75% in February 2026, and the shilling has remained relatively stable against the US dollar.

Against this backdrop, the Finance Bill, 2026 is a critical test of policy discipline. Its broad direction is understandable: widen the tax base, strengthen administration, and align the framework with evolving business models and recent legal developments. Some measures are constructive. A renewed tax amnesty, clearer rules in selected areas, and reliefs targeted at essential goods and priority sectors could support compliance, reduce disputes and ease pressure in parts of the economy.

At the same time, the cumulative burden of change is significant.

For business, the issue is not only the level of taxation but also the predictability, sequencing, and administrative costs of reform.

Frequent amendments, shifting interpretations and compressed implementation timelines increase compliance costs, complicate pricing decisions and can delay investment. For sectors already managing high financing costs and soft demand, further uncertainty risks eroding competitiveness and passing additional pressure through to consumers.

Message

from the CEO



Clear policies, aligned effective dates, practical transition provisions and sustained engagement with the private sector will be essential to minimise disruption. Above all, stability is a fundamental competitiveness asset, and protecting it is essential to supporting investment and jobs.

Kenya's core strengths remain evident: a dynamic private sector, a fast-digitising economy, strong regional connectivity, and a young, skilled workforce. If fiscal consolidation is matched by regulatory stability, targeted growth-support measures, meaningful consideration of views raised through public participation on the Finance Bill, and effective implementation, fiscal year 2026–27 could mark a period of consolidation and renewed confidence.



The Foreword



Fred Omondi
Tax & Legal | Partner

The FY2026/27 National Budget is being presented against the backdrop of heightened global geopolitical risk due to the ongoing conflict in the Middle East. The crisis has disrupted multiple industries and caused supply chain disruptions. The elevated oil prices have translated into significant increases in domestic fuel prices, which has a ripple effect on many sectors and consumers in general. As a result, GDP growth rate projections have been revised downwards.

The economic slowdown and the rising cost of living means that the Budget must be sensitive to the current difficult environment and possibly provide relief to cushion the most affected segments of society.

Tax revenue performance to end of March 2026 shows improvement but remains short of the full-year target. Ordinary tax collections reached 96% of the period's projection, to stand at KES 2.038 trillion against target of 2.122 trillion. Given the current internal and external pressures, it is unlikely that the Kenya Revenue Authority will achieve the full-year (FY25/26) target of KES 2.75 trillion.

For the fiscal year 26/27, the National Assembly has passed budget estimates of KES 4.82 trillion with projected ordinary revenue of KES 2.985 trillion. In order to enhance tax revenue collection, the Government intends to implement measures outlined in the Medium-Term Revenue Strategy (MTRS), including accelerated digital transformation, strengthened MSME compliance and reduced tax expenditures.

Key Tax Proposals

The Finance Bill 2026 contains a wide range of tax measures aimed at raising revenue, broadening the tax base and improving compliance. Key proposals include the proposed deemed dividend distribution threshold of 60% of undistributed company profits, an expanded definition of royalties to cover software distribution and payments for digital platforms and card networks, higher excise duty on sweetened fruit and vegetable juices, and a rationalisation of VAT exemptions and zero-rating to protect the revenue base. Some of these proposals risk raising the cost of goods and services in the affected sectors.

There are some welcome reliefs which include income tax and stamp duty exemptions for asset transfers to REITs, scrapping of excise duty on bottled water or packaged waters, and the reintroduction of a tax amnesty.

The Foreword



On administration and taxpayer rights, proposals to allow the Commissioner to issue agency notices during active appeals and to use third-party information in assessments without prior opportunity for taxpayer review raise due-process and constitutional concerns. Similar measures in the past have been struck down by the courts; maintaining procedural safeguards will help avoid protracted legal challenges and preserve confidence in the tax regime.

Further, the Bill has proposed extending the Commissioner's powers to utilise all information in his possession when issuing assessments.

On the premise that sales and purchase amounts would be pre-populated in taxpayers' income tax returns, the Bill proposes to shorten the filing window for income tax returns by two months. While this move is beneficial in the long term, its immediate implementation would be premature given the current challenges with the e-TIMS system. Taxpayers have experienced significant difficulties during this initial year of pre-population and expense validation, arising from variances caused by missing or incorrectly captured data, as well as inappropriate system configurations.

A We therefore hope that the Cabinet Secretary for the National Treasury and Economic Planning's pronouncement in the Budget Speech that the reduction of the filing period to four months will apply only to persons whose income is taxed at source will be enacted into law.

A predictable, transparent and rights-respecting tax policy and administration regime will be essential to support investment, protect taxpayer rights while enhancing compliance to ensure sustainable revenue mobilization. While economic growth has been revised to reflect the economic slowdown, one would expect tighter expenditure control to ensure the deficit does not grow if revenue expectations are not met and to contain the growing debt burden.

The tax measures appear largely focused on additional revenue generation, and it seems that there is a missed opportunity to align with the prevailing circumstances as there are no notable reliefs extended to low-income earners and to most impacted sectors such as manufacturing or transportation, among others.

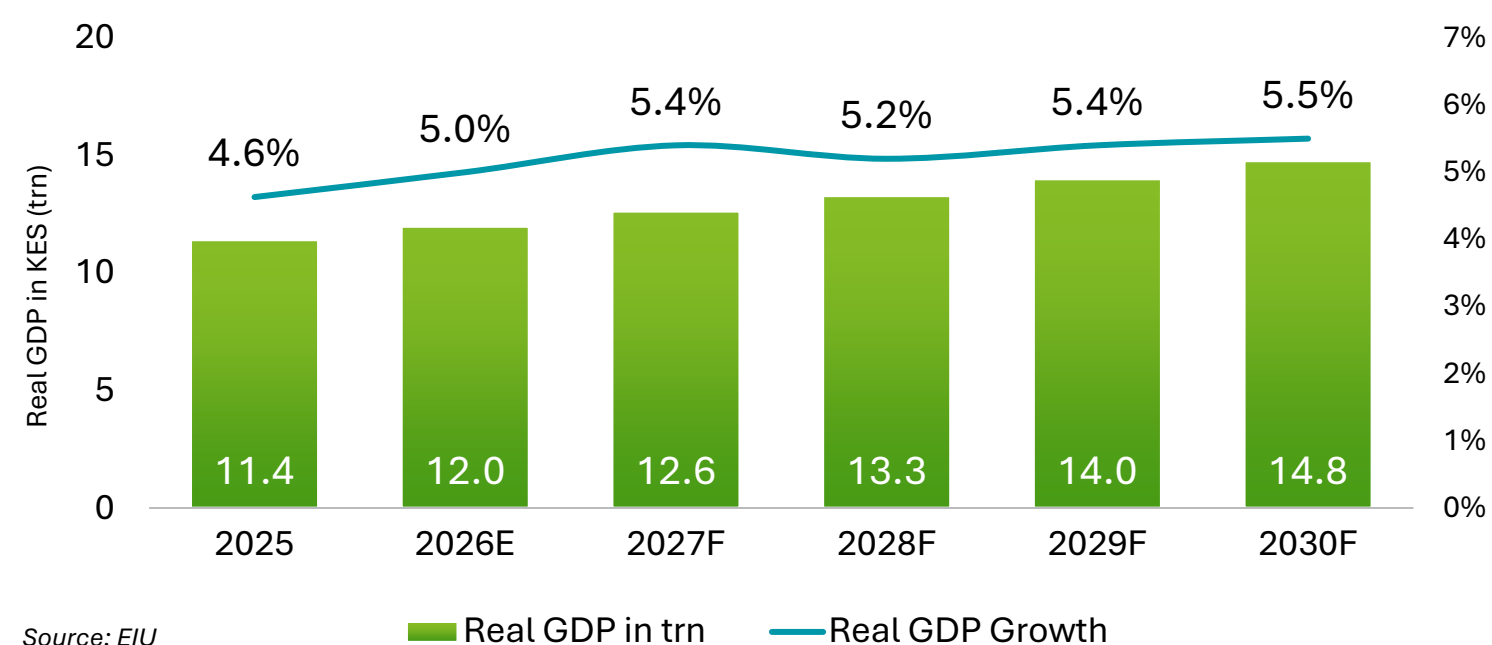


Economic Outlook



Economy at a Glance

Real GDP and Real GDP Growth



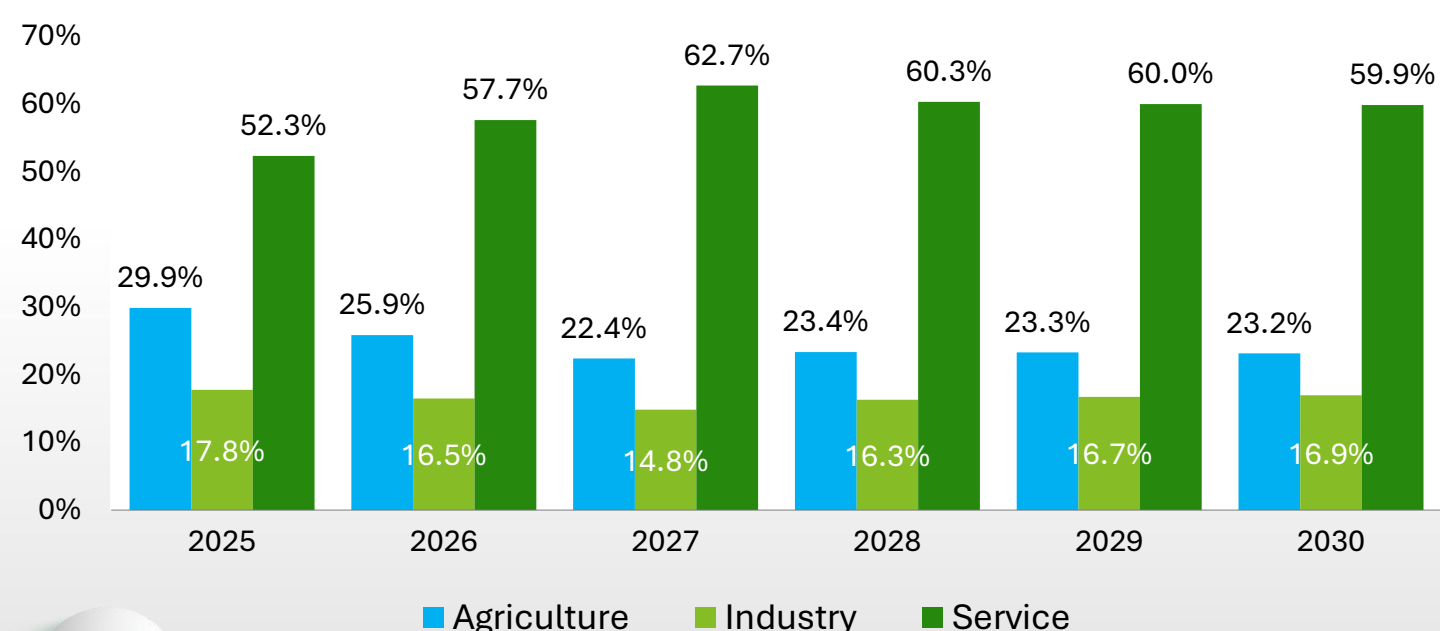
Source: EIU

■ Real GDP in trn — Real GDP Growth

GDP Growth

- Kenya's real GDP grew by 4.6% in 2025 and is projected to increase by 5.0% in 2026, with growth in both years driven by private consumption and investments. From the production side, the services sector accounted for the highest percentage of real GDP growth, followed by agriculture and industry.
- However, growth in 2026 may be dampened by the global fuel crisis stemming from the US-Iran conflict, which has pushed up fuel prices as Kenya is a net oil importer. This has increased fuel costs, driving up energy inflation, reducing real incomes impacting private consumption.
- By 2027, growth is forecast to accelerate to 5.4% as global energy prices and Kenyan inflation ease, providing relief to consumers. Expansionary fiscal policy ahead of the August 2027 elections, improved agricultural performance, and better global financial conditions are expected to support a return to growth above 5%.
- Real GDP growth over the period 2027 to 2030 is projected to average 5.4% and is expected to be primarily driven by private consumption, underpinned by easing global energy prices, moderating inflation, and improving real household incomes.

