Tax Alert

July 2026

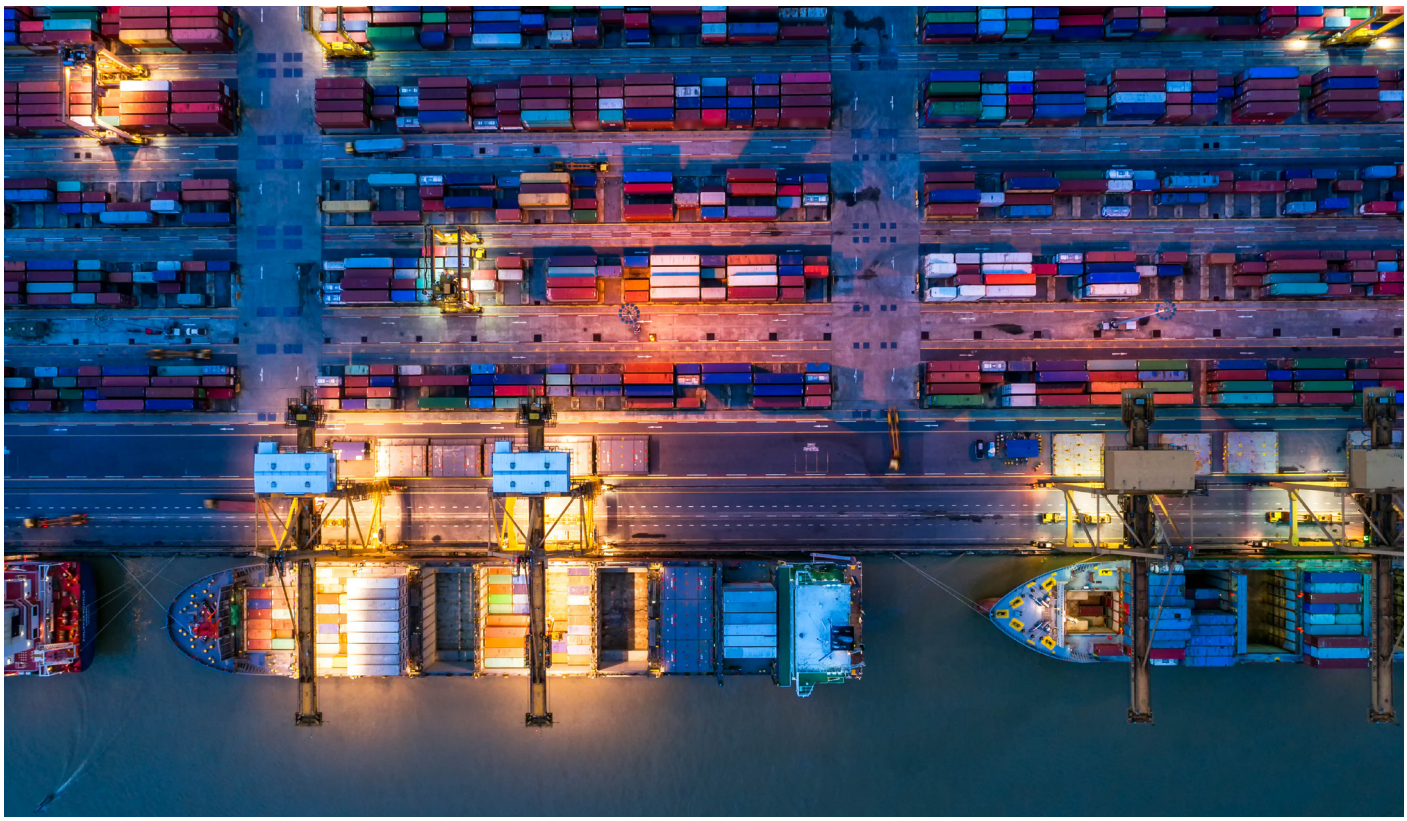
Highlights of the Finance Act, 2026

Notably, the Act does not provide for any review of the PAYE tax bands, representing a missed opportunity for the Government to implement reforms that had been proposed earlier in the year.

The Finance Act, 2026 ("the Act") was assented to by the President on 26 June 2026. The Act amends various laws including the Income Tax Act, CAP. 470 ("ITA"), Value Added Tax Act, CAP. 476 ("VAT Act"), Excise Duty Act, CAP. 472, Tax Procedures Act, CAP. 469B ("TPA"), Miscellaneous Fees and Levies Act, CAP. 469C ("MFLA"), Affordable Housing Act, 2024, Stamp Duty Act and Road Maintenance Levy Fund Act.

We note that the Parliament incorporated certain changes in the Act in response to stakeholder concerns raised in relation to some of the provisions that were contained in the Finance Bill, 2026 ("the Bill"). These provisions include: --

- Deletion of the *pay to play* tax dispute provision(s);
- Removal of the deemed dividend provision;
- Removal of the proposed 25% excise duty on telephones for cellular networks and other wireless networks;
- Updates to the accelerated tax compliance timelines;
- Updates to the list of supplies that were proposed to be converted from zero-rated status to exempt status; and
- Updates to the definition of royalty to exclude the provision that was proposed by the Bill on payments relating to distribution of software amongst other changes.



In this Alert, we provide an analysis of the changes proposed by the Act. The effective date for these changes is 01 July 2026, unless specified otherwise in the sections herein.

Notably, the Act does not provide for any review of the Pay-As-You-Earn ("PAYE") tax bands, representing a missed opportunity for the Government to implement reforms that had been proposed earlier in the year.

In addition to the proposals contained in the Bill, the Act has also introduced several important amendments arising from stakeholder engagement during the legislative process, including;

a) Clarification of the bad debt deduction rules for money lenders, banks and regulated financial institutions, including confirmation that qualifying bad debts comprise the full loan exposure, i.e. principal, interest and related amounts, where the debt meets the Commissioner's guidelines;

b) Employee-related costs incurred on provision of labour outsourcing or employee placement services deemed to be disbursements for VAT purposes;

c) Introduction of indefinite carry-forward of pre-2025 tax losses for taxpayers that had invested at least KES 10 billion before 1 July 2025, allowing such losses to be utilised until fully exhausted; and

d) Introduction of a 100% first-year investment allowance for capital expenditure exceeding KES 10 billion on petroleum or gas storage facilities, aimed at supporting large-scale investment in strategic energy infrastructure.