Sectoral growth in gross value added



■ Agriculture ■ Industry ■ Service

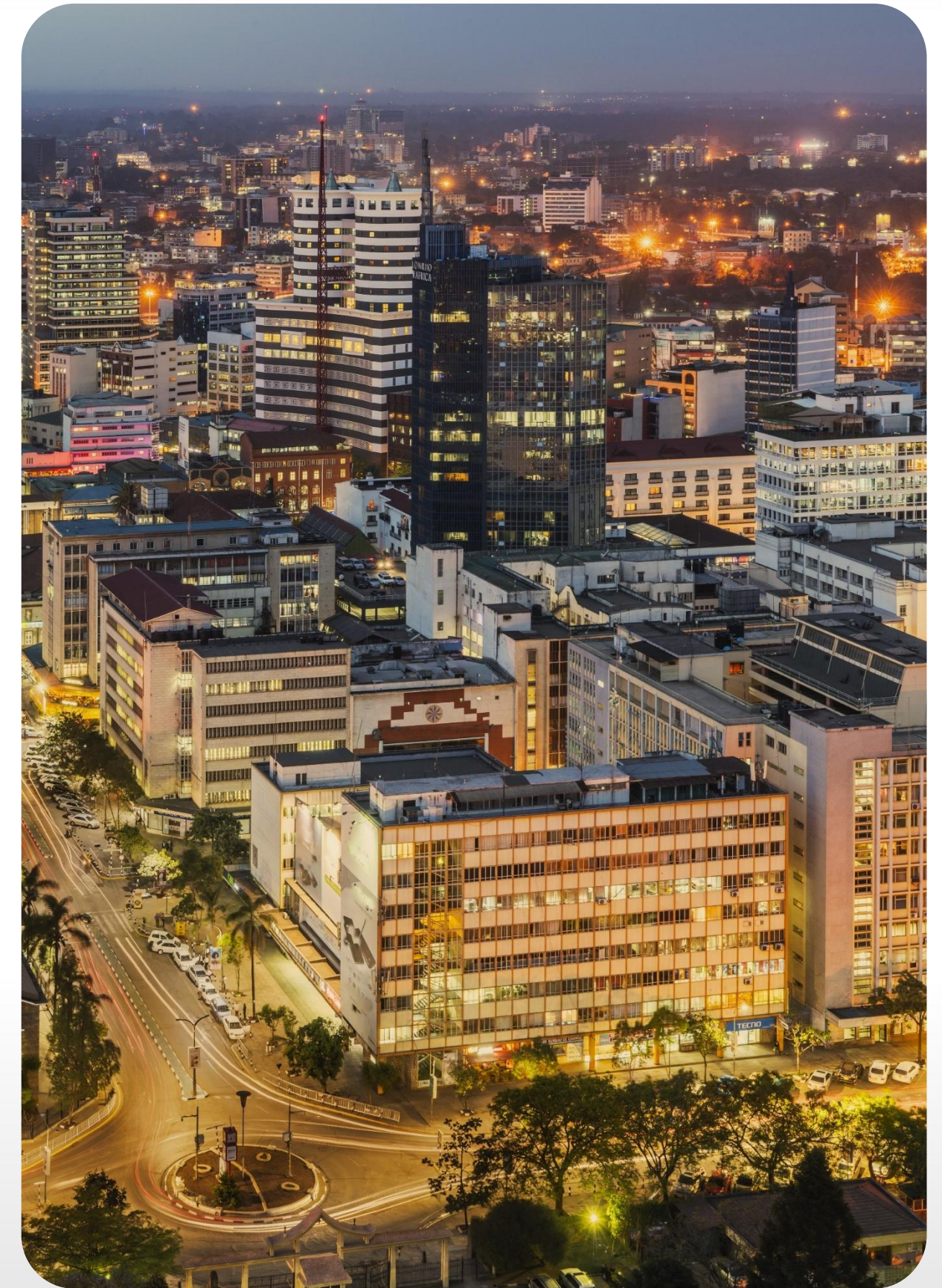
Sectoral Growth Rate

- **The agriculture sector grew** by 3.1% in 2025 from 4.4% in 2024, mainly due to inconsistent rainfall and ongoing climate change impacts. These factors led to mixed crop performance and heightened food security risks. The sector's outlook remains subdued as climate-related shocks continue to affect productivity.
- **The services sector** remained the main driver of economic growth, expanding by 5.7% in Q2 2025 compared to 6.1% in Q2 2024. Key contributors included trade (4.0%), ICT (6.0%), transport (5.4%), and professional services (8.5%). Transportation grew by 3.7% (vs. 4.3% in 2024), while accommodation and food services expanded by 15.6% (vs. 25.9% in 2024), boosted by increased conferences and international visitors.

Economy at a Glance

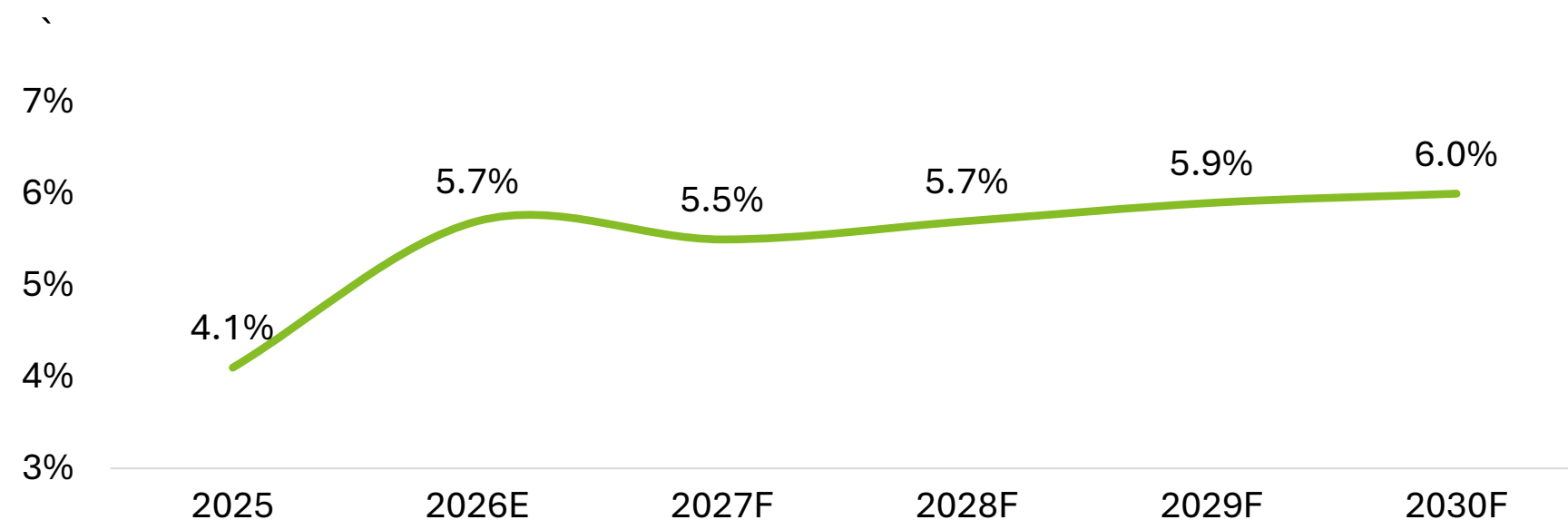
Sectoral Growth Rate (continued)

- ICT services grew by 4.8% (vs 7.1% in 2024), reflecting mixed performance across activities. The services sector is forecast to remain resilient, supported by tourism, infrastructure investment, and digital innovation, with ongoing improvements in transport and market access expected to further support business activity.
- **The industry sector** rebounded strongly, expanding by 4.0% in the second quarter of 2025 compared to just 0.2% in the same period of 2024. This recovery was driven by robust growth in mining and quarrying (15.3%), electricity and water supply (5.7%), and construction (5.7%), which offset slower growth in manufacturing (1.0% vs. 3.2% in 2024). Manufacturing's real GVA grew by 2.0% in 2025, down from 3.0% in 2024, with the non-food sub-sector outperforming the food sub-sector.
- Electricity supply's GVA rose by 4.8% (vs. 1.2% in 2024), supported by a 6.2% increase in electricity generation. The construction sector expanded by 6.8% in 2025, reversing a 0.7% contraction in 2024, thanks to increased civil works and residential building. Industrial activity is expected to strengthen further, supported by lower production costs, stable monetary policy, and improved liquidity in the construction sector.



Economy at a Glance

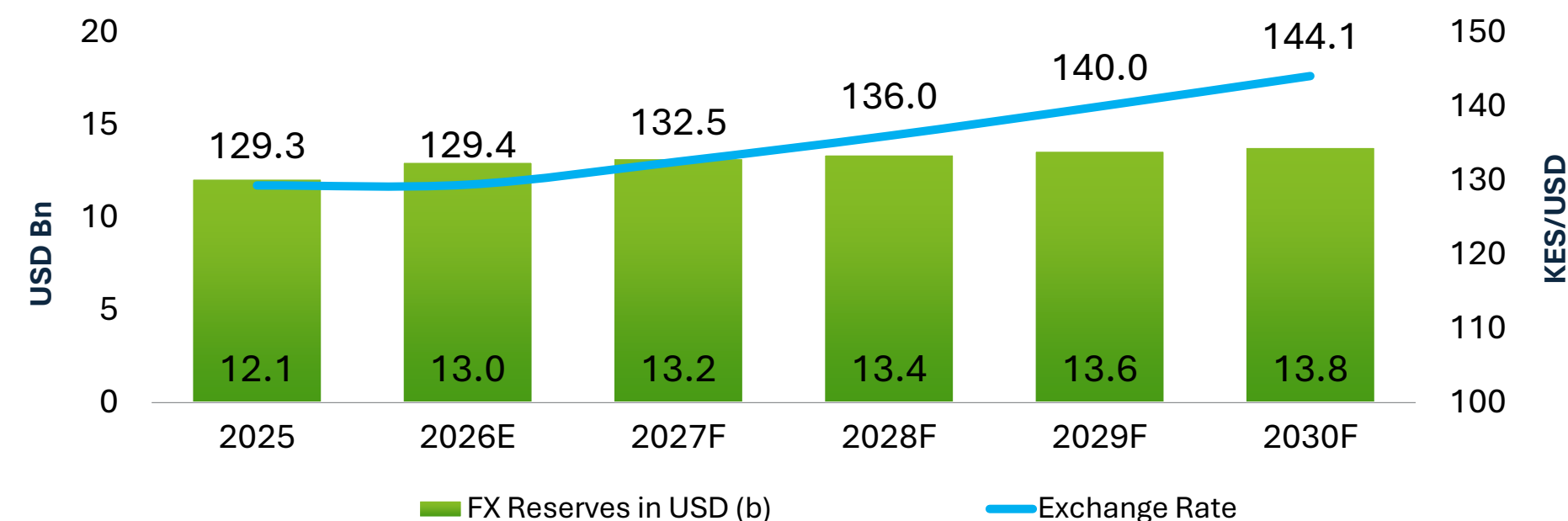
Inflation



Source: EIU

- Headline Inflation moderated from 4.4% in 2024 to 4.1% in 2025, largely driven by lower global energy prices for fuel, electricity, and gas. This trend contributed to reduced transport inflation and a notable decline in housing and utilities inflation.
- Headline Inflation is projected to increase to 5.7% in 2026, primarily due to external supply side pressures from higher global oil and fertiliser prices linked to geopolitical tensions arising from the US Iran conflict. These cost pressures are expected to increase transport and food production costs and push up noncore inflation.
- Headline Inflation is projected to moderate after the 2026 spike, averaging 5.8% over the period 2027–2030, as the effects of elevated global oil and fertiliser prices diminish and exchange rate stability anchors imported inflation. This outlook remains contingent on the resolution of the US-Iran conflict.

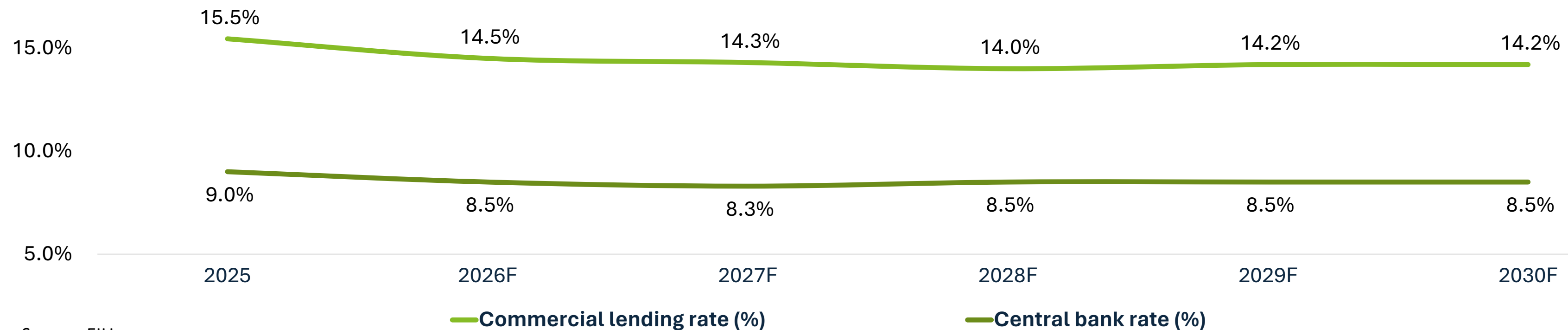
Foreign exchange and forex reserves



- Kenya's foreign exchange market remained stable in 2025, supported by resilient inflows from remittances, horticulture and tea exports, and offshore bank investments.
- Foreign currency reserves grew from USD 10.0 billion in 2024 to USD 12.1 billion in 2025, and are projected to reach USD 12.8 billion by 2030, driven by a sustained positive balance of payments and strong remittance inflows.
- The Kenyan shilling remained stable in 2025 averaging KES 129.3/USD in 2025, with only modest depreciation expected to KES 129.42/USD in 2026. This stability is supported by adequate foreign currency reserves and a sustained positive balance of payments, which have helped smooth short-term foreign exchange pressures.
- By 2030, the shilling is projected to depreciate to KES 145.85/USD, reflecting easing domestic interest rates, firming inflation, and shifting market sentiment around fiscal consolidation.