In this Alert, we provide an analysis of the changes proposed by the Act. The effective date for these changes is **1 July 2026,** unless specified otherwise in the sections herein.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 2 – Definition of "immovable property"	The Bill had proposed to replace "and" with "or" in the definition of immovable property so that land-related interests and mining/ petroleum interests operate as alternative limbs of the definition.	The Act has retained the provision proposed in the Bill.	This is largely a drafting clean-up that aims to replace "and" in the definition of immovable property with "or" so that the two limbs of the definition operate as alternatives rather than cumulative requirements. The amendment should reduce interpretational disputes in applying provisions such as those related to capital gains tax and other rules that rely on the definition of immovable property.
Section 2 – Definition of Management or Professional Fee	The Bill had proposed to expand the definition of management or professional fee to include interchange fees and merchant service fees arising from transactions that use a card as a means of payment.	The Act has retained the provision proposed in the Bill.	The amendment expressly brings interchange fees and merchant service fees within the withholding tax framework. This appears to be a response to the Supreme Court decision in **Barclays Bank of Kenya Limited (now Absa Bank Kenya PLC) v Commissioner for Domestic Taxes,** where the Court held that interchange fees did not to constitute management or professional fees. This amendment to the definition is likely to increase the overall cost of card transactions, especially where contractual arrangements require Kenyan payers to gross-up payments to non-resident recipients and later translating the burden to the final customer. We note that whilst merchant service fee(s) is included as part of the change to the definition of management or professional fee(s), the ITA does not define what constitutes a merchant service fee(s). Absent a definition of merchant service fee(s), WHT would be due on payment of merchant discount/service fee(s) as a whole. Further, the practical administration of withholding tax on these payments may be challenging because merchant service fees (which includes the acquirer's fees, card processing fees and interchange fees) are typically settled on a net basis through automated clearing systems across high transaction volumes. However, Kenyan Courts have in the past (i.e **Re Kenya Nut Case**) held that where a withholding tax obligation arises in law, the parties must configure their systems such that compliance with the law is met. Accordingly, a review of payment flows and contracting structures to ensure compliance will be needed. In addition, the foregoing proposed change is a departure from international best practice which requires human intervention for a service to be characterised as management or professional in nature. This change could also incentivise the use of cash payments instead of the cashless payment systems due to an increase in the cost.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 2 – Definition of Royalty	The Bill proposed to expand the definition of royalty to include payments for use of, or rights to use, proprietary digital payment card networks or platforms, including access, participation or usage rights, whether periodic or transaction-based and regardless of how the payment is described.	The Act has retained the expansion of the royalty definition but in a narrower form. It includes payments for the use of, or right to use, a proprietary digital payment card network or platform, including access, participation or usage rights through a card, whether 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. Unlike the Bill, the Act does not expressly include the separate limb on regular payments for software made through a distributor, and does not use the broader wording on payment processing, switching, clearing and settlement systems.	The Act still significantly broadens the royalty definition and brings a range of card network and digital payment platform charges within the royalty net. As with the change to management or professional fees, this appears to be a legislative response to the Barclays/ Absa Supreme Court decision and is likely to increase the withholding tax exposure of banks, payment service providers, merchants and other participants in card payment ecosystems. Unlike the Bill, the Act does not expressly include the separate limb on regular payments for software made through a distributor, and does not use the broader wording on payment processing, switching, clearing and settlement systems. This exclusion is significant because distributorship arrangements are common in the software market and often involve ordinary commercial resale or distribution margins, rather than payments for the use of intellectual property. The omission therefore limits the immediate expansion of the royalty regime and provides some relief for software distributors, resellers and customers acquiring software through distribution channels. It also helps avoid potential uncertainty and overreach in cases where payments are made for access to, resale of, or onward supply of software, rather than for the grant of IP rights. However, the retained card network wording remains broad and may apply even where the commercial documentation describes the payment as a service, transaction, assessment or processing fee. Taxpayers will need to review payment flows, contractual gross-up clauses and treaty positions to determine whether withholding tax applies, and whether a payment could fall within both the expanded royalty definition and the expanded management or professional fee definition. In addition, this change could also incentivise the use of cash payments instead of the cashless payment systems due to an increase in the cost.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 2 – Definition of Withdrawals	The Bill had proposed to amend "withdrawals" so that it covers any amount of money, cash equivalent or money's worth paid or disbursed to the account of a player by a person licensed under the Gambling Control Act, 2025.	The Act has retained the amendment, with drafting aligned to a person licensed under the Gambling Control Act, 2025.	This is a welcome move as the amendment aligns the ITA with the new gambling regulatory framework and captures non-cash or equivalent value payouts that may not have been expressly covered under the previous betting or gaming wallet formulation. That said, the practical relevance of the revised "withdrawals" definition may be limited because the Act also reintroduces withholding tax on "winnings". Operators in the betting, lotteries and gaming sector will therefore need to monitor whether tax administration guidance continues to require tracking of withdrawals in addition to winnings, particularly for system configuration, reporting and audit trail purposes. The frequent legislative changes to the concepts of "withdrawals" and "winnings" continue to create uncertainty for the sector and may require repeated changes to gaming platforms, payout engines and withholding tax reporting processes.
Section 2 – Definition of Winnings	The Bill had proposed to introduce a definition of "winnings" as a payout from a lottery or prize competition by a person licensed under the Gambling Control Act, 2025, excluding the amount staked or wagered.	The Act updated the proposed definition of "winnings" as a payout from a lottery or prize competition by a person licensed under the Gambling Control Act, 2025. The Act does not retain the Bill wording that excluded the amount staked or wagered.3	The reintroduction of "winnings" reverses the approach under the Finance Act, 2025 which had shifted withholding tax from winnings to withdrawals. The omission of the express exclusion for the amount staked or wagered is significant. Under the Bill, the taxable base would have been limited to the economic gain or payout net of the stake. The Act's wording creates uncertainty as to whether withholding tax should apply to the gross payout or only to the gain element. If interpreted as a gross payout tax, the effective tax burden on players could be higher and could distort pricing and payout structures. Licensed operators will need to update systems to identify taxable winnings at the point of payout, with particular attention to whether the stake is excluded in practice through KRA guidance or system design. The sector should also expect increased scrutiny because winnings are now expressly included in the charging and withholding tax framework.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 6B – Non-resident rental income tax	The Bill had proposed to introduce a final non-resident rental income tax on income derived from the use or occupation of property situated in Kenya. The non-resident person would register and account for the tax through a simplified framework and file and pay by the twentieth day (20th) of the following month. The Bill excluded cases where rent was received by a resident person on behalf of the non-resident and was subject to withholding tax.	The Act has retained the new non-resident rental income tax regime. It provides that the tax is payable at the rate specified in the Third Schedule and is a final tax. A non-resident person must register through a simplified registration framework and file and pay by the twentieth day (20th) of the month following the month for which rent is paid. The Act clarifies the exclusion by referring to income received by a resident person on behalf of the non-resident person who is subject to deduction of tax under section 35(1)(c).	The amendment creates a specific final tax regime for non-residents earning rental income from property situated in Kenya. This should, in principle, make compliance easier where a non-resident landlord receives rent directly and does not have a resident withholding agent or collection agent. However, a key implementation gap remains. The Act states that the rate will be as specified in the Third Schedule, but the Third Schedule amendments in the Act do not appear to prescribe a specific non-resident rental income tax rate. This may create uncertainty on the applicable rate until the law is further amended or administrative guidance is issued. The interaction with existing withholding tax on rent also needs careful management. Where a resident person receives rent on behalf of a non-resident and withholding tax under section 35(1)(c) applies, the simplified registration and monthly direct filing obligation should not apply. In other cases, non-resident landlords will need to register, track monthly rent receipts, file returns and pay tax by the twentieth day (20th) of the following month.
Section 9 –Tax on income of non-resident ship owners or charterers	The Bill had proposed that tax charged on income of certain non-resident ship owners or charterers be payable within five days after payment is received or the ship leaves the port of lading, whichever is earlier.	The Act has retained the provision proposed in the Bill.	The Act accelerates the payment timeline and secures collection before the non-resident ship owner or charterer exits Kenya's taxing jurisdiction. This is particularly relevant because the Act also deletes the withholding tax mechanism that had applied to such income under section 35(1)(u). The tax charge is therefore not removed; rather, the collection mechanism shifts to a direct payment obligation under section 9. Shipping lines, charterers, agents and cargo operators will need procedures to compute and remit the tax within five (5) days after payment is received or before the ship leaves the port of lading, whichever is earlier. The "whichever is earlier" trigger may create cash-flow and reconciliation challenges, especially where freight, demurrage, agency or charter arrangements are finalised close to departure. Taxpayers should align contract administration, port clearance and tax payment processes to avoid late payment exposure.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 10 – Scrap metal and winnings deemed Kenyan-source income	The Bill had proposed to include income from the sale of scrap metal and winnings within section 10 so that such payments are deemed to be income derived from Kenya where paid by a resident person or a person with a permanent establishment in Kenya.	The Act has retained the provision proposed in the Bill.	The amendment embeds scrap metal payments and winnings within the Kenyan-source income framework. This supports the related withholding tax amendments by reducing future disputes on whether such payments, particularly where made to non-residents, have a sufficient Kenyan nexus. The measure reflects KRA's focus on sectors with high transaction volumes and historically difficult-to-track participants, including scrap metal trading and betting or gaming. It provides a clearer basis for collection at source and should improve traceability of income in these sectors. For payers, the amendment means that systems must be able to identify payments for scrap metal and winnings, determine the recipient status, deduct the applicable withholding tax and report the payment as Kenyan-source income.
Section 11 – Trust income	The Bill proposed to repeal and replace section 11 so that income received by a trustee, executor or administrator is deemed to be income of that trustee, executor or administrator. Qualifying dividends or qualifying interest included in that income are not subject to further tax, and beneficiaries are not taxed again where the trustee, executor or administrator has paid tax.	The Act has retained the proposal	The amendment simplifies the taxation of trusts, estates and similar arrangements by preserving the principle that income received by a trustee, executor or administrator is taxed in that capacity, while reducing the risk of the same income being taxed again in the hands of beneficiaries. This provides certainty, reduces the risk of double taxation of trust income and creates simplicity in taxation of trusts which will encourage the adoption of trust structures in the country. The specific reference to qualifying dividends and qualifying interest is helpful because such income should not suffer further tax once included in the income of the trustee, executor or administrator. Trustees will need to maintain clear records of income categories and tax paid to support the non-taxation of subsequent beneficiary distributions.
Section 12 – Instalment tax	The Bill had proposed to replace the minimum tax reference in section 12(1)(a) with a rule excluding persons who, to the best of their judgement and belief, will have no income chargeable to tax for that year other than emoluments.	The Act has retained the provision proposed in the Bill.	The amendment rationalises the instalment tax provisions following the removal or inapplicability of minimum tax. Individuals whose only chargeable income is employment income should not be brought into the instalment tax regime, as their tax is generally collected through PAYE. The change should reduce unnecessary compliance for employees and other persons without income from other sources other than employment income. However, taxpayers with income from other sources such as income from business, investment income, professional income etc are not excluded from instalment tax merely because they also earn emoluments. The test is based on the taxpayer's best judgement and belief, so taxpayers should reassess their position where circumstances change during the year.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 15 – Bad debts for money lending, banking and financial institutions	N/A	The Act amends section 15(2)(a) to provide that, for a person carrying on a money lending business, a bank or financial institution licensed under the Banking Act, the Microfinance Act or the Central Bank of Kenya Act, a debt that has become bad in accordance with guidelines issued by the Commissioner shall include the principal, interest and any other amount relating to the debt.	This is a welcome clarification for lenders and regulated financial institutions. It confirms that where a debt has become bad in accordance with the Commissioner's guidelines, the deductible bad debt can include not only interest but also includes principal and other amounts relating to the debt. This clarification is significant because Legal Notice No. 37 of 2011, the Income Tax (Bad Debts) Guidelines, 2011 allows deductions for bad debts that are irrecoverable but excludes expenses that are capital in nature. This created uncertainty on whether the principal loan amount can be deducted for corporate income tax purposes or not. The tax authority has often argued that loan principal is capital and therefore non-deductible, while taxpayers contend that, for lenders, loans are part of their normal business and should be fully deductible when they are not recoverable. This has led to various conflicting decisions from the Tax Appeals Tribunal ("Tribunal") and the Courts. In particular, in **Premier Credit Limited v Commissioner of Domestic Taxes [2026],** the Tribunal held that the loan principal is capital and therefore not deductible for corporate income tax purposes a position that aligned with the KRA's strict view. However, the Court in the recent **Branch Decision, HCCOMMITA/E080/2025,** took the position that the position that bad debts arising in the ordinary course of lending business (including the capital) were deductible for corporate income tax purposes. Notwithstanding the expanded scope of deductibility, the requirement to comply with the Commissioner's guidelines remains central. Taxpayers must still demonstrate that the debt written off is irrecoverable in accordance with Legal Notice No. 37 of 2011, including maintaining evidence of reasonable recovery efforts, impairment classification, and proper write off approvals. The safeguard ensures that only genuinely irrecoverable debts qualify, preserving the integrity of the deduction.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 15 – Tax losses for large pre-1 July 2025 investments	N/A	The Act provides that where a person had, before 1 July 2025, invested at least KES 10 billion in Kenya and had an ascertained deficit for any period before 1 July 2025, that deficit will be deemed to have occurred in the 2025 year of income and may be applied beyond the ordinary limitation period until it is extinguished.	This is a welcome move and a targeted transitional relief for large investors who incurred tax losses before the current loss utilisation framework took effect. By deeming the deficit to have arisen in the 2025 year of income and allowing it to be carried forward until fully extinguished, the Act preserves the economic value of pre-existing losses for qualifying large investments. The measure should support investor confidence for capital-intensive projects whose early years often generate tax losses due to significant upfront expenditure, depreciation and financing costs. It also reduces the risk that large legacy investments lose the benefit of accumulated losses solely because of changes to the loss carry-forward rules. It also signals governments efforts to support public private partnerships ("PPP") which tend to be quite capital intensive and targeted at public infrastructure such as roads, power, airports and water projects. The relief is narrow and evidence driven. Taxpayers will need to demonstrate that the investment threshold of at least KES 10 billion was met before 1 July 2025 and that the deficit was properly ascertained for a period before that date.
Section 16 – Interest deductibility for non-deposit taking institutions	The Bill proposed to replace "lending and leasing business" with "lending or leasing business, or both" in section 16.	The Act has retained the provision proposed in the Bill.	This is a clarifying amendment to ensure that the relevant exclusion applies to non-deposit taking institutions involved in lending, leasing or both, rather than only those that carry on both activities simultaneously. This should reduce ambiguity and prevent institutions engaged solely in lending or solely in leasing from being excluded because of the previous conjunctive wording. It is particularly relevant for non-bank credit providers and leasing businesses that rely on debt funding. Affected taxpayers should review financing structures and interest deductibility positions to confirm whether they fall within the clarified wording.
Section 18D – Country-by-country (CbC) reporting	The Bill had proposed technical amendments to section 18D to correct internal cross-references relating to the filing of country-by-country reports by ultimate parent entities and constituent entities.	The Act has retained the amendments proposed in the Bill.	The amendments are largely housekeeping in nature and are intended to align the country-by-country reporting provisions with the correct operative subsections. They do not introduce a new substantive reporting obligation but instead enhance the overall coherence of the CbC reporting framework. These corrections are important, as inaccurate cross-references can create uncertainty regarding filing responsibilities, deadlines, and the required information. Multinational enterprise groups should therefore continue to comply with existing CbC filing requirements, including the 12-month filing timeline, while taking into account the corrected statutory references.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 18F – Country-by-country reporting definitions	The Bill had proposed to amend the definitions of "a country-by-country report", "excluded multinational enterprise group" and "ultimate parent entity". The proposed definition of ultimate parent entity was based on ownership of sufficient interests and the requirement to prepare consolidated financial statements.	The Act has retained the amendments proposed in the Bill.	The amendments refine the definitional framework underpinning Kenya's CbC reporting regime. The cross-reference changes ensure that the definition of a CbC report captures filings under both the primary and secondary filing rules, while also aligning the threshold for an excluded multinational enterprise group with the correct provision. The revised definition of ultimate parent entity represents the key substantive change. It aligns more closely with the OECD BEPS Action 13 framework by emphasizing consolidation and the presence of sufficient ownership interests, rather than relying solely on a control-based test. This enhancement is expected to improve consistency with international transfer pricing standards and reduce cross-jurisdictional mismatches in determining group reporting obligations. Kenyan-headed and foreign-headed groups with constituent entities in Kenya should review their CbC reporting positions to confirm the designated reporting entity and determine whether any secondary filing obligation arise in Kenya.
Section 19 – Insurance companies	The Bill proposed to replace references to "life insurance fund" with "statutory fund" and to define statutory fund by reference to section 45 of the Insurance Act.	The Act has retained the provision proposed in the Bill.	This amendment is welcome has it aligns the Income Tax Act with insurance regulatory terminology, reducing ambiguity in the taxation of insurance companies. A similar amendment to the term "life insurance fund" was introduced under the Finance Act 2025 and adopted into law. This appears to be a harmonisation measure, particularly given that statutory funds are established under section 45 of the Insurance Act. The change is particularly relevant for the computation of taxable gains or profits from long-term insurance business, including actuarial surplus transfers and negative transfers. By anchoring the tax rules to the statutory fund concept, the Act provides a clearer link to the regulatory funds maintained by insurers. Insurers should review actuarial, finance and tax reporting processes to ensure that references to life insurance funds in tax computations, policies and working papers are updated to statutory funds.
Repeal of section 23 anti-avoidance rule	The Bill proposed to repeal section 23 of the Income Tax Act, which addressed transactions designed to avoid tax liability.	The Act has repealed section 23. A broader tax avoidance provision has been introduced in the Tax Procedures Act.	The repeal appears to be a harmonisation measure following the introduction of broader anti-avoidance provisions in the Tax Procedures Act. The repeal should not be interpreted as a relaxation of anti-avoidance enforcement. In practice, the Commissioner may still challenge arrangements that are considered to have a main purpose of avoiding or reducing tax, but the legal basis is expected to sit under the broader Tax Procedures Act provisions rather than section 23 of the ITA.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 35 – Withholding tax – national carrier payments to non-residents	The Bill had proposed to delete the specific withholding tax exclusion for certain payments made by the national carrier to non-residents for specialised technical, maintenance, compliance, training or digital systems support services.	The Act has amended the proposal in the Bill. In particular, the Act amends section 35(1)(a)(ii) by replacing "travel" with "transport services". It also introduces a new subsection 35(1A), which provides that section 35(1) shall not apply to payments made by a resident air transport operator designated by the Government as a national carrier to a non-resident person in respect of access to, participation in or use of specified proprietary digital platforms, payment networks, payment-card schemes, payment processing, switching, clearing or settlement systems.	The Act takes a more targeted approach than the Bill. Rather than simply deleting the national carrier exclusion and potentially subjecting a broad range of specialised non-resident service payments to withholding tax, the Act preserves a specific carve-out for designated national carrier payments linked to proprietary digital platforms and payment infrastructure. This is important in light of the expanded definitions of royalty and management or professional fee. Without the carve-out, payments by the national carrier for card schemes, payment networks and related settlement systems could have attracted withholding tax, increasing the cost of international aviation payment infrastructure. The carve-out is narrow. It applies only to a resident air transport operator designated as a national carrier and only to the specified categories of digital platform and payment network payments. Other airlines and other types of payments to non-residents will still be subject to ordinary withholding tax rules, subject to treaty relief where applicable.
Section 35 – Withholding tax on scrap metal, winnings and non-resident ship income	The Bill had proposed to delete section 35(1)(u), which subjected income of certain non-resident ship owners or charterers to withholding tax, and to introduce withholding tax on payments for sale of scrap metal and winnings under sections 35(1) and 35(3).	The Act has retained these changes. Section 35(1)(u) is deleted. New paragraphs are added for sale of scrap metal and winnings, and corresponding resident and non-resident rates are introduced in the Third Schedule.	The deletion of section 35(1)(u) should be read together with the new direct payment obligation under section 9. The tax on income of non-resident ship owners or charterers remains, but collection is moved away from the withholding tax mechanism into a direct remittance obligation due within five (5) days after payment is received or the ship leaves the port of lading, whichever is earlier. For scrap metal and winnings, the Act introduces a clear withholding tax collection mechanism. This is aimed at sectors with high transaction volumes and, in some cases, informal or difficult-to-track participants. The withholding mechanism should improve collection and reduce disputes on taxability. Payers will need to update systems to identify taxable scrap metal payments and winnings, deduct tax at the correct rate, issue withholding tax certificates where applicable and reconcile the deductions in monthly filings. Betting and gaming operators will also need to align the withholding process with the revised definition of winnings.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 52 – Income tax returns required by notice	The Bill had proposed to amend section 52(1) by requiring a person who is served with a notice to furnish a return by the last day of the fourth (4th) month following the end of the person's year of income.	The Act has retained the provision proposed in the Bill. **This provision comes into operation on 1 January 2027.**	The amendment replaces the previous flexible timeline of a "reasonable time" of not less than thirty (30) days from service of notice with a fixed statutory deadline tied to the end of the year of income. This will accelerate compliance and give the Commissioner an earlier and more predictable timeline for obtaining returns. It will also require taxpayers to close accounts, reconcile income and prepare returns earlier where they are required to file under section 52. The fixed deadline may create practical challenges where the notice is issued close to, or after, the fourth (4th) month following year-end. Taxpayers should therefore maintain readiness to respond to return notices and ensure that accounting records are up to date. The effective date of 1 January 2027 gives taxpayers time to update compliance calendars and internal processes.
Section 52B – Annual self-assessment return filing timelines	The Bill had proposed amendments to the return filing framework to align annual self-assessment return deadlines with the fourth (4th) month after year-end for individuals and the sixth (6th) month after year-end for persons other than individuals. The Bill had also proposed to introduce a one month filing deadlines for nil return filings.	The Act replaces section 52B(1) to provide that every individual chargeable to tax must file a return, including a self-assessment of tax from all sources, not later than the last day of the fourth (4th) month following the end of the year of income. Every person other than an individual must file not later than the last day of the sixth (6th) month following the end of the accounting period. The Act has removed the one month deadline for nil return filings. **This provision comes into operation on 1 January 2027.**	The amendment codifies the annual return filing timelines within section 52B and provides a clear distinction between individuals and other persons. For individuals, the deadline is the last day of the fourth month after the year of income. For companies and other non-individual taxpayers, the deadline is the last day of the sixth month after the accounting period. The change supports earlier compliance monitoring and aligns self-assessment filings with defined statutory dates. Taxpayers should update compliance calendars, tax provisioning processes and return preparation timelines ahead of the 1 January 2027 commencement date. Entities with complex year-end processes, audits or regulatory reporting obligations should begin return preparation early enough to avoid penalties, especially where tax computations depend on audited financial statements or group reporting information.
First Schedule – Exempt income: death benefits and REIT transfers	The Bill had proposed to exempt benefits arising due to death and capital gains relating to the transfer of property to a real estate investment trust registered by the Commissioner under section 20(1).	The Act has retained the provisions proposed in the Bill.	The exemption of benefits arising due to death is a welcome clarification. It reduces the tax burden on beneficiaries and estates at a sensitive time and provides greater certainty on the tax treatment of death-related benefits. The exemption of capital gains relating to transfers of property to a registered real estate investment trust should support the growth of REIT structures in Kenya. By removing capital gains tax on qualifying transfers into REITs, the measure may encourage property owners and developers to pool assets through regulated investment vehicles. The REIT exemption is limited to transfers to a REIT registered by the Commissioner under section 20(1). Taxpayers should ensure that the receiving REIT is properly registered and that the transfer qualifies for the exemption.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Second Schedule – Investment allowance	The Bill had proposed an amendment to the investment allowance provisions relating to capital expenditure incurred on industrial buildings, to clarify that the 10% allowance applicable to the relevant item is claimable annually in equal instalments.	The Act has retained the provisions proposed in the Bill. In addition, it amends paragraph 1(1), item (iv), to introduce a 100% investment allowance in the first year of use for petroleum or gas storage facilities, where the investment exceeds KES 10 billion.	The clarification that the 10% allowance on capital expenditure incurred on industrial buildings is claimable per year in equal instalments provides certainty and should reduce disputes on whether the allowance is a one-off deduction or spread over time. This confirms the straight-line nature of the allowance and should reduce ambiguity in the timing of claims. The introduction of the 100% first-year investment allowance for investments exceeding KES 10 billion is a significant incentive for large capital projects for persons in the petroleum and gas infrastructure. It allows qualifying taxpayers to deduct the full cost of the investment in the year the facility is first put into use, rather than claiming the allowance over several years. This should improve project cash flows, reduce taxable income in the initial year of operation and enhance the commercial viability of capital-intensive storage projects. The measure is also aligned with the Government's objective of encouraging investment in strategic energy infrastructure, including fuel security, storage capacity and supply chain resilience. It may particularly benefit investors developing large petroleum depots, LPG storage facilities, import terminals or similar infrastructure. However, the incentive is subject to two key conditions: the investment must relate to a qualifying petroleum or gas storage facility, and the amount invested must exceed KES 10 billion.
Third Schedule – Rates of tax	The Bill had proposed to introduce withholding tax rates of 1.5% on sale of scrap metal and 20% on winnings for both resident and non-resident recipients.	The Act has retained these changes	The Third Schedule amendments operationalise the withholding tax measures for scrap metal and winnings. For scrap metal, the 1.5% rate applies on the gross amount. This creates a low-rate collection mechanism that should improve compliance in a sector that can be difficult to monitor. For winnings, the 20% rate is consistent with the policy objective of taxing betting, lottery and prize competition payouts at source.
	The Bill proposed to delete the preferential withholding tax applicable on dividend payments to citizens of the East African Community Partner States.	The Act has retained this provision.	The deletion of the preferential withholding tax rate of 5% applicable on dividend payments to citizens of East African Community (EAC) Partner States means that such dividend payments will be subject to the standard non-resident rate of 15%. This change would likely increase the tax burden on cross-border EAC investment and may discourage regional capital flows. Notably, this amendment appears misaligned with the broader objective of promoting EAC economic integration, a policy direction that Kenya has historically supported. By eliminating a tax incentive that has facilitated investment by citizens of Partner States, the change could be perceived as a step back from Kenya's commitment to preferential intra-EAC investment treatment. Consequently, it may diminish Kenya's attractiveness as an investment destination for individual investors within the region.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Fourth Schedule – Financial institution licensed under the Microfinance Act	N/A	The Act amends the Fourth Schedule by inserting "A financial institution licensed under the Microfinance Act (Cap. 493C.)".	The amendment formally recognises microfinance institutions licensed under the Microfinance Act within the relevant Schedule. This aligns the ITA more closely with the regulated financial sector and reduces uncertainty whether microfinance institutions should be treated in the same manner as other specified financial institutions for purposes of the Schedule. The change is consistent with the broader amendments in the Act that expressly refer to financial institutions licensed under the Microfinance Act, including the bad debt provisions and the interest deductibility clarification. In addition, one notable benefit arising from inclusion of microfinance institutions under Fourth Schedule is that interest payments to microfinance institutions will be exempt from withholding tax.
Eighth Schedule to the ITA – Capital gains tax	The Bill had proposed amendments to the capital gains tax provisions, including corrections to cross-references and changes affecting gains derived by non-residents from alienation of shares linked to Kenyan value or Kenyan property.	The Act amends paragraph 2 by correcting a cross-reference and inserting a new paragraph bringing into scope 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 Kenyan resident company or of ownership of, title in, or interest in property located in Kenya. The Act also amends paragraph 8(4A) to exclude transfers to which paragraph 6(2)(i) applies from the relevant Capital Gains Tax wording.	This broadens Kenya's taxing rights over indirect transfers and group reorganisations with Kenyan value. Non-resident investors should evaluate Kenyan CGT implications before share disposals, offshore restructurings or transactions affecting Kenyan property-rich entities. Absent a definition of what qualifies as value, the proposed change is quite broad and extends to all indirect disposal by non-residents of shares which derive some form of value, whether minimal or maximum value, from Kenya. Therefore, as opposed to Paragraph (b) and (c) which have a 20% threshold on value and capital respectively, Paragraph (d) as currently drafted runs the risk of applying to all indirect disposals where the company whose shares are being disposed by the non-resident has a Kenyan subsidiary. This is irrespective of whether the value of the Kenyan subsidiary is significant in the shares being disposed or insignificant. In any case, there is no formula that has been provided in the allocation of gains arising from the indirect disposals compounding the uncertainty arising from this proposal. Without a clear allocation mechanism, there is a risk that Kenya may seek to tax gains that are not economically attributable to the Kenyan entity or Kenyan-situs assets. This concern is particularly relevant where the Kenyan entity represents only a small portion of the value of the offshore company being transferred. This law might also create a risk of double taxation, especially where the Kenyan entity constitutes less than 50% of the transaction value and the same gain is also subject to tax in another jurisdiction. Clear rules would therefore be required to determine the portion of the gain attributable to Kenya and to mitigate potential double taxation.

Income Tax Act CAP. 470 ("ITA") – Corporate Income Tax (cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Ninth Schedule to the ITA – Amendments to taxation of extractive industries	The Bill proposed to reduce the income tax rate for non-resident contractors from 37.5% to 30% and to introduce a 15% non-resident tax rate for repatriated income of licensees and contractors under section 7B.	The Act has retained the amendments and provides that the non-resident tax rate for repatriated income by a licensee under section 7B is 15%. It also reduces the non-resident company tax rate for a contractor from 37.5% to 30% and provides that the non-resident tax rate for repatriated income by a contractor under section 7B is 15%. **This provision comes into operation on 1 January 2027.**	The amendments reduce the headline tax burden for non-resident contractors in the extractive sector by aligning the applicable non-resident company tax rate to 30%. This should improve Kenya's competitiveness for upstream petroleum, mining and related extractive projects where non-resident contractors are common. At the same time, the Act introduces a 15% tax rate on repatriated income for both licensees and contractors under section 7B. This preserves Kenya's taxing right over profits extracted from the country while providing a clearer and more predictable rate. The 1 January 2027 commencement date gives extractive sector taxpayers time to review project economics, production sharing or mining agreements, tax stabilisation clauses, repatriation policies and financial models. Non-resident contractors should also assess whether existing contracts assume the former 37.5% rate and whether pricing or gross-up provisions need to be updated.