Economy at a Glance

Policy interest and commercial lending rates

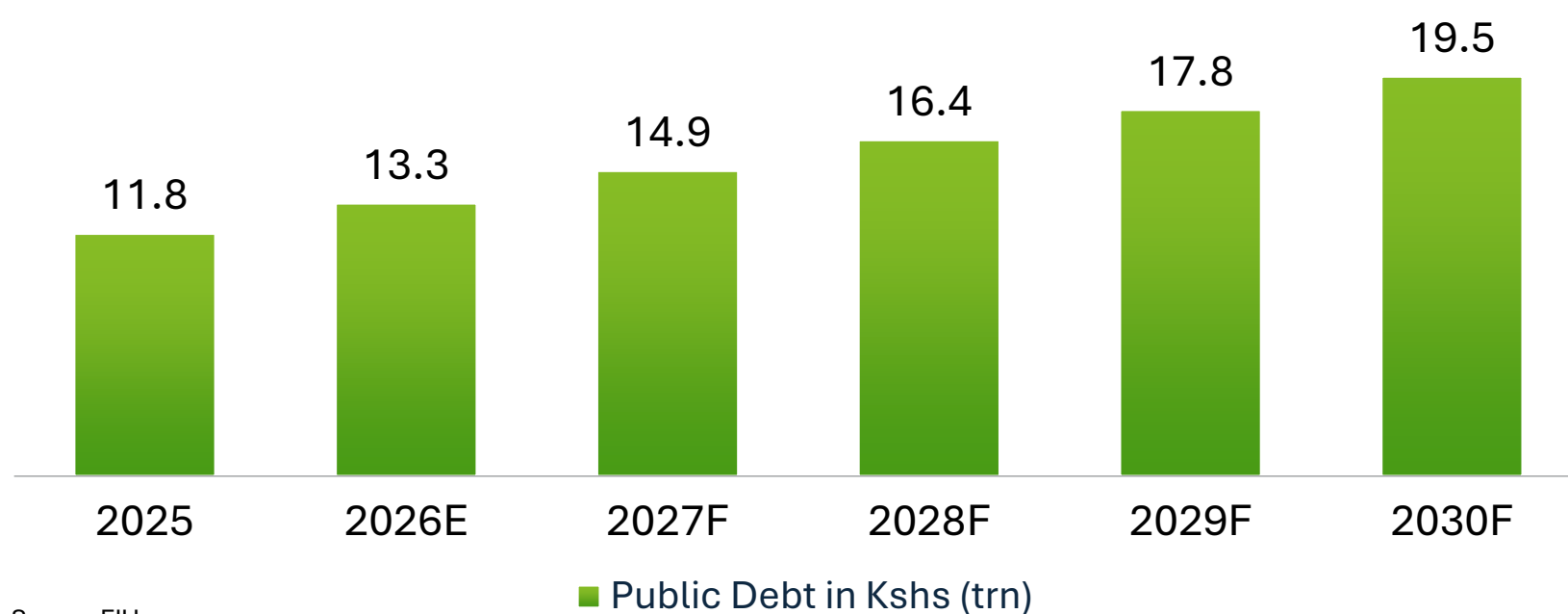


Source: EIU

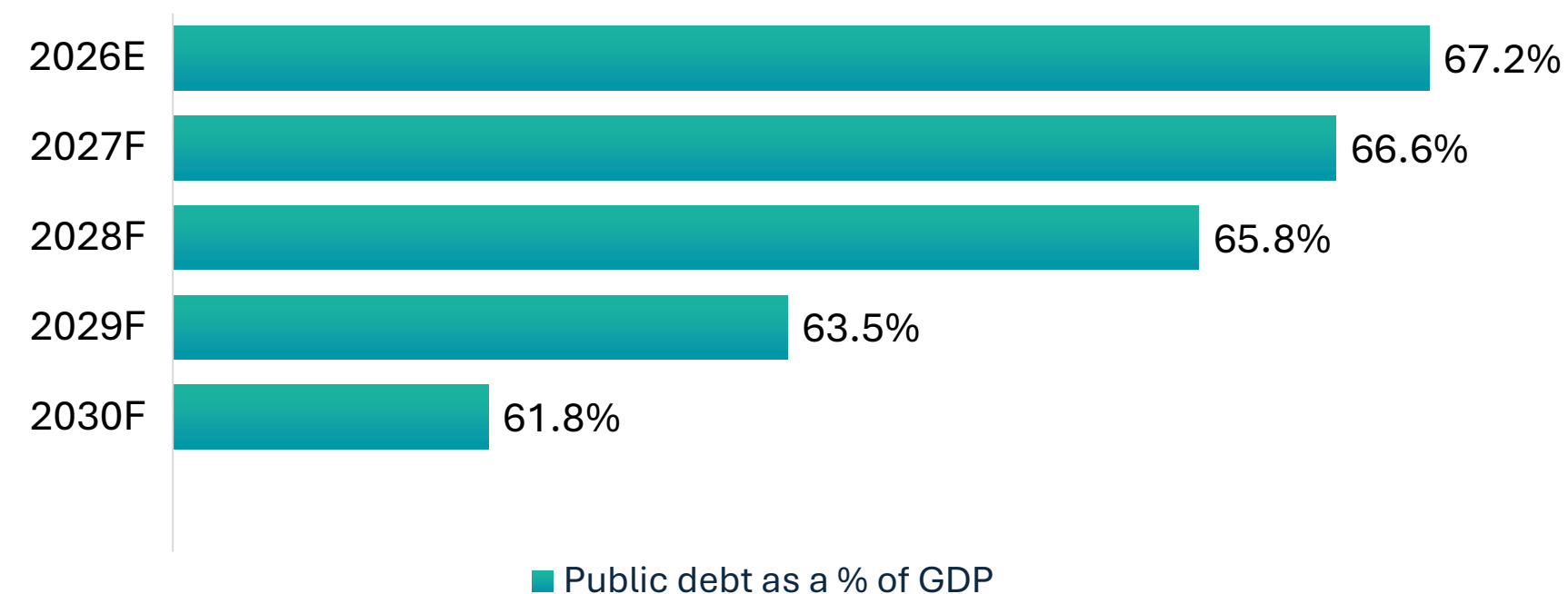
- The Central Bank of Kenya reduced the Central Bank Rate (CBR) from 13.0% to 9.0% between August 2024 and December 2025. This easing cycle is intended to stimulate credit growth, support economic expansion, anchor inflation expectations, and maintain exchange rate stability.
- Short-term interest rates declined in line with the easing of monetary policy. KESONIA (the overnight interbank rate) declined to 9.0 percent in January 2026 from 11.2 % in January 2025, while the 91-day Treasury bill rate declined to 7.7% from 9.6% over the same period.
- Commercial lending rates declined to an average of 14.9% in November 2025, down from 17.2% in November 2024, while deposit rates have fallen more sharply to 7.3% from 10.4%. Despite this, the interest rate spread has widened from 6.8% to 7.6%, indicating that banks are maintaining or increasing their margins.

Economy at a Glance

Public Debt in Kshs (trn)



Public debt as a % of GDP



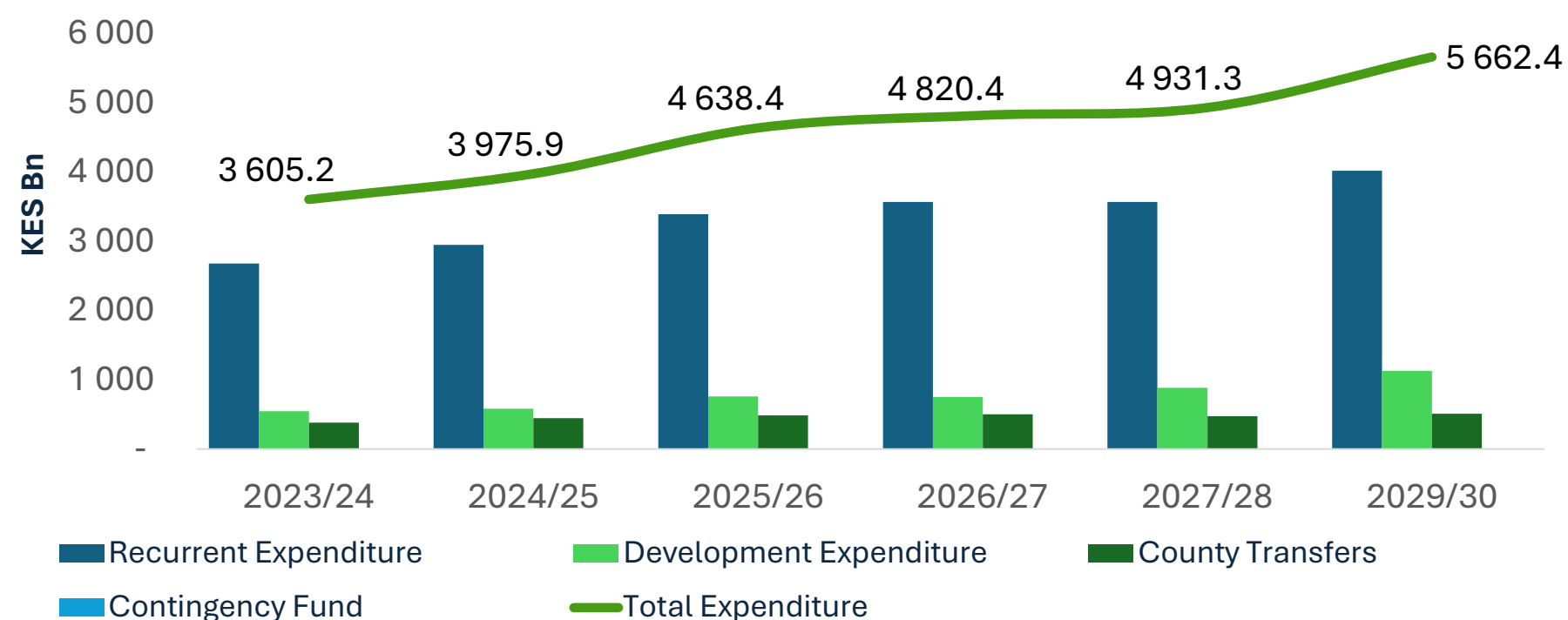
- External debt stands at approximately KES 6.5trn, making up a slightly smaller share of total public debt compared to domestic borrowing. In GDP terms, external debt accounts for about 23%–33% of GDP, and this share is projected to decline gradually over the medium term.
- Domestic debt constitutes the larger share of Kenya’s public debt stock, rising to approximately KES 10.1trn (gross) in the most recent data. As a proportion of GDP, domestic debt accounts for roughly 34% - 38% of GDP over the medium term, consistently exceeding external debt in relative terms.
- Debt sustainability indicators for external debt show a more favourable picture relative to total debt. The present value of external debt-to-GDP remains below the 40% threshold and is projected to decline over time. However, debt service ratios remain elevated, particularly in the near term due to large maturities, before easing gradually.
- The government’s strategy is to prioritize concessional and semi-concessional external borrowing, while limiting commercial borrowing to liability management and priority projects. This reflects a deliberate attempt to reduce borrowing costs and extend maturities, thereby easing short-term debt service pressure.

Budget Overview



Budget Overview

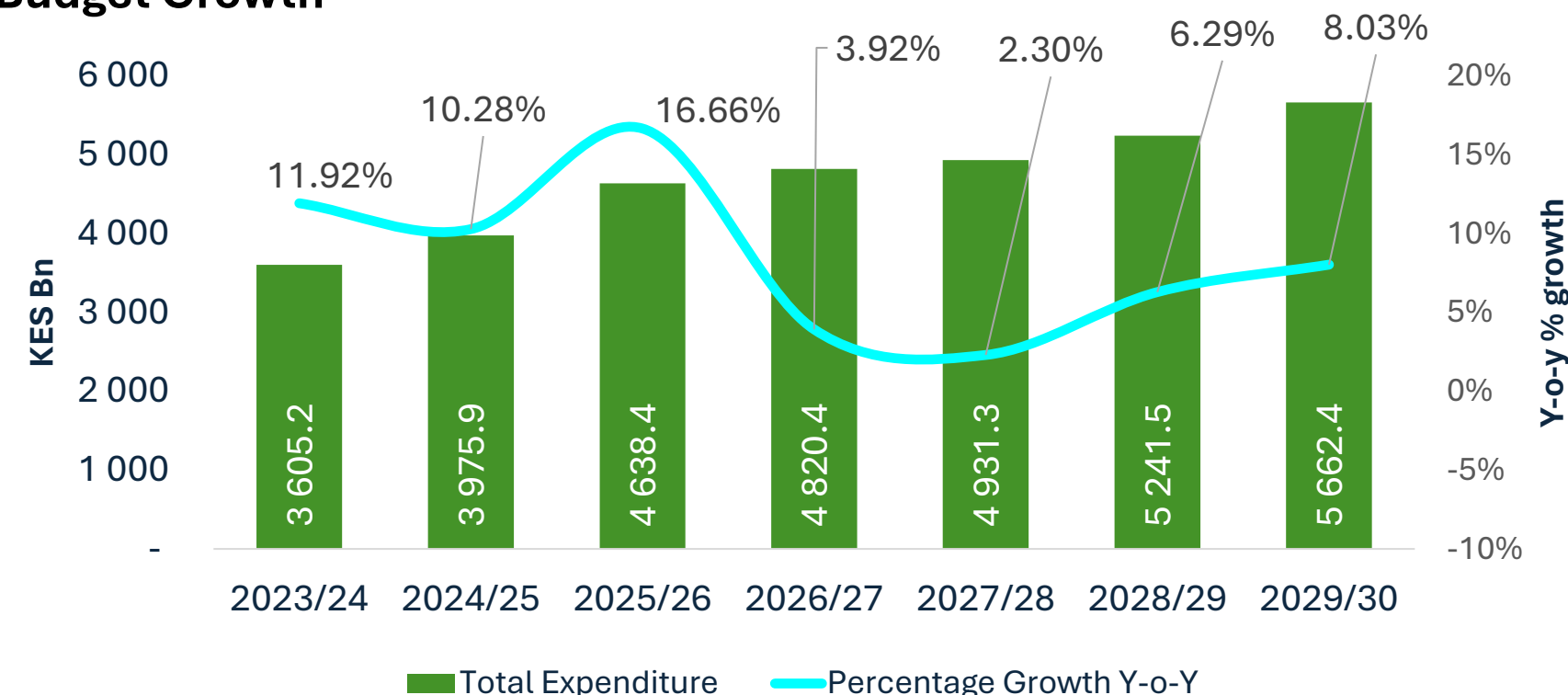
Budget Trends



Source: The National Treasury's Budget Summary for the Fiscal Year 26/27

- Kenya's largest budget yet comes in at KES 4.820 Trn (23% of GDP) for the FY 26/27 against a projected outturn for the FY 25/26 budget of KES 4.638 Trn (24.9% of GDP).
- Overall, the FY 26/27 budget represents an increase of 3.9% from the prior year; a steep reduction from the YoY growth of 16.7% at the start of the FY 25/26 budget period.
- Allocation of the expenditure across the recurrent, developmental and county budget lines remains largely unchanged from the prior year at 74% (KES 3.568 Trn), 15.6% (KES 750 Bn) and 10.4% (KES 502 Bn).