Income Tax Act CAP. 470 ("ITA") – Employment Taxes

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 5 (1) of ITA - Employment income of non-resident employees of Kenya's designated national carrier	This amendment was not contained in the Bill.	The Act has amended section 5(1) by inserting a proviso stating that income earned by a non-resident individual employed by, or engaged on behalf of, a resident air transport operator designated as a national carrier shall not be deemed to accrue in or be derived from Kenya to the extent that: - the income relates to duties performed outside Kenya; and - the duties are connected to the international transport operations of the air transport operator.	The amendment introduces an exception to the general rule that employment income paid by a Kenyan employer or a permanent establishment in Kenya of a non-resident employer to a non-resident individual is taxable in Kenya. The amendment appears to be a targeted measure to change to the taxation of non-resident aviation personnel engaged by Kenya's national carrier, Kenya Airways PLC, to improve its attractiveness as an employer of international aviation personnel and align Kenya's taxation landscape more closely with international aviation tax principles. The absence of prescribed rules to allocate remuneration between Kenyan and non-Kenyan duties may give rise to practical implementation challenges.
Section 5(4)(g) – Gratuity	The Bill proposed to amend section 5(4) by: i) adding a new sub-paragraph (c) to the proviso to paragraph (g), limiting the existing exemption on employer gratuity payments into a registered pension scheme to gratuities relating to a contract of service of at least three (3) years; and ii) inserting a new paragraph (ga) to exempt any contribution to a gratuity for employment or services rendered, provided that: - the gratuity was for a contract of service of at least three (3) years; - the total contributions did not exceed thirty-one per cent (31%) of the employee's basic salary; and the exemption would not apply to persons eligible for deductions under section 22A.	The Act inserted a new paragraph (ga) under section 5(4) to exempt from tax any contribution to a gratuity in respect of employment or services rendered, provided that: - the gratuity relates to a contract of service lasting at least three (3) years, or the renewal or extension of such a contract is beyond three (3) years; and - the gratuity paid does not exceed thirty-one per cent (31%) of the emoluments earned by the employee for period of the contract. The following proposals were not retained in the Act: a) The exemption from the three-year contract requirement for contributions made through registered pension schemes. b) The treatment of standalone registered gratuity schemes as not being subject to pension relief caps.	Gratuity contributions are tax exempt where: i. the gratuity relates to a contract of at least 3 years, including renewals or extensions; and ii. the contribution does not exceed 31% of the employee's emoluments over the contract period. Employees on fixed-term contracts remain eligible where the cumulative duration, including renewals or extensions, meets the three-year threshold. The three-year contract requirement does not apply to gratuity contributions made through registered pension schemes, as earlier proposed in the Bill. Such arrangements continue to be governed by the existing pension tax rules, including applicable relief limits. Contributions to standalone registered gratuity schemes (i.e., outside pension arrangements) are not subject to pension relief caps. Employers should evaluate how gratuity benefits are structured, whether through pension schemes or separate gratuity schemes, as the applicable tax treatment differs.

Income Tax Act CAP. 470 ("ITA") – Employment Taxes (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 15 – Introduction of an allowable deduction for interest on housing loans advanced by the Central Bank of Kenya ("CBK") to employees	The Bill proposed to amend Section 15(2) by inserting a new paragraph (af) immediately after paragraph (ae). The new paragraph would have allowed an employee to deduct interest of up to three hundred and sixty thousand shillings (KES 360,000) per annum paid on a loan advanced by the Central Bank of Kenya for the construction, purchase, or improvement of a house occupied by the employee.	This amendment was not retained in the Act.	The Parliamentary Committee dropped the proposal on the basis that CBK employees already benefit from preferential loan terms. Granting additional mortgage interest relief would have created inequity by giving them an added tax advantage over other taxpayers. As a result, CBK employees remain ineligible for mortgage interest relief.
Part I of the First Schedule to the ITA **Income from pensions**	The Bill proposed to amend the proviso to paragraph 53 of Part I of the First Schedule to the ITA to exempt pension benefits paid upon the death of a member from tax.	This amendment has been retained in the Act without modification.	This amendment provides relief to the dependants and beneficiaries of deceased members by exempting pension benefits paid on a member's death from tax. It also advances the policy objective of encouraging retirement savings by ensuring that accumulated pension benefits are preserved for beneficiaries without tax leakage. In doing so, it aligns the treatment of death benefits with that of other tax-exempt payments, such as retirement benefits, and withdrawals on the grounds of ill health.
Section 5 (1) of ITA **Employment income of non-resident Kenya Airways employees**	This amendment was not contained in the Bill.	The Act has amended section 5(1) by inserting a proviso providing that the income of a non-resident individual employed by, or engaged on behalf of, a resident air transport operator designated as a national carrier shall not be deemed to accrue in or be derived from Kenya to the extent that: - the income relates to duties performed outside Kenya; and - the duties are connected to the international transport operations of the air transport operator.	Introduces an exception to the general rule that employment income paid by a Kenyan employer to a non-resident is fully taxable in Kenya. Non-resident employees of Kenya Airways will now be taxable in Kenya only on the portion of income attributable to duties performed within Kenya.

Tax Procedures Act, CAP. 469B ("TPA")