Budget Growth

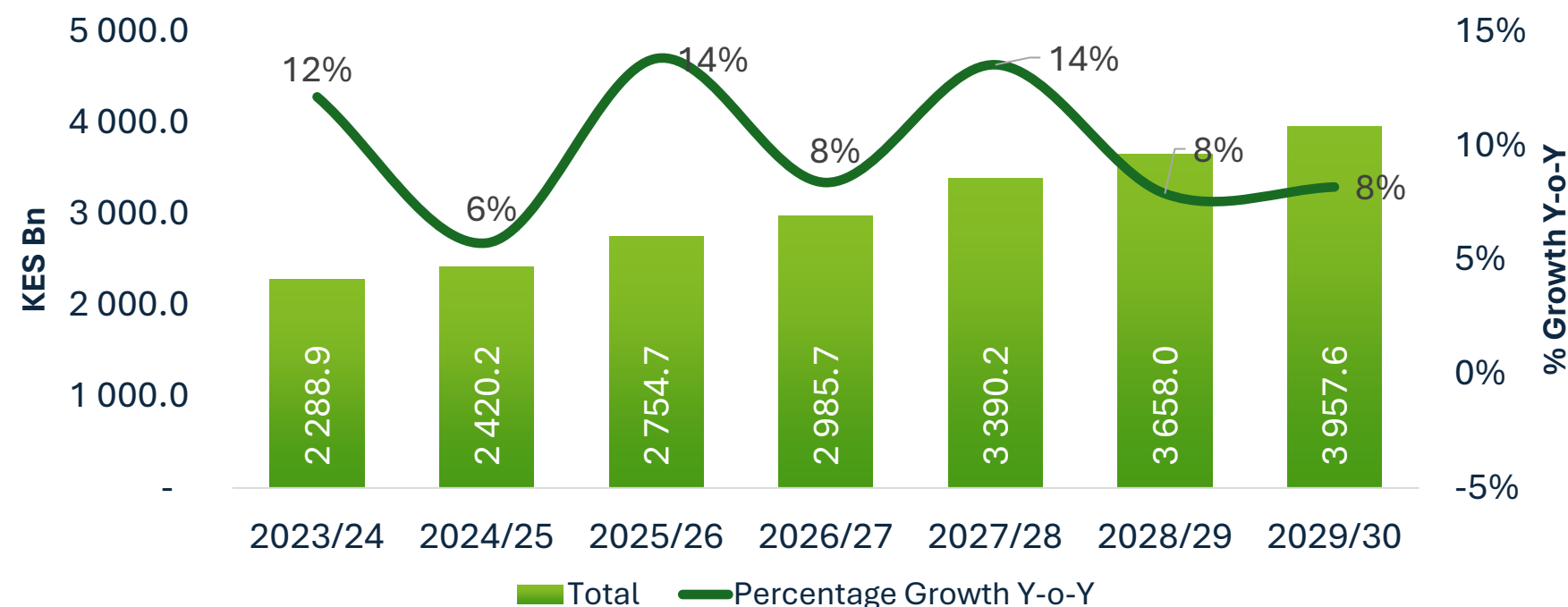


Source: The National Treasury's 2025 Budget Summary for the Fiscal Year 25/26

- However, there is the likelihood of the overall budget size being pushed upwards through use of supplementary budgets as was the case in FY 25/26 (i.e., the overall budget grew by KES 368.5 Bn (8.6%) within the year).
- The fiscal deficit remains a significant concern with the FY 26/27 budget forecasting a deficit of KES 1.146 Trn down from KES 1.199 Trn.

Budget Overview

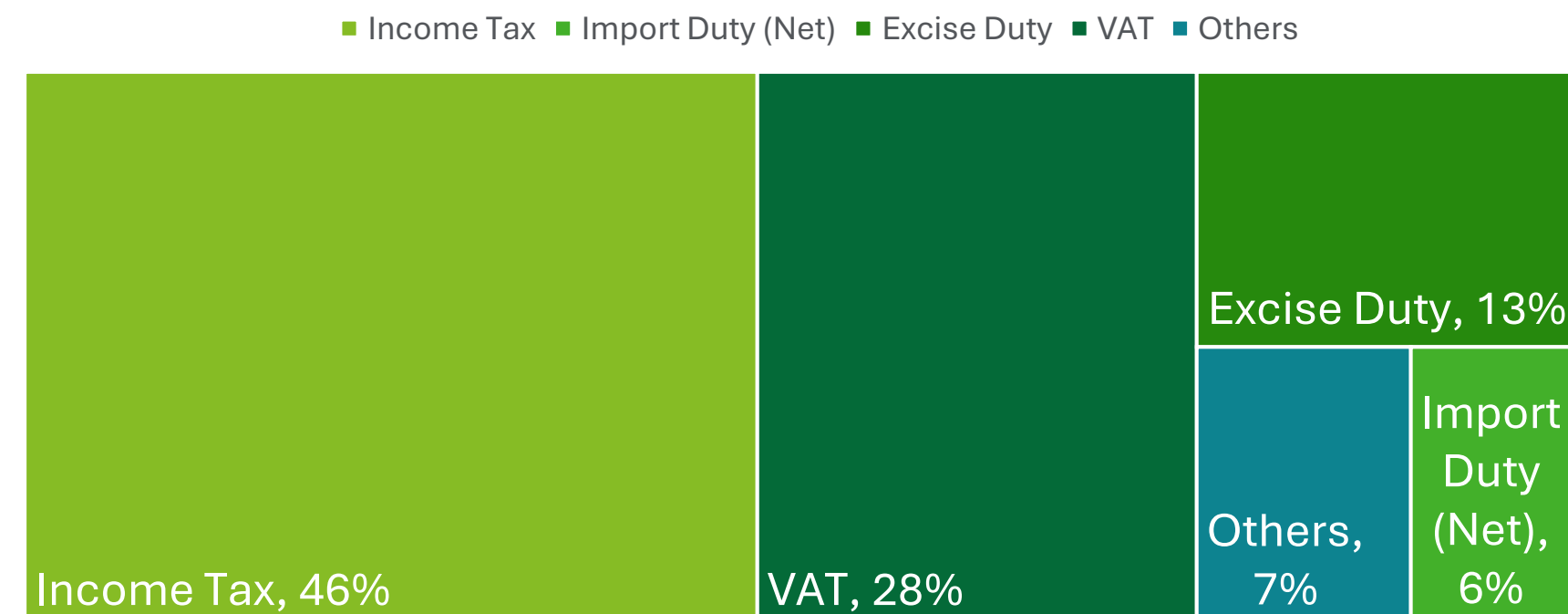
Trends in Ordinary Revenue



Source: The National Treasury's Budget Summary for the Fiscal Year 26/27

- Ordinary tax revenue collections are projected at KES 2.986 Trn in FY26/27 from an estimated outturn of KES 2.784 Trn representing an anticipated growth of 8%.
- The Nation's fiscal space remains constrained taking note that interest payments in the FY 26/27 are expected to close at KES 1.254 Trn, being 42% of the projected ordinary tax revenue collections.
- Recurrent expenditure of KES 3.568 Trn exceeds the projected ordinary revenue for the year, highlighting concerns on the expenditure side.

Composition of FY 25/26 Ordinary Revenue

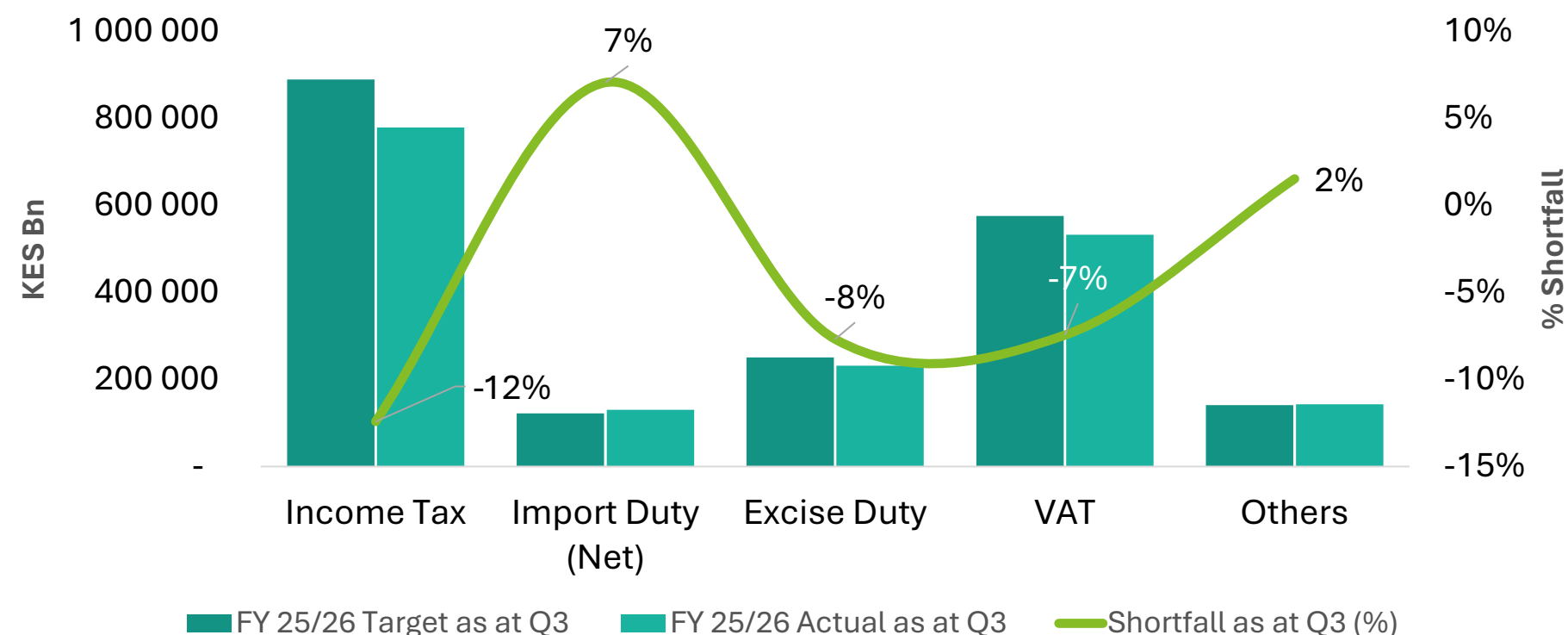


Source: The National Treasury's Budget Summary for the Fiscal Year 26/27

- The composition of ordinary tax revenue collections largely remains unchanged when compared to the prior year.
- Income tax leads the pack with expected collections of KES 1.384 Trn (46%) followed by VAT at a projected KES 829 Bn (28%).
- Excise duty's contribution to the ordinary tax revenue pot is expected to marginally increase from 12% in the prior year to 13% (i.e., KES 382 Bn) in FY26/27.

Trend in Revenue Collections

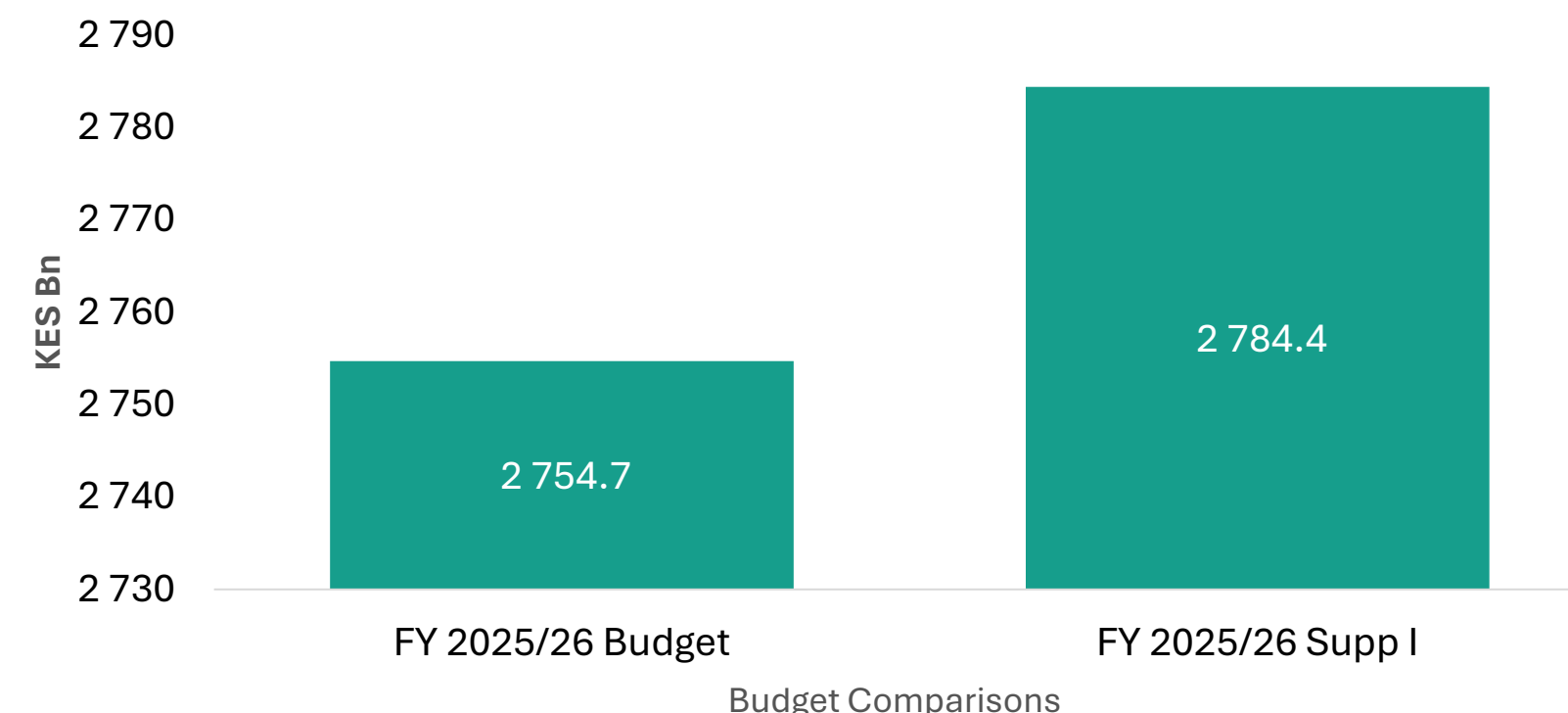
Ordinary Revenue Performance at Q3 2025/26



Source: Q3 25/26 QEBR Report

- Ordinary revenue performance as at 31 March 2026 is largely similar to that of the prior period, recording a shortfall of 8% (Q3 2025: 8%). In absolute terms, the Government raised ordinary revenues to the tune of KES 1.818 Trn against a target of KES 1.980 Trn.
- Import duties and other ordinary revenues recorded above-target performance while income tax, the largest contributor to the ordinary revenue pot, trails the pack with a 12% shortfall.
- Bumper collections in April and June due to instalment and balance of tax obligations may narrow the shortfall by year-end.