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 3(1) **Deletion of the definition of "certificate of origin"**	The Bill had proposed the deletion of the definition of "certificate of origin"	The Act has retained the provision proposed in the Bill.	The deletion of the definition of "certificate of origin" reflects a policy choice to relocate rules on origin documentation to customs focused legislation, particularly the East African Community Customs Management Act ("EACCMA") and related regulations. In practice, this removes duplication within the TPA and reinforces the Commissioner's reliance on the customs legal framework when enforcing origin-based requirements, especially in audits and post clearance verification.
Section 3(1) **Definition of "virtual asset"**	The Bill proposed to amend the TPA to introduce the following definition: - "virtual asset" has the meaning assigned to it in section 2 of the Virtual Asset Service Providers Act, 2025	The Act has retained the provision proposed in the Bill.	The introduction of a statutory definition of "virtual asset" anchors the tax treatment of crypto assets and similar digital representations of value directly to Kenya's evolving regulatory framework under the Virtual Asset Service Providers ("VASP") Act, 2025. By cross referencing the VASP Act rather than creating a standalone tax definition, the amendment ensures consistency across tax and financial regulation, reducing interpretational disputes on what constitutes a taxable virtual asset transaction.
Section 3(1) **Definition of "virtual asset service provider"**	The Bill proposes to amend the TPA to introduce the following definition: - "virtual asset service provider" has the meaning assigned to it in section 2 of the Virtual Asset	The Act has retained the provision proposed in the Bill.	By aligning the tax definition with the VASP Act, 2025, the amendment provides clarity on which persons fall within scope of the TPA's reporting, recordkeeping and enforcement framework in relation to virtual asset transactions.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 6C **Virtual asset providers to file information returns**	The Bill proposed to introduce new reporting obligations for virtual asset service providers (VASPs), requiring them to submit annual information returns to the Commissioner on users engaged in reportable transactions. These obligations apply to providers facilitating exchanges or trading platforms, with strict penalties for false statements, omissions, or failure to file returns, including significant fines and possible imprisonment.	The Act has incorporated the proposed Section 6C, largely retaining the core reporting obligations for VASPs, but with notable refinements. In particular, the enacted provision introduces an explicit data protection safeguard, requiring that information collected in the annual returns be limited to what is necessary, relevant and proportionate, and that it be handled in accordance with the Data Protection Act. Additionally, the Act maintains the scope of reporting entities, offences, and penalties as originally proposed, but makes minor structural clarifications, including renumbering of subsections and clearer cross-referencing (e.g., aligning the reasonable effort defence to subsections (4) and (5)). The obligation to file both standard and "nil" returns, as well as the applicable penalties for false statements, omissions, and non-compliance, remain substantively unchanged, preserving the Bill's enforcement framework while improving clarity and compliance safeguards.	The enactment of section 6C signals a deliberate move to bring virtual asset activity squarely within Kenya's financial reporting framework. Rather than creating a standalone or exceptional regime for virtual assets, the amendment integrates virtual asset reporting into the mainstream compliance architecture of the TPA, building on the regulatory foundations established under the VASPs Act, 2025. The measure broadly reflects the policy direction seen under the OECD's Crypto Asset Reporting Framework (CARF), particularly in its emphasis on intermediary based reporting and enhanced visibility over users and transactions. From a practical standpoint, the amendment materially raises the compliance profile of VASPs, by increasing regulatory scrutiny and enforcement exposure. Providers will need to ensure that their governance, data and control frameworks are sufficiently robust to support sustained information reporting, with particular sensitivity around data completeness and accuracy given the penalty regime. The provision underscores that virtual asset businesses operating in or into Kenya should expect a level of tax transparency and oversight comparable to that applied in more traditional financial services sectors. Importantly, the Act introduces safeguards to ensure that the collection and handling of user information is proportionate and compliant with the Data Protection Act. This balances regulatory oversight with privacy considerations and is likely to increase confidence in the regime, both among users and service providers. In addition, the requirement to file "nil" returns and the clarification of compliance expectations may improve reporting discipline and reduce ambiguities in enforcement.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 6D **Agreements for the automatic exchange information with other countries on virtual asset transactions**	The Bill proposed to introduce a framework allowing Kenya to enter into agreements with other countries for the automatic exchange of information on virtual asset transactions. This was aimed at strengthening international cooperation and enabling tax authorities to access cross-border data relating to virtual asset activities, thereby improving oversight and reducing opportunities for tax evasion. Under the proposed section, the information to be shared would include reports filed by virtual asset service providers, due diligence and record-keeping data, details of reportable users and controlling persons, "nil" returns, and any arrangements designed to circumvent compliance obligations. The Bill also defined "information returns" and empowered the Cabinet Secretary to issue regulations to operationalise the framework, ensuring its effective implementation.	The Act has retained Section 6D largely as proposed in the Bill, preserving the framework that allows Kenya to enter into agreements with other jurisdictions for the automatic exchange of information on virtual asset transactions. However, the Act introduces important enhancements to strengthen governance, accountability, and data protection. These include explicit requirements that exchanged information must comply with the Data Protection Act and be limited to what is necessary and proportionate, as well as a safeguard requiring the Commissioner to confirm that receiving jurisdictions have adequate data protection measures. In addition, the Act now requires the Commissioner to maintain detailed records of all information shared, thereby improving transparency and oversight in the exchange process.	The introduction of section 6D provides the legal basis for Kenya to enter into agreements with other countries for the automatic exchange of information relating to virtual asset transactions. This marks an important extension of the domestic reporting framework under section 6C by signalling an intention to move beyond purely internal data collection towards cross border cooperation in the oversight of virtual asset activity. From a policy perspective, the provision aligns Kenya with the broader global direction towards international coordination on virtual/ crypto asset tax transparency, following similar developments in the exchange of financial account information. While the section does not itself establish an operational exchange mechanism, it creates an enabling framework under which detailed regulations, due diligence standards and reporting specifications can be developed as Kenya engages with counterpart jurisdictions. In practical terms, section 6D increases the likelihood that information collected from virtual asset service providers will eventually be shared with foreign tax authorities, and that Kenya will receive corresponding information on Kenyan linked crypto activity offshore. The measure underscores a longer term shift towards sustained transparency in the virtual asset sector, with implications not only for compliance obligations but also for enforcement risk in cross border structures and transactions.
Section 10 **Reinstatement of Registration for a taxpayer who had previously applied for deregistration**	The Bill proposed to amend Section 10 of the TPA by the addition of the following subsections: - (9) Where a person who was deregistered under this section qualifies for registration under section 8, shall apply to the Commissioner for reinstatement of the registration. - (10) Where the Commissioner is satisfied that the applicant under subsection (9) is liable for tax under a tax law, the Commissioner shall register the person and issue the person the same PIN that had been issued to the person prior to the deregistration.	The Act has retained the proposed amendments to Section 10 of the TPA, preserving the requirement that a person who has been deregistered and subsequently qualifies for registration must apply to the Commissioner for reinstatement. However, the Act introduces a notable procedural enhancement by requiring the Commissioner to notify the applicant in writing of the decision on reinstatement within ninety days of receiving the application. This addition strengthens administrative transparency and provides greater certainty for taxpayers by establishing a clear timeline for processing reinstatement applications	The Act introduces a clearer framework for reinstating taxpayers who had previously deregistered but later qualify for registration under the Act. By providing for reinstatement using the same PIN previously issued, the amendment promotes continuity in taxpayer records and preserves historical compliance and audit trails, rather than creating parallel profiles through new registrations. This approach reduces administrative friction for both taxpayers and the Commissioner.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 12 **Exemption from requirement of a PIN when opening an account with an investment bank**	The Bill proposes to amend Section 12 of the TPA by the addition of the following subsections: - (5B) A non-resident person shall be exempt from the requirement of a PIN when opening an account with an investment bank.	The Act has retained the provision proposed in the Bill.	The enactment of this section will reduce procedural barriers for non resident investors seeking access to Kenya's capital markets, particularly where the account opening does not of itself give rise to immediate tax obligations. From a practical perspective, the measure is likely intended to facilitate inbound portfolio investment and improve ease of doing business by separating account opening formalities from broader tax registration requirements.
Section 18A **Power of the Commissioner in relation to tax avoidance schemes**	The Bill proposed to introduce a new anti-tax avoidance provision empowering the Commissioner to disregard arrangements designed to obtain undue tax advantages. Where it is determined that a taxpayer has entered into a scheme primarily to gain a tax benefit, such as, reducing tax liability, delaying payment, or obtaining refunds, the Commissioner would be allowed to reassess the taxpayer's liability as though the scheme had not been undertaken. To support this, the Bill proposed that the Commissioner rely on a wide range of information sources, including tax returns, audit findings, electronic reporting systems, and other statutory disclosures, in identifying such schemes. It also set a five-year timeframe for issuing assessments related to these arrangements and broadly defined both "scheme" and "tax benefit" to capture various forms of tax avoidance, ensuring comprehensive coverage of potentially abusive practices.	The Act has retained the proposed Section 18A, preserving the Commissioner's power to address tax avoidance schemes by reassessing a taxpayer's liability as though such arrangements had not been entered into. However, the Act introduces key enhancements aimed at strengthening procedural fairness and transparency. Notably, the Commissioner is now required to provide written reasons for any determination made under this section within thirty days, thereby improving accountability. In addition, taxpayers are expressly allowed to seek private rulings for complex transactions, offering greater certainty and an avenue for clarification in advance. These additions complement the original framework by reinforcing taxpayer rights while maintaining the integrity of the anti-avoidance regime.	The introduction of Section 18A strengthens the Commissioner's general anti avoidance powers by expressly permitting the re characterisation of arrangements that give rise to a tax benefit where they are deemed to constitute tax avoidance schemes. The provision consolidates anti avoidance rules within the TPA and is supported by a broad definition of both a "scheme" and a "tax benefit", as well as access to a wide range of information sources to support assessments. In addition, the Act enhances the framework by embedding procedural safeguards that improve transparency and balance. The requirement for the Commissioner to provide written reasons for determinations, together with the availability of private rulings for complex transactions, introduces greater certainty and accountability in the application of the rules, while maintaining the effectiveness of the anti avoidance regime.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 23B **Production of Export Declaration for imported goods**	N/A	The Act introduces a new Section 23B, which places an obligation on importers to obtain and retain proof that goods brought into Kenya were lawfully exported from the country of origin. Specifically, importers must secure documents such as export declarations or equivalent customs certificates issued by the exporting country, containing prescribed details about the exporter, importer, goods, value, and origin. The provision also requires importers to retain these documents for at least five (5) years and to produce them upon request by the Commissioner. Failure to provide the required documentation gives the Commissioner broad powers, including rejecting claims relating to the goods, determining tax liability based on available information, and applying administrative penalties. However, the Commissioner may waive this requirement where export declarations are not issued in the exporting country, with further guidance to be provided through regulations issued by the Cabinet Secretary.	The introduction of Section 23B is likely to significantly strengthen compliance, transparency, and traceability in the importation of goods into Kenya. By requiring importers to retain verifiable export documentation from the country of origin, the provision enhances the Commissioner's ability to validate the authenticity, value, and origin of imports, thereby reducing the risk of under-declaration, misclassification, and fraudulent claims for tax reliefs or exemptions. From a practical perspective, the provision places an additional compliance burden on importers, who must now ensure access to and proper retention of export documentation from foreign jurisdictions. At the same time, it equips the Commissioner with stronger enforcement tools, including the ability to reject unsupported claims and determine tax liabilities based on available data. Overall, the measure is expected to improve revenue assurance and curb tax leakages, while promoting more accurate and transparent reporting in cross-border trade.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 29A **Power of Commissioner to originate an Assessment**	The Bill proposed to introduce a new Section 29A to empower the Commissioner to issue tax assessments based on information available, where deemed necessary. This provision was intended to strengthen the Commissioner's ability to determine a person's income and tax liability using a broad discretion informed by available data. To support this, the Bill outlined a wide range of information sources the Commissioner could rely on, including tax returns, withholding tax records, data submitted through electronic systems, audit and inspection findings, and information obtained under other laws. This approach aimed to enhance enforcement by leveraging existing reporting and data systems to identify discrepancies and ensure accurate tax assessments.	The Act has retained the proposed introduction of Section 29A- However, the Act introduces important procedural enhancements to support fairness and taxpayer engagement. Notably, it now provides that the Commissioner may request additional information from the taxpayer in writing at least thirty (30) days before issuing an assessment, thereby allowing the taxpayer an opportunity to respond or clarify their position. In addition, the Act expressly confirms the taxpayer's right to object to an assessment under the established objection procedures in Section 51 of the Tax Procedures Act.	The introduction of Section 29A represents a material shift in how assessments may be initiated, particularly when viewed against Kenya's longstanding self-assessment framework. Traditionally, the system is built on taxpayer-driven self-assessment, with the Commissioner's intervention taking place mainly through clearly defined mechanisms such as default assessments (where returns are not filed) or amended assessments (where a filed return is considered incorrect). In each case, the assessment power is reactive and tied to a specific taxpayer failure or inaccuracy. By contrast, the enacted provision expressly authorises the Commissioner to originate assessments independently, based on information available from reporting systems, audits and third-party data, without the need for a triggering taxpayer action. This marks a notable evolution in the conceptual balance underlying self-assessment. While the provision is intended to strengthen enforcement in an increasingly data-rich tax environment, it introduces an authority-driven assessment power that operates alongside, rather than strictly behind, the self-assessment process. In effect, it reflects a gradual shift toward a more administrative, data-led assessment approach, even as self-assessment remains the formal foundation of the system. Notably, the Act introduces procedural safeguards that partly address concerns around process and fairness. The Commissioner may now request additional information from the taxpayer at least thirty days before issuing an assessment, creating an opportunity for engagement, clarification, and reconciliation of underlying data. In addition, the taxpayer's right to object to an assessment under the established dispute resolution framework is expressly preserved, reinforcing due process. However, practical considerations remain around how the power will be exercised, particularly in a digital environment where assessments may be informed by system-generated or third-party data. While the inclusion of pre-assessment engagement is a significant improvement, the overall impact will depend on how consistently this opportunity is applied in practice and whether further administrative guidance is issued to ensure the power is exercised in a targeted, risk-based manner rather than as a routine assessment tool.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 37E **Amnesty of interest, penalties or fines on unpaid tax**	The Bill proposed to extend the tax amnesty framework by shifting the cut off date for qualifying tax debt from 31 December 2023 to 31 December 2025 and extending the deadline for settlement of outstanding principal tax from 30 June 2025 to 31 December 2026.	The Act has retained the provision proposed in the Bill.	This provision reopens the amnesty window and provides taxpayers with unresolved historical liabilities additional time to regularise their positions without exposure to accrued interest, penalties or fines. The extension recognises the practical challenges many taxpayers have faced in resolving issues within earlier timelines, whether due to cash flow constraints, ongoing audits or disputes, or administrative delays. By providing further breathing room while preserving the requirement to ultimately settle principal tax, the measure supports voluntary compliance and improves the likelihood of recovering otherwise difficult to collect revenue.
Section 39A **Deletion of waiver on principal tax not deducted, withheld or remitted where the recipient of the payment has paid and accounted for the full principal tax**	The Bill proposed to amend the TPA by deleting section 39A (2) thereby removing the relief that insulated a withholding agent from paying principal tax where the payee had already paid and accounted for the same tax. The relief had been introduced through the Finance Act, 2025, with effect from 1 July 2025, as a fairness measure to prevent double collection of principal tax on the same income.	This proposed amendment was not retained in the Act.	The relief that insulated a withholding agent from principal tax liability where the recipient had already paid and accounted for the full tax remains.
Section 39B **Collector to recover unpaid amount under other laws**	N/A	The Act introduces a new Section 39B to empower the Commissioner, in his/her capacity as a collector under other laws, to recover unpaid fees, levies, or charges using the same enforcement mechanisms applicable to unpaid taxes. In effect, this provision extends the tax recovery framework under the Tax Procedures Act to cover non-tax obligations administered by the Commissioner, ensuring a more streamlined and consistent approach to enforcement. Additionally, the section provides that where the outstanding amount does not exceed KES 100,000, it may be recovered through a summary process.	The introduction of Section 39B is aimed at strengthening revenue collection by allowing the Commissioner to use established tax enforcement mechanisms to recover unpaid fees, levies, and charges imposed under other laws. This creates a unified and more efficient recovery framework, reducing fragmentation where different recovery processes previously applied depending on the nature of the obligation. The inclusion of a summary recovery process for smaller amounts enhances administrative efficiency and reduces the cost of enforcement. For taxpayers and other affected persons, this underscores the importance of timely compliance with all statutory payments administered by the Commissioner, not just taxes, as enforcement risk and exposure have been significantly elevated.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 42 **Agency notices to be issued where taxpayers lose at the Tribunal or High Court**	The Bill proposed to amend the TPA by deleting this paragraph (e) in section 42, subsection (14).	This amendment was not retained in the Act.	Tax collection through agency notices is effectively suspended once a taxpayer lodges an appeal at a higher appellate level. In particular, even where the taxpayer has lost at the Tax Appeals Tribunal or another court, the Commissioner cannot issue or enforce agency notices so long as a valid appeal has been filed and remains pending before the next appellate forum.
Section 44A **Certificate of Origin**	The Bill proposed to delete section 44A of the TPA which requires that all goods imported into Kenya must be accompanied by a valid Certificate of Origin. Importers would be required to present this certificate to the Commissioner or an authorised officer, and import documentation would not be processed, nor goods cleared, without it.	This proposed amendment was not retained in the Act.	The requirement to have a valid Certificate of Origin is retained and any person failing to comply with the requirement risks having their goods seized or forfeited.
Section 47 (1) **Offsets of overpaid tax**	The Bill proposed to amend Section 47(1) of the Tax Procedures Act by removing the reference to "value added tax payable on imports" from the list of tax liabilities against which overpaid tax may be offset. In effect, this would have limited a taxpayer's ability to apply overpaid tax credits toward import VAT, thereby restricting the scope of offsets to other outstanding tax debts and future tax liabilities.	This proposed amendment was not retained in the Act.	Taxpayers can still utilise tax overpayments to offset such amounts against VAT payable on imports.
Section 75 **Expansion of the uses of electronic tax systems**	The Bill proposed to allow the Commissioner to generate pre-populated tax returns using available data. It would enable taxpayers to rely on these pre-filled returns when submitting their filings, thereby simplifying the filing process, improving accuracy, and promoting compliance. This amendment aimed to leverage existing electronic systems to make tax reporting more efficient and reduce the administrative burden on taxpayers.	The Act amends Section 75 to formally introduce a framework for pre-populated tax returns and sets out clear procedures around their issuance and use. In addition to allowing the Commissioner to generate pre-populated returns using available taxpayer data, the Act now requires the Commissioner to notify taxpayers when such returns are issued and to provide them by the end of January of each year of income. The Act further clarifies taxpayer obligations and timelines by allowing taxpayers to review, confirm, or amend the pre-populated returns within two months of issuance, after which the return may be relied upon for filing.	The enactment of the amendments to Section 75 marks a significant evolution in Kenya's tax compliance framework by formally integrating pre-populated returns into the self-assessment system, with added structure and defined timelines. The Act goes beyond the original proposal by requiring the Commissioner to issue pre-populated returns by the end of January and to notify taxpayers accordingly, while also introducing a clear two-month window within which taxpayers must review, confirm, or amend the returns. This creates a more structured and predictable compliance process. In practice, the changes have the potential to simplify compliance, reduce administrative burden, and improve accuracy, particularly where taxpayer data is already captured through withholding, third party reporting, and electronic systems. At the same time, the Act reinforces that responsibility for accuracy remains with the taxpayer, who must actively review and validate the pre filled information within the prescribed timelines. As such, the effectiveness of the regime will depend on the quality and completeness of data held by the tax authority, as well as taxpayers' ability to identify and correct discrepancies, especially where data is drawn from multiple systems that may not always align seamlessly.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 77 (2) **Computation of time for lodging objections and appeals**	The Bill proposed to delete the provision that excludes weekends and public holidays when calculating timelines for lodging objections and appeals under the Tax Procedures Act. As a result, all calendar days including, Saturdays, Sundays, and public holidays, would have been counted in determining deadlines for filing objections and appeals, effectively shortening the time available to taxpayers to take action.	This proposed amendment was not retained in the Act.	Saturdays, Sundays, and public holidays will not be included in counting when determining deadlines for filing objections and appeals.
Section 86 **Failure to comply with electronic tax system**	The Bill proposed to repeal the existing penalty provision for failure to comply with electronic tax requirements and replace it with a more structured and nuanced framework. Under the proposed section, the Commissioner would consider whether the failure was due to circumstances beyond the taxpayer's control, whether it arose from wilful neglect or deliberate default, and whether the taxpayer took reasonable steps to comply as soon as possible. Where the Commissioner remains unsatisfied, the taxpayer would be subject to a revised penalty regime based on the higher of three thresholds: twice the tax due, KES 100,000, or, in the case of individuals, KES 10,000. This approach aims to introduce greater fairness and proportionality while maintaining strong enforcement of electronic compliance requirements.	The Act has retained the structured framework introduced in the Bill for addressing non-compliance with electronic tax obligations. However, the Act revises the penalty framework. Instead of the earlier proposal of a penalty based on twice the tax due, the Act now imposes a more moderated approach, with penalties set at the higher of 5 percent of the tax due, KES 100,000 for companies, or KES 10,000 for individuals. This reflects a shift toward a more proportionate penalty regime while maintaining enforcement of electronic compliance requirements.	The Act refines the penalty framework for non-compliance with electronic tax system requirements by formally introducing a reasonableness-based assessment before penalties are imposed. Requiring the Commissioner to consider factors such as system-related challenges, absence of wilful default and remedial action taken by the taxpayer provides clearer statutory recognition of the practical challenges that may arise in complying with electronic systems. However, the introduction of minimum absolute penalties, particularly the KES 100,000 floor for non-individuals, may significantly increase exposure for taxpayers in cases of minor non-compliance or technical system failures where little or no tax is ultimately at risk. The revised structure therefore combines a more nuanced decision-making framework with potentially harsher financial consequences, especially for corporate taxpayers. In practice, taxpayers will need to ensure that they maintain strong controls, documentation and audit trails to demonstrate reasonable efforts to comply, particularly where failures arise from system outages, integration challenges or data validation issues.