FY 2025/26 Ordinary Revenue Revisions



Source: The National Treasury's Budget Summary for the Fiscal Year 25/26

- Unlike FY 24/25 where supplementary budgets were applied to revise revenue projections downward, Supplementary Budget I of FY 25/26 revised expected ordinary revenue collections upward by 1%.
- Overall, the FY 25/26 projected ordinary revenue of KES 2.784 Trn is 1% higher than the initial budget of KES 2.755 Trn.
- The marginal increase emphasises the constrained fiscal space within which the Government is operating in, particularly keeping in mind the expanding fiscal deficit.

Trend in Revenue Collections

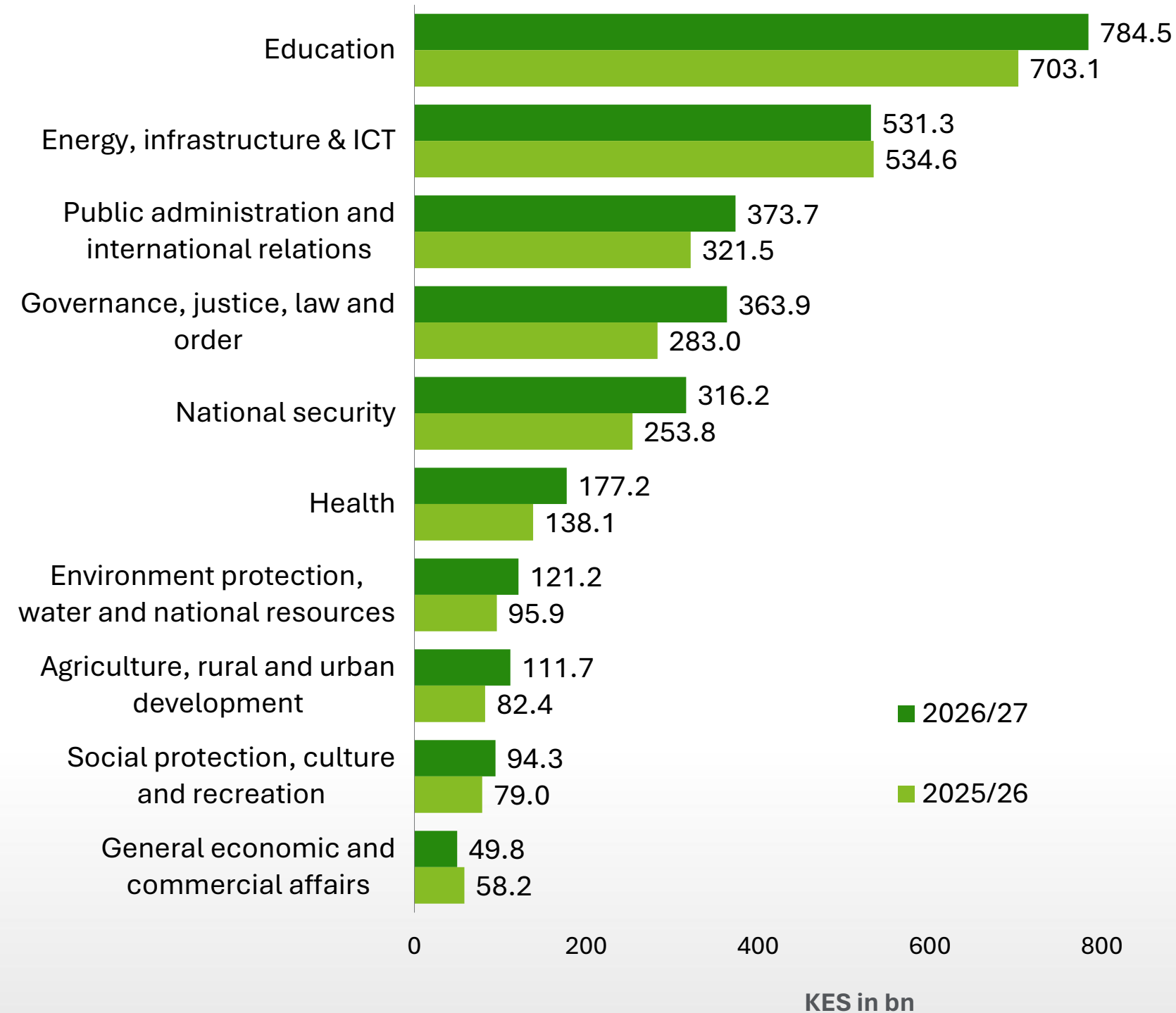
| | FY 24/25 | FY 25/26 | FY 26/27 | Status |
|---|----------|----------|----------|---|
| Reduction of CIT rate from 30% to 28% | | | | Not commenced |
| Review and harmonization of non-resident WHT with review of resident rates | | | | Not commenced |
| Progressive phase out of preferential CIT rates | | | | Not Commenced |
| Introduction of WHT on payments for goods supplied to public entities | | | | Fully implemented in FY 25/26 |
| Review of personal income tax bands to enhance progressivity | | | | Not commenced |
| Implementation of tax-exempt pension regime | | | | Implemented in FY 25/26 |
| Adjust the VAT registration threshold to KES 8M | | | | Proposed under the Finance Bill, 2024. Withdrawn |
| Reduce the standard VAT rate (By 1% in FY 24/25 and a further 1% in FY 26/27) | | | | Not commenced |
| Rationalising VAT exemption and zero-rating regime | | | | Ongoing |
| Implementation of carbon tax incl. motor vehicle circulation tax | | | | Initially proposed under the withdrawn Finance Bill, 2024; has not been resurrected |

Sectoral Highlights



Sectoral Allocations

Summary of sector allocations



The largest winners in the 2026/2027 budgetary allocation include:



Education

- The Education sector receives the largest allocation at approximately KES 784.5bn in FY 2026/27 representing a 10.4% increase from the 2025/26 budget allocation. The sector received 26.8% of the total sectoral allocation aimed at the continued rollout of the CBC curriculum.
- The allocation indicates that education is being treated as a long-term structural investment central to productivity enhancement and labour force development.



Energy, Infrastructure and ICT

- The Energy, Infrastructure, and ICT sector has been allocated KES 531.3bn in FY26/27, from KES 534.6bn in FY25/26, making up 18.2% of the total sectoral allocation.
- The allocations are intended to support road infrastructure, ICT expansion, energy transmission and connectivity, and continued implementation of key infrastructure programmes already underway.



Public Administration and International Relations

- This sector has been allocated KES 373.7bn in FY26/27, a 16% increase from KES 321.5bn in FY25/26, representing 12.8% of the total allocation.
- The substantial allocation reflects the importance of maintaining the framework required to execute fiscal reforms, manage public finances, and coordinate national development priorities.

Education highlights

Skills for a Knowledge Economy

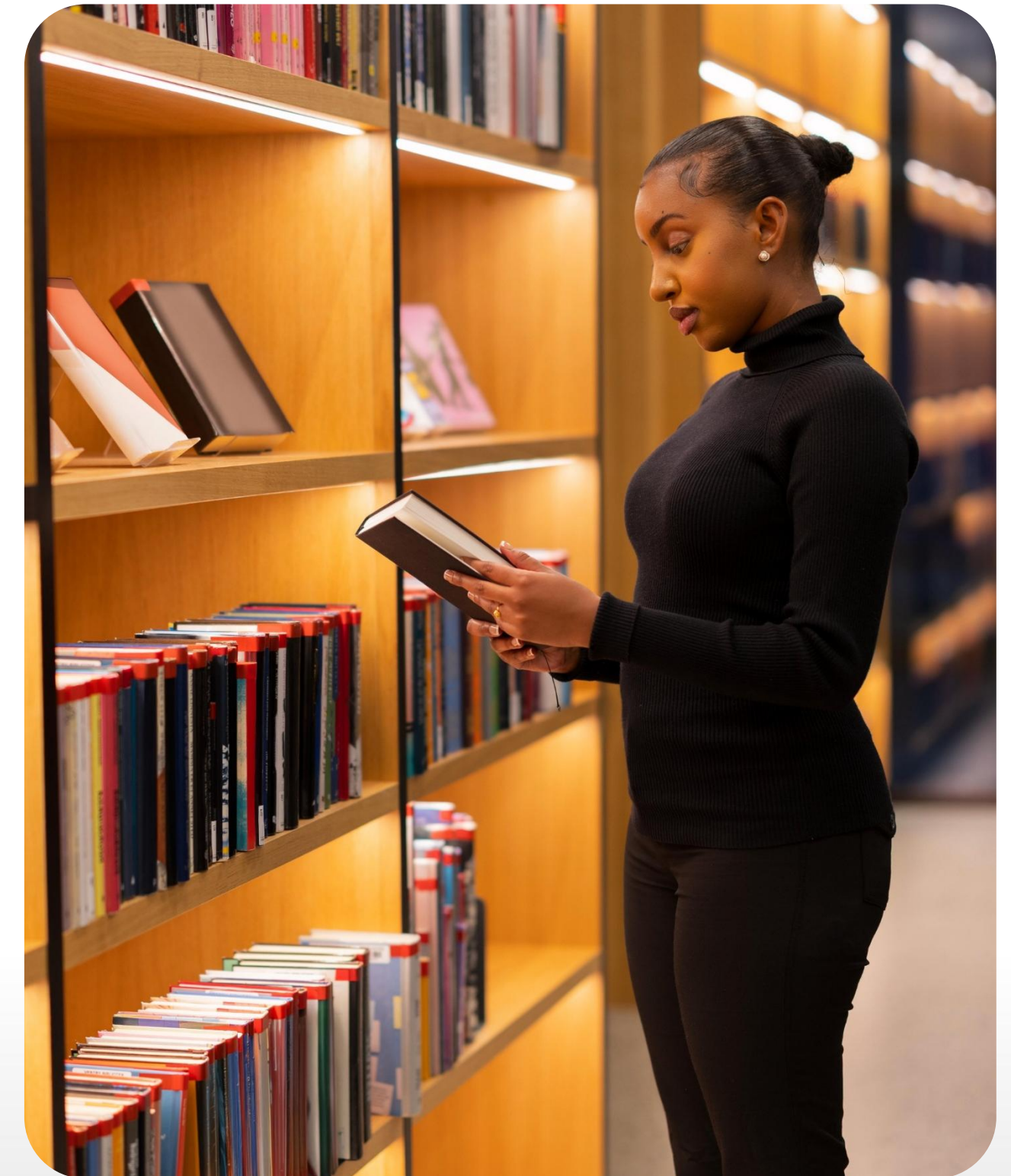
- The government recognises education as a key sector and has increased sectorial allocation by 10.4% in FY26/27 to KES 784.5bn. This reflects the government's continued prioritisation of human capital development. This movement demonstrates that education spending is not being maintained but structurally expanded.
- Key priorities for FY26/27 include;
 - Implementation and stabilization of the Competency-Based Curriculum (CBC/CBE)
 - Capitation support for primary and secondary schools
 - Recruitment and training of teachers
 - Expansion of classroom and learning infrastructure
 - Support for junior secondary school transition requirements
 - Financing universities and higher education institutions
 - Strengthening Technical and Vocational Education and Training (TVET) institutions
 - Enhancement of digital learning infrastructure
 - Improvement of learning outcomes and skills development
 - Alignment of education and training with labour market and industrialisation needs under BETA
 - Long-term human capital development and productivity enhancement
- The gradual upward movement in allocations suggests that the government expects education expenditure to become increasingly recurrent in nature, particularly as CBC cohorts transition into higher educational levels.

10.4%

Increase

784.5
Billion

703.1
Billion



Energy highlights

Powering Progress

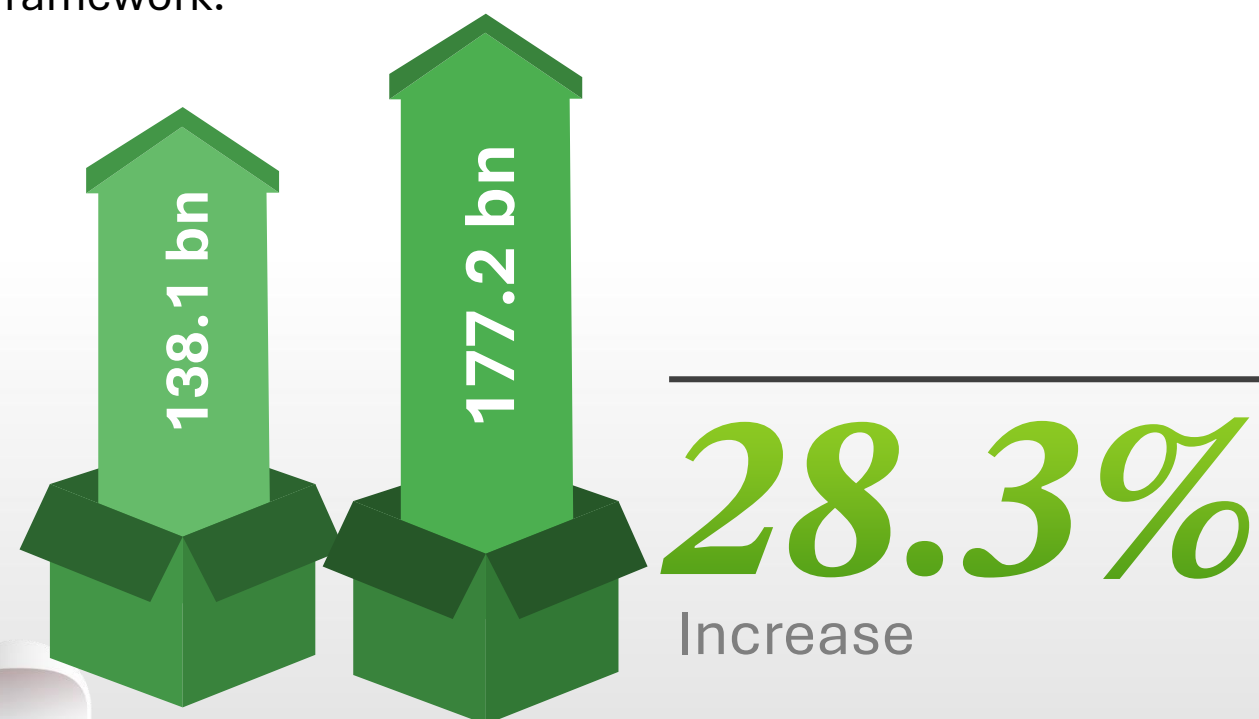
- The second-largest allocation is directed toward the Energy, Infrastructure and ICT (EIICT) sector. Despite the government's broader fiscal consolidation agenda, the sector continues to command a substantial share of expenditure because of its role in transport infrastructure, energy access, digital connectivity, and completion of ongoing strategic investments in rail and port infrastructure to support transport, trade and drive economic growth.
- Allocation decreased by 0.6% from KES 534.6bn in FY25/26 to KES 531.3 in FY2026/27. The sector functions as a crucial driver and enabler to the other sectors of the economy.
- Key priorities for FY25/26 include:
 - Completion and continuation of strategic infrastructure projects;
 - Road construction, rehabilitation, and transport connectivity;
 - Expansion of electricity connectivity and transmission infrastructure;
 - Development of ICT and digital connectivity infrastructure;
 - Irrigation and water infrastructure development;
 - Support for trade facilitation and logistics efficiency;
 - Digitization of government services and the economy;
 - Operationalization and optimization of existing infrastructure projects;
 - Support for industrialisation and private sector investment;
 - Reduction of transport, logistics, and production costs;
 - Expansion of energy access and digital economy initiatives and,
 - Infrastructure development within the broader fiscal consolidation framework.



Health sector highlights

Strengthening Access and Resilience

- The government increased the budgetary allocation to the healthcare sector by 28.3% from KES 138.1bn to KES 177.2bn. The Health sector continues to receive a substantial allocation as the government advances the implementation of Universal Health Coverage (UHC).
- Allocations within the sector are directed toward:
 - strengthening primary healthcare systems;
 - operationalising the Social Health Insurance Fund framework;
 - procuring medical commodities; and
 - enhancing access to healthcare services across the country.
- The sector reflects growing expenditure pressures associated with healthcare reforms, demographic demand, and the institutional transition toward a more comprehensive health financing framework.



Public Administration and International Relations



From Policy to Impact: Driving Kenya's Transformation

- Public Administration and International Relations (PAIR) plays a vital role in coordinating government functions, including planning, administration, public finance, and legislative activities, while also fostering Kenya's international relations. The budget's allocation to PAIR increased by 16.2 % from KES 321.5bn in FY25/26 to KES 373.7 bn in FY26/27.
- For FY 2026/27 to 2028/29, the sector plans to implement 46 programs and 136 sub-programs aligned with the Bottom-Up Economic Transformation Agenda and Kenya Vision 2030. The budget allocations are KES 367.5 billion, KES 385.3 billion, and KES 416.4 billion for each fiscal year, respectively.
- Key priorities for FY26/27 include:
 - Maintenance of Kenya's international obligations and regional engagement;
 - Institutional support for implementation of the Bottom-Up Economic Transformation Agenda (BETA); and
 - Support for oversight and governance institutions.

Other sectoral commentary



Defense, Public Order, and Safety

- Through the National security sector, the government addresses emerging threats such as terrorism, radicalization, trafficking, money laundering, cybercrimes and other threats to peace and progress.
- The FY 26/27 budget proposes KES 316.2 billion for national security which will be used to implement key programs and counter these threats.



Social Security

- The social protection sector is vital for Kenya's social – economic development and promotes sustainable employment, talent development, gender equality, community empowerment and cultural preservation.
- With an increase in budget from 79bn to 94.3 bn, the government hopes to modernize museums, protect cultural heritage sites, train the youth in life and technical skills through youth programs, enhance child protection, Gender Based Violence prevention and women's economic empowerment, among others.

Proposed Tax Measures



Overview of Income Taxes

The Bill demonstrates a clear intent to expand the tax base. Notable proposals include regulating the digital assets sector by requiring service providers to file information returns and facilitating international information exchange. Reintroduction of withholding tax on income of scrap metal dealers and on winnings is another step towards formalizing taxation and expansion of the tax net to reach the informal economy.

The proposed tax amnesty for pre- December 2025 periods encourages taxpayers to regularize their affairs, supporting revenue mobilization. Additionally, a new self-declaration system for non-resident rental income is expected to improve tax compliance and collections.

However, some measures raise concerns. The proposed withholding tax on interchange and merchant service fees could increase costs for consumers and hinder financial inclusion.

Kenya must balance tax expansion with predictability and growth...

Although the Finance Bill 2026 focuses on tax reforms and revenue administration, the broader issues of expenditure and debt sustainability remain central to long-term economic stability.

More fundamentally, proposals such as allowing the Commissioner to deem at least 60% of retained earnings as distributable dividends may not consider legitimate business needs for retaining profits, potentially stifling growth.

The Bill demonstrates a clear intent to expand the tax base. Notable proposals include regulating the digital assets sector by requiring service providers to file information returns and facilitating international information exchange. Reintroduction of withholding tax on the income of scrap metal dealers and on winnings is another step towards formalizing taxation and expansion of the tax net to reach the informal economy.

On the other hand, the proposed deletion of the bar on agency notices prior to exhaustion of remedies through appeal raises due process concerns and risks arbitrary revenue collection. However, the Budget Speech suggests a softer approach, allowing enforcement only after a judgment by the Tax Appeals Tribunal or a court. Even then, taxpayers may seek stay orders to suspend enforcement.

Technological advancements are also prioritized, with the introduction of pre-populated income tax returns aimed at simplifying compliance and improving the business environment, despite initial implementation hurdles.

Frequent legislative changes, including the reintroduction of penalties for failure to deduct and remit withholding tax (where the principal tax has already been settled) and reverting to the calendar day basis for calculation of time undermine tax stability and predictability, risking investor confidence.



Walter Mutwiri

Partner, Tax & Legal

Income Tax Measures

Corporate Income Tax

- A new framework introduced to tax rental income earned in Kenya by non-residents, featuring a simplified registration, and monthly filing by the 20th of the following month. The tax will be final.
- Expanded definition of immovable property for income tax purposes to cover a wider range of property-related transactions.
- The self-assessment regime for taxing income earned by non-resident ship owners and charterers will be reinstated one year after its abolition. Tax will be payable within five days of payment or the vessel's departure, whichever occurs first, while the withholding tax mechanism introduced in July 2025 is set to be repealed.
- The exemption from interest deduction limitations for non-deposit-taking institutions engaged in lending and leasing will be broadened to cover those engaged in lending, leasing, or both activities.
- The existing tax regime for trustees, executors, and administrators to be repealed and replaced with a simplified regime.
- Commissioner empowered to deem at least 60% of undistributed income as dividends, subject to business needs.
- Filing period reduced from 6 months to 4 months after year-end for persons whose income is fully taxed at source (including persons earning employment income only), all nil returns to be filed within 1 month after year-end, while the filing period for all other cases is to be retained at 6 months after year-end.
- Capital allowance on industrial buildings confirmed at 10% annually on a straight-line basis.
- The corporate income tax rate for non-resident contractors involved in petroleum operations to be reduced from 37.5% to 30%. Additionally, a 15% tax will apply on the repatriated income of both mining licensees and contractors involved in petroleum operations.
- Tax and stamp duty exemptions granted on transfer of assets into Real Estate Investment Trust (REIT) structures.



Our point of view

- The proposed reforms emphasize stronger compliance, simplified administration, and alignment with evolving economic dynamics. A key shift transfers rental income tax compliance to non-resident landlords under a simplified regime, while retaining the 30% final tax on gross income.
- The repeal of withholding tax on freight in favour of self-assessment addresses enforcement challenges and reduces administrative burden.
- Clarifications on interest restriction exemptions and streamlined trust taxation reduce ambiguity, enhances fairness and mitigate double taxation risks.
- Certainty is further enhanced through clarification of industrial building allowance, while extractive sector measures adjust tax rates and introduce a repatriated income tax within established frameworks.
- REIT reforms, including tax and stamp duty exemptions, aim to remove barriers to property transfers and stimulate investment.
- Overall, the Bill balances revenue mobilisation with structural reforms that reshape compliance and business planning. However, the proposed 60% deemed dividend threshold may constrain reinvestment and increase documentation on retained earnings.

Income Tax Measures

Withholding Tax

- Royalty definition expanded to include payments for software distribution, digital platform usage, and card transaction network services, bringing these into the withholding tax scope.
- “Management or professional fee” definition expanded to include interchange fees and merchant service fees, placing them within the withholding tax regime.
- A 20% withholding tax reinstated on winnings for both residents and non-residents; aligns with the Gambling Control Act, 2025, and excludes staked amounts. Definition of “withdrawals” revised.
- A 1.5% withholding tax reintroduced on gross payments for scrap sales, applicable to both residents and non-residents.
- Payments by the national carrier to non-residents for specified services to be reclassified as management or professional fees subject to withholding tax, one year after their earlier exclusion.
- Preferential 5% withholding tax rate on dividends paid to EAC Partner State citizens to be repealed. Such dividends will instead be subject to the standard non-resident rate of 15%.
- Income earned by non-resident shipping entities will be excluded from withholding tax, one year after being brought into the withholding tax regime. Instead, non-resident ship owners or charterers will be required to account for the tax directly within 5 days of payment or vessel departure, whichever occurs first.



Our point of view

- The expanded definitions of “royalty” and “management or professional fees” appear to directly address the legislative ambiguity highlighted in the Supreme Court’s decision in Barclays Bank of Kenya Limited (now ABSA Bank Kenya PLC) v Commissioner of Domestic Taxes. While this provides greater clarity from a domestic law perspective, the broadened scope of “royalty” departs from internationally accepted standards under the UN Model Tax Convention and OECD Guidelines, which underpin Double Taxation Agreements (DTAs). This divergence may heighten the risk of treaty disputes and override concerns, particularly where taxpayers seek relief under DTAs that take precedence over domestic law.
- At the same time, the proposed changes relating to taxation of winnings, scrap metals, and non-resident shipping income underscore a pattern of policy volatility. The frequent repeal, revision, and reintroduction of measures often within short timeframes suggest ongoing uncertainty in the tax regime, potentially undermining predictability and increasing compliance complexity for taxpayers.
- Finally, the repeal of the preferential withholding tax rate for citizens of EAC Partner States appears to align with the prolonged delay in ratifying the regional tax treaty signed in 2010. In this context, the move reflects a shift toward domestic tax neutrality, albeit at the expense of regional integration objectives that had originally justified the preferential treatment.

5%

Withholding tax rate for residents on card fees and royalty.

20%

Withholding tax rate for non-residents on card fees and royalty.

Income Tax Measures

Capital Gains Tax

Expansion of the CGT scope on indirect share disposals

- Gains from the disposal of shares in a company that derives 20% or less of its value, directly or indirectly, from immovable property situated in Kenya to be in scope of Kenya's CGT regime if the alienator holds, directly or indirectly, at least 20% of the share capital of the company.

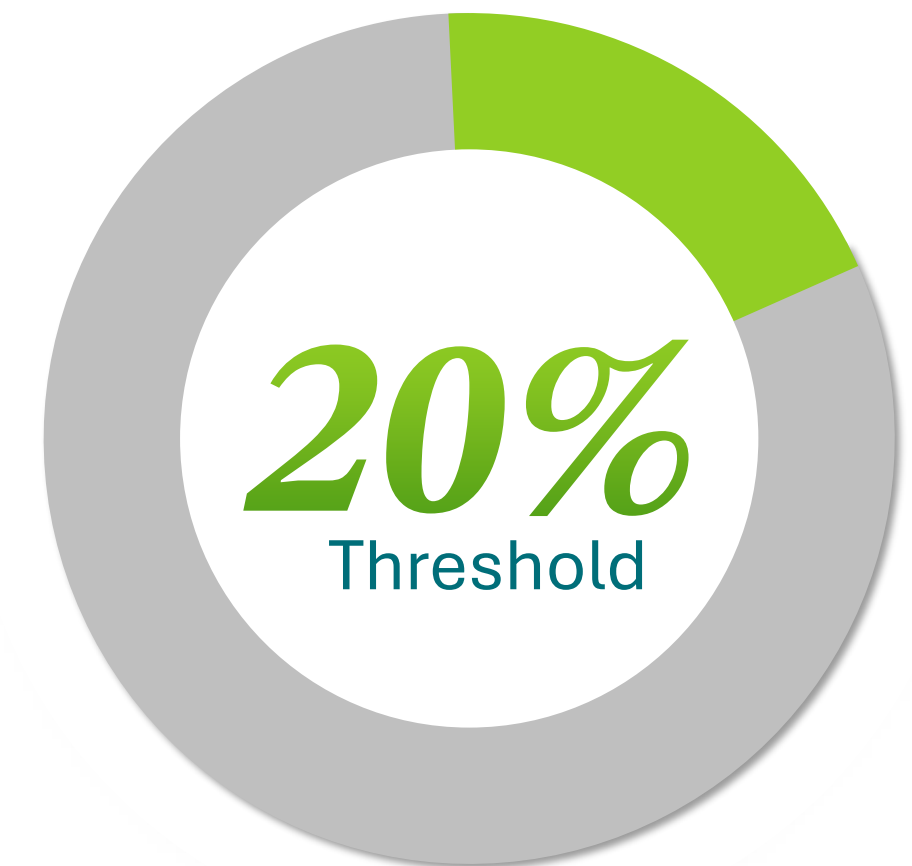
Introduction of broader non-resident CGT rules

- A new provision brings into scope any gain realised by a non-resident from the disposal of shares where:
 - The shares derive value from Kenya;
 - The transaction results in a change in group membership of a Kenyan resident company; or
 - There is a transfer of ownership, title, or interest in property located in Kenya.
- This change significantly widens Kenya's taxing rights over indirect disposals of Kenyan assets, particularly targeting offshore share transfers with underlying Kenyan value.