Tax Procedures Act, CAP. 469B ("TPA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 89 5A and 5B **Waiver of penalties on electronic systems**	The Bill proposed targeted amendments to Section 89 5A to clarify and reorganise the circumstances under which penalties and interest arising from electronic tax system issues may be waived. In particular, it sought to separate out "malfunction of an electronic tax system" into a distinct ground for waiver by deleting it from paragraph (c) and introducing a new paragraph (ca). In addition, the Bill proposed introducing a new Section 5B to expand the Commissioner's authority to grant waivers. Under this provision, the Commissioner (rather than the Cabinet Secretary) would be permitted to waive penalties or interest of up to KES 2 million where they arise from errors generated by an electronic tax system.	The Act has retained the provision proposed in the Bill.	The amendment enhances the flexibility of the penalty waiver framework by allowing the Commissioner to directly waive penalties and interest arising from electronic system errors where the amount does not exceed KES 2 million. This is a practical improvement that is likely to expedite relief in lower value cases, reduce the need for escalation to the Cabinet Secretary, and improve administrative efficiency for both taxpayers and the Kenya Revenue Authority ("KRA"). At the same time, the Act formalises a monetary threshold within the waiver regime, effectively distinguishing between lower value cases that can be resolved administratively and higher value cases that may still require additional approvals. As a result, taxpayers with system related penalties above the KES 2 million threshold may continue to face longer resolution timelines and a more complex waiver process.
Section 112 (2) **Content to be covered by Regulations**	The Bill proposed to amend Section 112(2) by introducing a new paragraph (ba) to specifically provide for regulations governing the submission of tax returns based on pre populated returns generated by the Commissioner.	The Act has retained the provision proposed in the Bill.	The Act provides a clear regulatory foundation for the implementation of pre-populated tax returns under Section 75 of the TPA. By expressly empowering the Cabinet Secretary to prescribe detailed procedures through regulations, the provision supports the operationalisation of pre-populated returns within the existing legal framework, without the need for further legislative amendments. From a policy perspective, this reinforces the shift towards a more system driven and data enabled compliance model, with increased reliance on third party data and electronic reporting systems. In practice, the impact will depend on the scope and clarity of the regulations issued, particularly in relation to how taxpayers may review, amend, or rely on pre-populated data. The amendment also underscores the importance for taxpayers to closely monitor forthcoming regulations and guidance, as key aspects of return preparation and compliance will now be shaped through subsidiary legislation.

Value Added Tax Act, CAP. 476 ("VAT Act")

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 2 Deletion of certain definitions	Proposed deletion of the definition of assessment, information technology and tax computerized system.	The Act has retained the provision proposed in the Bill.	The deletion of the definitions harmonizes VAT and TPA procedural definitions to eliminate duplication in respect of procedural definitions and administrative framework. It enhances legislative consistency across tax laws, facilitating effective tax compliance and administration.
Section 13 5(A) and 5(B) Exclusion of employee related costs from taxable amount.	N/A	The Act has amended Section 13 of the VAT Act by introducing new subsections (5A) and (5B) as follows: (5A) Subject to subsection 5, where a supplier provides labour, outsourcing or employee placement services and incurs employee-related costs, such costs shall be deemed to be disbursements made by the supplier on behalf of the client. (5B) For the purpose of subsection (5A), "employee-related costs" includes salaries, wages, statutory deductions and such other related costs.	The introduction of Sections 13(5A) and 5(B) is a welcome and pragmatic clarification that reshapes the VAT treatment of labour outsourcing arrangements. The amendment introduces a statutory deeming provision under which qualifying employee-related costs are automatically treated as disbursements made on behalf of the client, removing the requirement to establish a principal-agent relationship and effectively overriding the conventional disbursement criteria. As a result, these costs will be excluded from the taxable value of the supply, with VAT applying only to the service fee or margin charged by the supplier. This aligns the VAT position with the commercial substance of such arrangements and resolves recent uncertainty following High Court decisions that had treated these costs as taxable. However, as the amendment is expected to apply from 1 July 2026, there is a risk that the KRA may enforce the previous position for earlier periods. Businesses should therefore carefully assess past positions and manage potential exposure.
Section 13 (6) (a) Restriction of VAT exclusion of financial charge under hire purchase agreement from taxable amount	Subsection (6) amended by deleting paragraph (a) and substituting therefor the following new paragraph— (a) in the case of a supply of goods from a person licensed 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.	The Act has retained the provision proposed in the Bill.	The amendment narrows the scope of the VAT exclusion on finance charges by limiting it to licensed hire purchase businesses with agreements registered under the Hire Purchase Act. This departs from the previous broader position and locks out businesses offering instalment or credit sales outside a regulated hire purchase framework.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 17 **Input VAT Deduction and Refunds relating to exempt supplies to Kenya Defence Forces (KDF), Defence Forces Welfare Services (DEFWES), the National Intelligence Service (NIS), and the National Police Service (NPS)**	N/A	Section 17 of the Value Added Tax Act is amended — (a) in subsection 5, by inserting the following new paragraph immediately after paragraph (d)— (e) input tax is attributable to supplies made to the Kenya Defence Forces, the Defence Forces Welfare Services, the National Intelligence Service and the National Police Service, where such supplies are specified as exempt under paragraphs 57 and 101 of the First Schedule. (b) by inserting the following new sub-sections immediately after subsection (6) — (7) Notwithstanding subsection (6), a registered person shall be entitled to deduct input tax incurred in respect of supplies made to the Kenya Defence Forces, Defence Forces Welfare Services, the National Intelligence Service and the National Police Service: Provided that— (a) the supplies are supported by such documentation as the Commissioner may prescribe; and (b) the deductions are limited to input tax directly attributable to those supplies. (8) For the avoidance of doubt, input tax deducted under subsection (7) shall not be subject to apportionment under subsection (5) where it is wholly attributable to the supplies specified therein.	The amendment introduces a targeted exception for supplies of goods to KDF, DEFWES, NIS and NPS, which are already VAT-exempt under paragraphs 57 and 101, by allowing suppliers to recover input VAT directly attributable to those supplies. Input VAT incurred on such exempt supplies was previously irrecoverable. The change will enable suppliers of qualifying goods to recover excess input VAT through deduction or refund, eliminating a key cost burden and improving cash flow. The benefit is, however, conditional on strict compliance: the supplies must fall within the specified exempt categories, input VAT must be clearly and directly attributable, and prescribed documentation must be maintained.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 17A Input tax adjustment following exempt reclassification	The Bill proposed to introduce a new section 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.	The Act has retained the proposal, but made one amendment to subsection 2 to refer to subsection 1 for clarity: 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 (1), 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.	The amendment introduces a mandatory input VAT clawback where taxable supplies subsequently become exempt while still unsold. In such cases, any input VAT previously claimed must be reversed and accounted for in the period of reclassification, using the same method originally applied. Where this adjustment creates a net liability, the taxpayer is required to pay the VAT to the Commissioner. This eliminates the benefit of prior input VAT recovery on affected supplies, potentially creating immediate tax costs and cash flow pressure at the point of reclassification. Businesses will need to closely monitor inventory, assess exposure in the event of status changes, and factor this into pricing and supply chain decisions, as well as ensure consistent application of input tax methodologies.
Section 31 Revised timeline for VAT refund on bad debt' minimum qualifying period from 2 to 3 years	The Bill proposed the reduction of the minimum qualifying period for VAT refund on bad debt from 2 to 3 years by amending Section 31(1) as follows: "Section 31 of the Value Added Tax Act is amended in subsection (1), by deleting the words "two years" appearing in paragraph (a) immediately after the words "period of" and substituting therefor the words "three years".	The Act has retained the provision proposed in the Bill.	The amendment reverts the VAT bad debt relief period from two years (introduced under the Finance Act 2025) back to three years, effectively restoring the pre-July 2025 position. The reversal in such a short period introduces policy inconsistency and uncertainty in the VAT treatment of irrecoverable debts. The longer three-year threshold will delay access to VAT refunds, increasing cash flow pressure for businesses. Businesses should therefore reassess credit risk, provisioning and collection strategies in light of the extended VAT recovery horizon.
Section 42 Enhanced invoice requirements to restrict VAT charges to only taxable supplies	The Bill proposed to amend section 42 as follows: (a) in subsection (1), by deleting the word "registered person" appearing immediately after the expression "subsection (2), a" and substituting therefor the word "person"; (b) by deleting subsection (2) and substituting therefor 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.	The Act drops the proposed amendment to subsection 1(a), and only adopted the change relating to subsection 2 as below: (2) An invoice showing an amount that purports to be tax shall only be issued in respect of a taxable supply.	The amendment retains the principle that VAT can only be charged on taxable supplies, while dropping the proposed expansion that would have required all persons (not just registered taxpayers) to issue tax invoices. This preserves the current VAT framework, where only registered persons are responsible for issuing VAT tax invoices, avoiding an unintended widening of VAT-specific compliance obligations. However, businesses should note that separate obligations under the Tax Procedures Act (Section 23A) still require all persons carrying on business to issue electronic invoices via eTIMS/TIMS, meaning invoicing obligations remain broad even though VAT-specific requirements continue to apply only to taxable supplies and registered persons.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 66 Repeal of tax avoidance schemes	The Bill proposed to repeal Section 66 of the VAT Act which provided for tax avoidance scheme provisions.	The Act has retained the provision proposed in the Bill.	The Commissioner's ability to challenge VAT avoidance schemes will be covered under section 18A of the TPA. The repeal of section 66 of the VAT Act appears to be part of a broader policy to centralise anti avoidance rules within the TPA, where the Bill introduces section 18A as the core general anti-avoidance provision. Taxpayers should not interpret the repeal as a relaxation of anti-avoidance enforcement. Instead, they should monitor how the TPA general anti-avoidance rules will be applied in the VAT context and ensure that their structures and transactions remain defensible on commercial grounds.

VAT Schedule changes for goods (The First & Second Schedule)

Proposal dropped by the Finance Act

The Bill had proposed a number of amendments to the VAT framework. Following the withdrawal of these proposals, no changes will be effected. The specific proposals that have not been adopted are highlighted below:

1. Deletion of paragraph 153 from the exemption schedule - The supply of denatured ethanol of tariff number 2207.20.00
2. Inclusion of a new exemption to cover Para 169 – Worn clothing and other worn articles of tariff heading 6309, other than upon importation.
3. Change of VAT treatment on select items from zero rating to exempt i.e. motorcycles (8711.60.00), electric bicycles, Inputs for the manufacture of animal feeds, transportation of sugarcane from farms to milling factories, Supply of locally assembled and manufactured mobile phones, Solar and lithium ion batteries, electric buses.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Exempt to Standard Rated			
Issue	**The Proposal as per Finance Bill, 2026**	**Change as per the Finance Act, 2026**	**Impact**
Deletion of Paragraph 49 (Goods of Chapter 88 excluding helicopters)	The Bill had proposed to delete the following goods from the First Schedule to the VAT Act. 49. All goods of Chapter 88 excluding helicopters	The Act has retained the provisions proposed in the Bill.	Deleting these goods from the First Schedule removes their exempt status, effectively subjecting them to VAT at the standard rate unless otherwise provided. This change increases the cost of acquiring and importing affected goods, particularly for capital intensive sectors such as aviation and tourism infrastructure. However, input VAT incurred to make the supplies becomes recoverable.
Deletion of paragraph 58 (Direction-finding compasses)	58. Direction-finding compasses, instruments and appliances for aircraft.		
Deletion of paragraph 62 (Tourism facilities and recreational parks)	62. Taxable goods for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon recommendation by the Cabinet Secretary responsible for matters relating to recreational parks. For the purposes of this paragraph, "recreational parks" means an area or a building where a person can voluntarily participate in a physical or mental activity for enjoyment, improvement of general health, well-being and the development of skills.		
Deletion of paragraph 109 (Affordable housing scheme)	109. 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.		
Introduction of new exemptions – Clause 32			
158. Introduction of VAT exemption on dialyzers	The Bill had proposed the exemption of dialyzers of tariff number 8421.29.00.	The Act has retained the provision proposed in the Bill.	The exemption lowers the cost of acquiring dialysis equipment, easing the financial burden on hospitals, dialysis centres, and patients living with chronic kidney disease. This enhances access to life-saving renal care and aligns with the government's Universal Health Coverage agenda.
159. Introduction of VAT exemption on scrap metal.	The Bill had proposed the exemption of scrap metal	The Act has retained the provision proposed in the Bill.	The exemption is aimed at formalising the scrap metal trade and encouraging proper recycling channels, though it removes input tax recovery. Traders will need to manage VAT on inputs with no output tax to offset.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Introduction of new exemptions – Clause 32