Our point of view

- The proposal to broaden Kenya's CGT base by bringing into scope disposals of shares with less than 20% immovable property backing, provided the seller holds at least a 20% interest reflects a shift toward taxing economic ownership and value extraction from Kenyan-linked assets, even where traditional property thresholds are not met.
- The introduction of wide-ranging rules for non-residents signals a clear intent to capture offshore transactions with underlying Kenyan value. By targeting share disposals linked to value derived from Kenya, group restructurings, and indirect property transfers, the provision limits the effectiveness of holding structures designed to mitigate CGT exposure.
- Collectively, these measures substantially expand Kenya's taxing jurisdiction over indirect disposals, particularly offshore share transfers. While this enhances revenue protection, it may increase complexity, create valuation challenges, and require careful structuring and documentation for cross-border investors and multinational groups.



The 20% threshold for indirect share transfers will no longer apply to non-residents as the CGT trigger threshold.

Overview of Personal Income Tax

Pay As You Earn (PAYE) has consistently contributed around 22-24% of the total Government tax revenue. Between FY 2020/21 and FY 2024/25, PAYE annual collections rose from KES 407 billion to KES 561 billion.

However, year on year growth in PAYE collections slowed down from 13.5% in FY 2021/22 to a modest 3.3% in FY 2024/25, largely due to increasing pressure on the formal employment tax base and the introduction of Social Health Insurance Fund (SHIF) and the Affordable Housing Levy (AHL) contributions which are now treated as tax allowable deductions.

The Finance Act 2025 exempted gratuity payments from tax and then required employers to apply all reliefs and deductions before computing PAYE. Shifting to the current proposals under the Finance Bill 2026 and the 2026/27 Budget, we note few changes impacting PAYE. Despite the public pronouncements by the Government proposing to exempt from PAYE approximately 1.5 million formal workers earning below KES 30,000 per month, this proposal was noticeably absent from the current Bill and the Cabinet Secretary for National Treasury's Budget Statement.

Rebalance PAYE: Sustainable Revenue Without Further Squeezing Salaries.

Though absolute PAYE collections have been increasing largely from increased tax rates, more needs to be done to expand the PAYE tax base especially by looping in the informal economy. Recent government measures to expand the net include use of Electronic Tax Invoice Management System to improve reporting and traceability though early days are yet to bear fruits. Legislatively, significant changes have been introduced from the Finance Act 2023 which introduced two new upper bands - 32.5% and 35% targeted on high income earners, followed by the roll out of AHL and SHIF contributions and then their re-classification to pre-tax deductions.

In conclusion, the Government should not lose sight of the Medium-Term Revenue Strategy (MTRS) which rightly acknowledged that the current tax bands were not optimal and that this may encourage tax evasion. Harmonization is also required since the highest tax band is currently at 35% which is higher than the corporate income tax rate of 30%. There is need to broaden the tax base to lighten the load for individuals in the formal employment. Additionally, the Government should articulate a credible, time-bound pathway that honours its commitment as per the MTRS while protecting the purchasing power of Kenya's salaried workforce.



David M'ibari

Partner, Tax & Legal

Personal Income Tax Measures

Personal Income Taxes

- Employer contributions to gratuity schemes will be tax-exempt where:
 - The employment contract is at least 3 years;
 - Gratuity contributions do not exceed 31% of the employee's basic salary; and
 - The employee is not contributing to or eligible to contribute to a registered pension or provident fund.
- Gratuity amounts transferred by employers into registered pension schemes will be tax-exempt for employees with continuous service of at least 3 years.
- Mortgage interest relief is extended to include loans provided by the Central Bank of Kenya (CBK) for constructing, purchasing, or improving an owner-occupied home.
- Any benefits arising due to the death of an individual will be tax-exempt.
- Revised filing deadlines for individual returns:
 - NIL tax returns: due by 31 January (within 1 month after year-end).
 - Individual tax returns where income is fully taxed at source including employment income: due by 30 April (4th month after year-end).
 - All other cases: Filing date remains 30 June (6th month after year end).



Our point of view

- The gratuity proposals support long-term savings and retirement security, especially for employees on contracts of at least three years. However, these disadvantage workers on shorter contracts who remain ineligible for the tax exemption.
- On mortgage interest relief, expanding eligibility to CBK-funded loans addresses an existing gap. Nonetheless, broadening this relief to cover all employer-supported housing schemes would promote equity and inclusivity.
- The exemption of death benefits aligns with social protection goals by ensuring bereaved families receive full support, while also simplifying tax compliance and reducing administrative burdens for the KRA.
- The shift to earlier and staggered filing deadlines appears to be driven by the Kenya Revenue Authority's need to validate and verify data before the government's financial year end and to cure the perennial last-minute filing by individual taxpayers leading to iTax system collapse.

The new deadline for filing individual self-assessment tax returns with employment income only (NIL declarations due by 31st January).



Overview of Indirect Taxes

“Revenue Mobilization, Digitization and Broadening the tax base”

Kenya’s indirect tax landscape is undergoing significant change as the Government balances fiscal consolidation with the need to support growth and competitiveness.

The 2026 Budget Statement and Finance Bill, 2026 signal a clear pivot towards broadening the tax base, strengthening revenue administration and capturing value from rapidly expanding digital and technology-enabled business models. Central to this agenda is the extension of Value Added Tax (VAT) and excise duties into areas that have historically been preferentially treated or outside the indirect tax net.

The Finance Bill proposes removing VAT exemptions on a range of digital financial services, notably payment processing, merchant acquiring, payment gateway, settlement and aggregation services, perhaps to align tax policy with the realities of an increasingly digitized economy and addressing perceived imbalances between traditional and technology-enabled providers.

At the same time, the Finance Bill reclassifies several supplies from zero-rated to exempt status. Although these exemptions are intended to maintain targeted relief while curbing tax expenditure, they are likely to have far-reaching consequences: restricting input VAT recovery raises production costs and could cascade across manufacturing, energy, agriculture and emerging green-technology value chains.

The proposed requirement to reverse input VAT on stock held where taxable supplies move to exempt status heightens the urgency for taxpayers to reassess VAT positions, inventory accounting and supply-chain structures.

Excise duty proposals are equally significant. Introducing a 25% excise duty on mobile phones and shifting the excise tax point from importation to device activation, marks a departure from standard practice and reflects a policy focus on taxing consumption where economic use occurs. Complementary excise measures aimed at selected manufactured goods, digital transactions and nascent sectors further emphasize the Government’s intent to broaden consumption taxation as a dependable revenue source.

Taken together, the 2026/2027 measures reflect a tax policy focused on revenue resilience, greater use of technology in enforcement and taxing new forms of economic activity. As Parliament considers the proposals, businesses must examine not only direct tax liabilities but also the indirect tax effects that will be embedded in pricing, contracts, supply chains and consumer demand.

The coming year will therefore bring heightened compliance expectations and require taxpayers to adopt strategic responses, from pricing adjustments and contract renegotiations to operational and systems changes , to manage the broader cost, cash-flow and competitiveness impacts of an evolving indirect tax environment.



Lillian Kubebea

Partner, Tax & Legal

Indirect Tax Measures

Value Added Tax

- Proposal to subject payment processing, merchant acquiring, payment gateway, settlement, and aggregation services to VAT.
- Deletion of the definition of “assessment” under the VAT Act to ensure consistency with the Tax Procedures Act (TPA).
- Financial charges under hire purchase agreements to be excluded from the taxable value only where:
 - The supplier is a licensed hire purchase operator; and
 - The agreement is registered under the Hire Purchase Act.
- Requirement to adjust input tax where taxable supplies later become exempt and stock is still held at the time of the change.
- Proposed removal of exemptions affecting sectors such as aviation, tourism, and housing, including items like:
 - Denatured ethanol (HS 2207.20.00); and
 - Tourism and large-scale recreational and conference facilities.
- VAT exemption for official aid-funded projects will be narrowed to exclude vehicle spare parts, in addition to fuels, lubricants, and tyres, which were excluded effective July 2025.
- Exemption to be granted on worn clothing (HS 6309), except at importation.
- Exemption of the supply of imported or locally purchased telephones for cellular networks and other wireless networks while also removing the zero-rating of locally manufactured phones.
- Items shifted from zero-rated to exempt status include inputs for animal feed production, sugarcane transportation services, motorcycles and electric bicycles, solar and lithium-ion batteries, electric buses and BEV stoves.
- Additional amendments proposed to streamline and rationalise zero-rating and exemption schedules.



16%

VAT on digital payment services

Payment processing, merchant acquiring, payment gateway, settlement and aggregation services will now be subject to VAT.

Indirect Tax Measures



Our point of view

- Aligning the VAT Act with the TPA improves consistency and clarity; however, it effectively imports broader TPA concepts into VAT administration, potentially expanding the Commissioner's interpretative and enforcement scope.
- The amendments significantly widen the VAT base while tightening documentation and procedural requirements, including anti-avoidance measures such as stricter hire-purchase conditions and input tax reversal rules. The combined effect is increased tax exposure, higher compliance costs, and potential cash flow and pricing pressures, particularly for sectors transitioning from zero-rating or exemption regimes.
- Businesses will need to promptly assess sector- and product-specific exposures, revise contractual terms, and upgrade systems (including invoicing, hire-purchase arrangements, and inventory accounting). Additionally, tax accounting processes must be restructured to accommodate input tax adjustments and evolving VAT treatment.



Indirect Tax Measures

Excise Duty

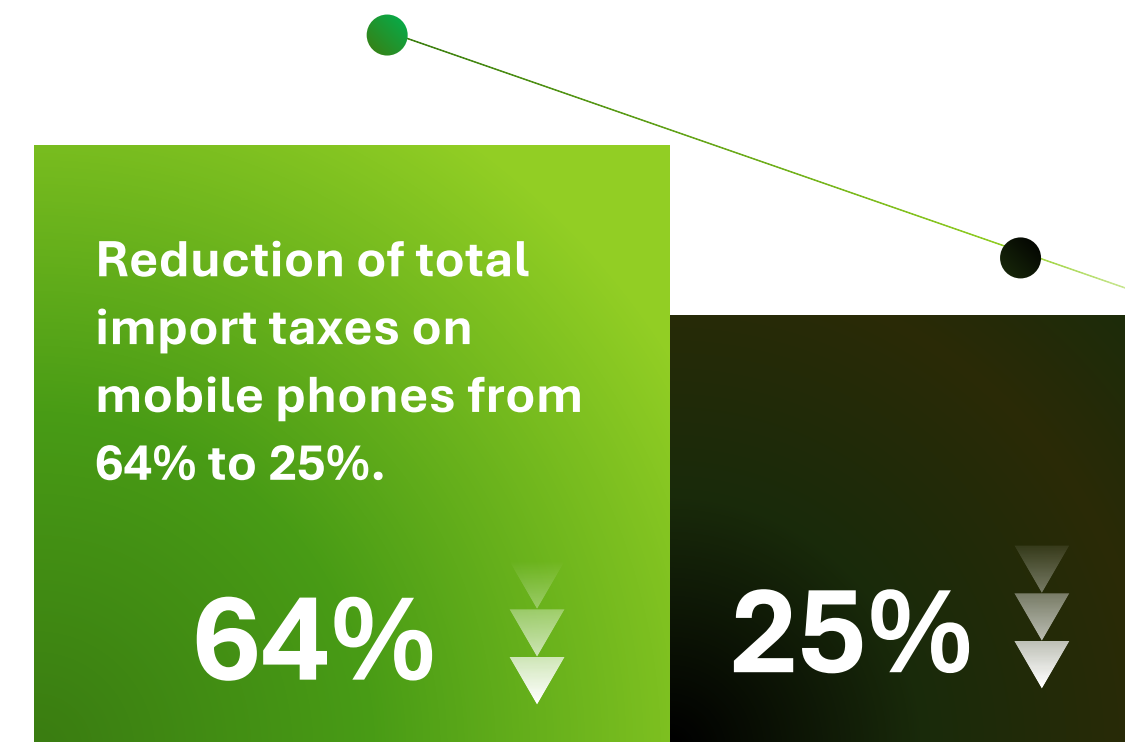
- Change in timing of excise duty liability on mobile phones from the point of importation or upon removal from the manufacturer's premises to the point of activation on any telecommunications network in Kenya.
- Increase in excise duty on mobile phones from 10% to 25%, alongside removal of VAT, import duty, Import Declaration Fee (IDF), and Railway Development Levy (RDL). The effective tax rate will reduce from 64% to 25%.
- Increase in excise duty on the following products:
 - Fruit and vegetable juices containing added sugar or sweeteners from KES 14.14 per litre to KES 20 per litre.
 - Cigars, cheroots, cigarillos and related products from KES 16,260 per kg to KES 18,000 per kg.
 - Other manufactured tobacco, tobacco substitutes, extracts and essences from KES 11,382 per kg to KES 12,550 per kg.
- Removal of excise duty of KES 6.41 on bottled or similarly packaged water.
- Removal of preferential excise duty rate applicable for small independent brewers, resulting in an increase in the applicable rate from KES 10 to KES 22.50 per centilitre of pure alcohol.
- Reduction in excise duty on extra neutral alcohol (whether locally manufactured or imported) from KES 500 to KES 80 per litre, applicable to supplies made to licensed manufacturers of spirituous beverages.
- Introduction of excise duty on the following products:
 - Locally manufactured plastic articles (Tariff Headings 3923.30.00 and 3923.90.90) at 10%
 - Coal at 5% of the excisable value.
- Introduction of a new excise duty framework for vintage and collector vehicles, applicable to vehicles first registered at least 30 years prior to purchase and valued at KES 10 million or more.
- Expansion of the scope of excise duty to include betting on horse racing, alongside amendments to the definition of gaming wallets to include land-based betting and gaming activities.

Indirect Tax Measures



Our point of view

- The excise duty proposals reaffirm the Government's continued reliance on consumption-based taxation as a central revenue mobilization mechanism. This is demonstrated through the broadening of the excisable base to include additional items such as locally manufactured plastic articles and coal alongside targeted rate adjustments on select products and structural reforms in the administration of excise duty.
- A notable development is the proposed shift in the timing of excise liability for mobile phones from the point of importation or removal from the manufacturer's premises to the point of activation. This change is intended to strengthen enforcement and ensure more effective collection of excise duty on mobile devices.
- Overall, while these measures are expected to enhance revenue generation for the Government, they are also likely to increase the effective tax burden across affected sectors. This, in turn, may have downstream implications on production costs, pricing strategies, and the overall compliance landscape for taxpayers.



Indirect Tax Measures

Miscellaneous Fees and Levies

- Alignment of the assessment, collection, and enforcement of fees and levies imposed under the Miscellaneous Fees and Levies Act with the East African Community Customs Management Act.
- Restriction of IDF and RDL exemptions to aircraft parts and large aircraft used for commercial air transport.
- Exemption from IDF and RDL on imported telephones for cellular and other wireless networks.



Our point of view

- Most airlines, particularly Kenyan-based carriers, have historically faced elevated operational costs driven by the global escalation in fuel prices and other external factors. In response, the Finance Act, 2023 introduced an exemption on aircraft and aircraft spare parts, with the objective of reducing operating costs for local airlines and enhancing their overall profitability.
- Given that most airlines operate large aircraft exceeding 2,000 kilograms, they will continue to benefit from exemptions on IDF and RDL applicable to such aircraft and spare parts.
- Additionally, the exemption of telecommunication devices (telephones) from IDF and RDL alongside the proposed VAT and import duty relief signals a broader policy intent to lower importation costs and promote technology adoption.



No IDF and RDL on imported cellular telephones

Exemption of imported telephones for cellular and other wireless networks from IDF and RDL.

Indirect Tax Measures

Customs Duty

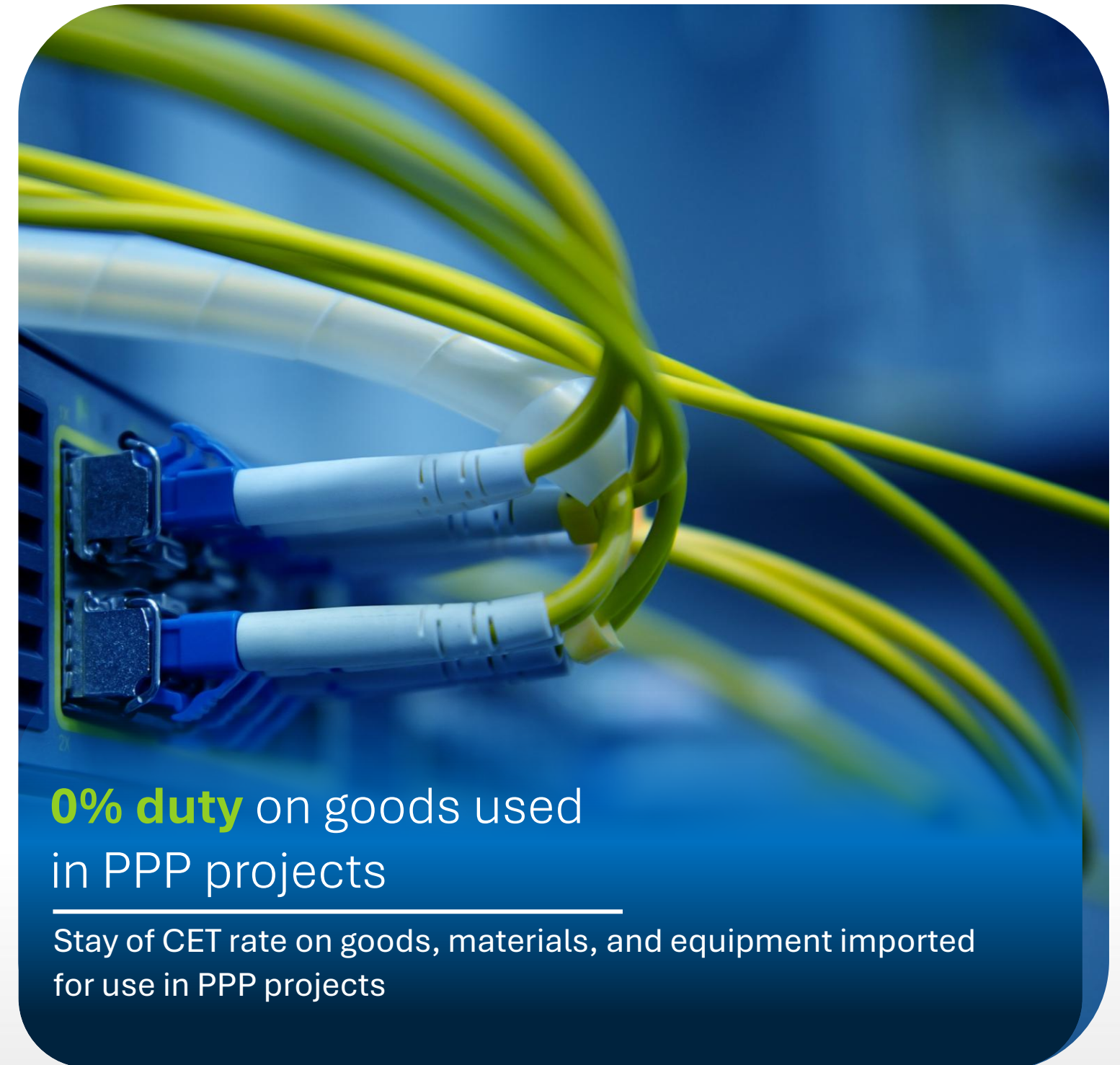
- Stay of application of the Common External Tariff (CET) rates has been extended for a further period of one year on the following products:
 - Rice at 35% or USD 200/MT instead of 75% or USD 345/MT.
 - Kraft paper and paperboard, printed poly bags, sacks and bags, and related packaging materials at 35% instead of 25%.
 - LPG stoves, cookware, aluminum products, steel products, electrical equipment and related manufactured goods at rates ranging between 25% and 35% instead of lower CET rates.
 - Steel products, aluminum products, pipes, electrical equipment, ceramic tiles and other construction materials at rates ranging between 25% and 35% instead of lower CET rates.
 - Selected food products e.g. vegetables, peas, sweet corn, tomato products, sauces, jams, edible oils, malt extract at 35% or equivalent specific rates.
 - Textiles, apparel, blankets, bed linen, carpets, tarpaulins, leather products and worn clothing at rates ranging between 25% and 35%.
- Grant stay of application of CET on the following products:
 - Dates at 0% instead of 25%.
 - Optical fibre cables and recorded software products at 10% instead of 0%.
- Duty remission is to be extended on the following products for a further period of one year:
 - Selected inputs used in manufacture of pharmaceutical products, roofing materials, automotive parts for vehicles and motorcycles and cold rooms for preservation at 0%.
 - Inputs for leather processing at 0%.
 - Inputs for assembly of smart mobile phones, laptops, and tablets at 0%.
 - Inputs used in manufacture of furniture and doors at 10%.
 - Completely knocked down kits for assembly of motorcycles at 10%.
 - Wheat at 10% instead of 35%.
 - Inputs for manufacture of animal feeds at 0%.
 - Inputs for manufacture of roofing materials and related industrial products at 0%.

Indirect Tax Measures



Our point of view

- The upward adjustment of duty rates on imported goods that can be sourced locally is geared towards promoting and protecting emerging domestic industries. By making imports relatively more expensive, the Government seeks to encourage local manufacturing, stimulate investment in value addition, and foster industrial growth. This approach is also geared towards job creation, strengthening domestic supply chains, and enhancing the competitiveness of locally manufactured goods, while gradually reducing overreliance on imports.
- For the manufacturing sector to achieve sustainable growth, it is critical for the Government to maintain stable and predictable customs duty regimes. Policy consistency enables businesses to undertake long-term planning, commit capital with confidence, and build efficient production capacity. A stable and transparent duty framework enhances investor certainty, supports competitiveness, and ultimately contributes to sustained economic development.



0% duty on goods used
in PPP projects

Stay of CET rate on goods, materials, and equipment imported
for use in PPP projects

Overview of Tax Administration

Kenya's tax administration has steadily shifted from manual, paper-based processes to digital, data driven systems. This transition has improved efficiency as reflected in increased online filing, expanded use of electronic tax invoice systems, and strengthened inter agency data sharing that enhances compliance monitoring.

However, challenges persist, including uneven taxpayer understanding of new obligations and the need for clearer procedural safeguards to reduce disputes.

The Bill also promotes digitalization through pre-populated tax returns generated using data available to the Commissioner. While this reduces manual errors and filing burdens, it shifts verification responsibility to taxpayers, potentially increasing disputes in the short term. Clear review mechanisms and transparent correction procedures will be essential to ensure fairness.

Effective implementation of the proposed administrative measures through clear regulations, seamless rollouts, and balanced safeguards is crucial to achieving the intended policy outcomes.

The Finance Bill, 2026 advances this digital and enforcement trajectory by introducing significant amendments to the Tax Procedures Act (TPA). These reforms will strengthen the Commissioner's powers in information gathering, assessment, and enforcement, while formalizing digital reporting obligations – aimed at enhancing transparency and revenue integrity. However, if not carefully implemented, some of the proposals may increase compliance costs and administrative complexity.

A key measure is the introduction of definitions for “virtual assets” and “virtual asset service providers” (VASPs), along with mandatory annual reporting requirements. These aligns with OECD standards and existing financial reporting frameworks, significantly expanding compliance responsibilities for VASPs and businesses dealing in digital assets. Coupled with provisions for automatic exchange of information, the reforms reduce anonymity in cross border transactions while necessitating careful consideration of data protection and privacy considerations.

The Bill also strengthens anti avoidance provisions empowering the Commissioner to disregard arrangements primarily aimed at achieving tax benefits. Clear guidance on these proposals is critical in reducing uncertainty and minimizing disputes. Other reforms include reinstating previously deregistered taxpayers under the same PIN to preserve compliance history, easing PIN requirements for non-resident investors, re-introduction of calendar day timelines for objections and appeals, which compress preparation periods and extension a tax amnesty program aimed at encouraging settlement of outstanding liabilities.

Overall, the reforms signal a decisive move towards a more assertive, digitally enabled tax system aligned with global standards. While they strengthen compliance and revenue collection, the reforms also introduce operational challenges. Effective implementation through clear regulations, seamless rollouts, and balanced safeguards will be crucial to achieving the intended policy outcomes without overburdening taxpayers.



Doris Gichuru
Partner, Tax & Legal

Tax Administrative Measures

Tax Procedures

- Tax amnesty reintroduced for taxes relating to pre- 31 December 2025 periods, with penalties and interest waived where principal tax is settled by 31 December 2026.
- KRA empowered to issue agency notices even where tax disputes are under appeal.
- KRA authorized to generate prefilled tax returns using data from iTax, eTIMS, and related systems.
- Commissioner permitted to raise assessments using internal data (e.g., eTIMS) and third-party information.
- Tax avoidance provisions relocated to the TPA, with increased reliance on data analytics to detect non-compliance.
- Introduction of baseline penalties for failure to comply with eTIMS requirements.
- Non-working days included in calculating the 30-day deadline for objections and appeals.
- The 2025 amendment restricting KRA from recovering principal withholding tax where the recipient had already accounted for the tax is proposed to be repealed. As a result, payers will remain liable for any un-deducted withholding tax, regardless of whether the recipient has already settled the corresponding tax.
- Commissioner allowed to waive penalties or interest up to KES 2 million arising from system errors without Treasury approval.
- Elimination of the Certificate of Origin requirement for imported goods.
- Repeal of provisions allowing offset of overpaid taxes against import VAT.
- Introduction of annual KRA reporting requirements for Virtual Asset Service Providers (VASPs), with penalties for non-compliance.

Stamp Duty

- Transfer of beneficial interest in property to Real Estate Investment Trusts (REITs) to be exempt from stamp duty.



KES 2m

KRA's limit for waiver of penalties and interest without Treasury approval

Tax Administrative Measures



Our point of view

- The proposed tax procedures reforms underscore the Government's continued focus on strengthening compliance and boosting the tax-to-GDP ratio, in line with the National Tax Policy and the Medium-Term Revenue Strategy (MTRS).
- There is a clear shift toward a fully digitised and data-driven tax system, driven by expanded use of eTIMS, integration with iTax and iCMS, and the rollout of pre-filled tax returns, which should enhance transparency and reduce revenue leakages.
- Collectively, these measures signal a move toward more proactive and technology-enabled tax administration, improving efficiency in enforcement while narrowing opportunities for non-compliance.
- At the same time, the proposals reflect heightened revenue mobilisation pressure, particularly against the backdrop of the FY 2026/27 revenue target of KES 3.63 trillion, with stricter enforcement tools such as the "pay-to-play" provisions indicating a firmer stance by KRA.
- Nonetheless, the inclusion of relief measures especially the reinstated tax amnesty programme demonstrates a balanced approach, encouraging taxpayers to regularise historical liabilities and supporting voluntary compliance alongside enforcement.





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