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
162. Introduction of VAT exemption on infrastructure projects undertaken under a public private partnership framework.	The Bill had proposed the exemption of: 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 Act has retained the provision proposed in the Bill.	This aims to enhance affordability of PPP-delivered infrastructure and supports private sector participation in national development. However, contractors must, manage irrecoverable input VAT on ancillary procurements not falling within the scope of the exemption.
163. Introduction of VAT exemption on supply of goods for direct use in infrastructure projects undertaken and funded by the National Infrastructure Fund	N/A	163. The supply of goods for direct and exclusive use in the implementation of infrastructure projects undertaken and funded by the National Infrastructure Fund as approved by the Cabinet Secretary responsible for the National Treasury.	The measure is intended to spur investment and lower the cost of delivering infrastructure projects funded by the National Infrastructure Fund. However, the benefit may be partly offset where goods are sourced locally, as suppliers will incur input VAT that is non-recoverable under the exemption regime and may be reflected in their pricing. As a result, cost savings may be more pronounced for imported goods than for locally supplied goods. Overall, the provision supports infrastructure development and provides relief to investors, particularly as alternative financing mechanisms are being explored amid fiscal constraints.
164. Introduction of VAT exemption on plant, machinery, equipment and spare parts for projects with an investment value of at least KES 3 billion	N/A	164. Plant, machinery, equipment and spare parts imported or purchased locally for use in a project whose total investment value is not less than three billion shillings as approved by the Cabinet Secretary responsible for the National Treasury upon recommendation by the Cabinet Secretary responsible for Trade and Investment Promotion.	The measure is intended to spur investment and attract large-scale capital projects by lowering the upfront cost of acquiring plant, machinery, equipment and spare parts. However, similar to the above comment, the cost savings may be more pronounced for imported items than for those procured locally owing to embedment of non-deductible input VAT in pricing.
165. Introduction of VAT exemption on taxable goods used in the construction of liquefied petroleum gas ("LPG") storage tanks and related infrastructure with an investment value of at least KES 5 billion	N/A	165. Taxable goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure: Provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Kenya amounts to at least five billion shillings and upon recommendation of the Cabinet Secretary responsible for matters relating to energy.	The exemption supports expansion of LPG storage capacity and Kenya's clean cooking agenda by lowering construction costs for bulk facilities. However, investors, will not be allowed input VAT on related supplies and will need to demonstrate compliance with the threshold and ministerial recommendation.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Introduction of new exemptions – Clause 32			
Issue	**The Proposal as per Finance Bill, 2026**	**Change as per the Finance Act, 2026**	**Impact**
166. Introduction of VAT exemption on the making of advances or granting of credit, including the realization of collateral and repossessed assets arising from the enforcement of security for loans	N/A	166. The making of any advances or the granting of credit, including the sale, disposal or realization of collateral, repossessed assets or secured property arising from the enforcement of security for loans, credit or other exempt financial services.	The exemption provides long-awaited clarity on the VAT treatment of collateral realization, aligning it with the underlying exempt financial service. It further addresses a long standing divergence in interpretation between the KRA and taxpayers, where the former often treated such disposals as taxable supplies while taxpayers viewed them as incidental to exempt financial services, resulting in frequent disputes.
Zero-Rated to Exempt Goods – Clause 32			
Pharmaceutical manufacturing inputs (para 161 – First Schedule; para 11 – Second Schedule)	Second Schedule: Para 11 is deleted. First Schedule: New paragraph 161 – 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 (Now exempt).	The Act has retained the provision proposed in the Bill.	The move from zero-rated to exempt means that the manufacturers are longer entitled to deduct input tax and claim VAT refunds. This reduces refund outflows, consistent with Medium-Term Revenue Strategy ("MTRS") but introduces irrecoverable input VAT on overheads and some services, increasing the production costs for medicaments.
BEV stoves (para 161 – First Schedule; para 35 – Second Schedule)	Second Schedule: Paragraph 35 is deleted. First Schedule: New paragraph 168 – Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).	The Act has retained the provision proposed in the Bill.	The change moves BEV stoves from zero rated to VAT exempt, meaning that while sales remain free of output VAT, suppliers lose full input VAT recovery, resulting in embedded VAT in their costs and upward pressure on prices. Although the measure continues to support the clean cooking/green energy agenda, the incentive is less generous than under the previous zero rating regime and reduces VAT refund outflows for the Exchequer.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

Various amendments to goods listed in the Exempt Schedule (Part I to the First Schedule)			
Issue	**The Proposal as per Finance Bill, 2026**	**Change as per the Finance Act, 2026**	**Impact**
Amendment to Paragraph 51 to include "spare parts" in the list of exempt items for official aid-funded projects.	The Bill proposed to amend paragraph 51- (A) by inserting the words "spare parts" immediately after the word "lubricants" appearing in paragraph 51; (B) by adding 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.	The Act has retained the provision proposed in the Bill.	The amendment has moved spare parts into the list of goods excluded from the VAT exemption for official aidfunded projects (alongside fuels, lubricants and tyres). The amendment has a grandfathering proviso on any spare-parts exemptions granted up to 30 June 2026 until the relevant projects are completed. This would narrow the scope of relief for project operating and maintenance costs and may result in higher VAT costs on spare parts for new or revised exemptions issued after that date.
Amendment to paragraph 89 to broaden the description	The Bill proposed to amended paragraph 89 by deleting the words "any other aircraft spare" and substituting "aircraft", thereby broadening the description to cover all aircraft parts imported by aircraft operators or persons engaged in aircraft maintenance.	The Act has retained the provision proposed in the Bill.	The amendment broadens the scope of the exemption from "any other aircraft spare parts" to "aircraft parts," thereby capturing a wider range of components imported by aircraft operators and maintenance service providers on recommendation by the competent authority.
Traveller's baggage threshold (para 99(i) – First Schedule)	The Bill proposed to increase the value threshold in paragraph 99(i) from USD "three hundred" to "two thousand".	The Act has retained the provision proposed in the Bill.	This is a positive step towards easing the tax burden on returning passengers by increasing the threshold for goods they can bring into Kenya without incurring VAT.
Capital goods exemption (Para 146 to the First Schedule)	N/A	The Act deleted Paragraph 146 and substituting therefor the following new paragraph: Such capital goods the exemption of which the Cabinet Secretary may determine to promote investment in the manufacturing sector: Provided that the value of such investment is not less than two (2) billion shillings.	The removal of restrictions on the timing and expiry of the exemption converts the incentive into a more predictable, long-term fiscal measure. The KES 2 billion threshold has been retained and confines the benefit to substantial investments, aligning the incentive with the government's industrialization and Bottom-Up Economic Transformation Agenda ("BETA").

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

VAT Schedule changes for Services (Part II to the First Schedule) – Clause 32

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Paragraph 1 **Exclusion of digital enabling services for money transfer from exempt financial services**	The Bill proposed to amend Paragraph 1 by deleting subparagraph (b) and substituting therefor the following new subparagraph— (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 — (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;	The Act has amended the proposal in the Bill per below: (i) in paragraph 1, by deleting subparagraph (b) and substituting therefor the following new subparagraph— (b) the issue, transfer, receipt and other dealing with money, including money transfer services, and accepting over the counter payments of household bills, but does not include — (i) the services of carriage of cash restocking of cash machines, sorting or counting money; and (ii) payment processing, settlement, merchant acquiring, gateway, aggregation services supplied over a software or platform for a fee or commission by a payment service provider: For the purpose of this paragraph— "payment service provider" means— (a) a person, company or organization which owns, possess, operates, manages or controls a public switched network for the provision of payment services; or (b) any other person, company or organization that processes or stores data on behalf of such payment service provider or users of such payment services.	The previous Paragraph 1(b) broadly exempted "the issue, transfer, receipt or any other dealing with money, including money transfer services and over-the-counter bill payments", meaning most payment and processing services fell within the exemption. The amendment narrows this exemption by expressly carving out digital payment processing, settlement, merchant acquiring, gateway, and aggregation services, making them subject to VAT. Notably, the change retains the exemption for core money transfer services, a partial win compared to the broader proposal in the Bill. This brings fintechs and payment intermediaries into the VAT net, increasing costs across the payments ecosystem that are likely to be passed on to merchants and consumers. This aligns with the Treasury's push to tax value in the digital economy, but may raise transaction costs and pressure margins, particularly where customers are in exempt sectors.
Paragraph 25 Clarity on exemption of services of tour operators, excluding in-house supplies	The Bill amended 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.	The Act has retained the provision proposed in the Bill.	The amendment clarifies that only licensed tour operators and qualifying tour services benefit from the VAT exemption, while excluding "in-house" or materially altered supplies from the relief, reducing ambiguity and potential disputes with KRA. Operators will need to carefully distinguish between exempt tour services and taxable components, particularly where they use own assets or significantly repackage third-party services. This may increase VAT costs on certain offerings and require adjustments to pricing, contracts and documentation to support the correct VAT treatment.

Value Added Tax Act, CAP. 476 ("VAT Act") (Cont'd)

VAT Schedule changes for Services (Part II to the First Schedule) – Clause 32			
Issue	**The Proposal as per Finance Bill, 2026**	**Change as per the Finance Act, 2026**	**Impact**
Paragraph 26 **Deletion of exemption on taxable services for direct and exclusive use in constructing tourism facilities, large recreational parks and convention/ conference facilities**	The Bill sought to delete exemption on '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.	The Act has retained the provision proposed in the Bill.	The deletion of this exemption removes the upfront VAT relief on construction services for tourism and recreational infrastructure, aligning with the broader withdrawal of similar incentives for goods. The change will primarily affect cash flow, as developers will now incur VAT during construction rather than benefiting from an exemption at the point of supply. While it allows input VAT deduction incurred to make such supplies, it may be a sunk cost where the receiver of the services makes exempt supplies. It also signals a policy shift away from targeted VAT incentives for large-scale tourism developments, which may influence how future projects are structured and financed.
Paragraph 39 **Introduction of VAT exemption for services to Public-Private Partnership**	The bill introduced the exemption on '39. 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.	The Act has retained the provision proposed in the Bill.	Complements paragraph 170 of Part I of the First Schedule to the VAT Act on PPP goods by exempting qualifying PPP related services, providing end-to-end VAT relief for approved PPP projects. This is likely to be attractive for long term infrastructure investments, but project sponsors must ensure conditions and approvals are met.
Paragraph 40 Introduction of VAT exemption of services relating to construction of LPG storage tanks and related infrastructure	N/A	The Act introduces the exemption per below: 40. Taxable services used in the construction of liquefied petroleum gas storage tanks and related infrastructure: Provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Kenya amounts to at least five (5) billion shillings and has been recommended by the Cabinet Secretary responsible for matters relating to energy.	This will reduce upfront VAT costs and improve project cash flow, enhancing the commercial viability of capital-intensive LPG infrastructure and supporting investment in the energy sector. However, it restricts input VAT deduction.
VAT Changes to the Zero-rating Schedule (Second Schedule) – Clause 33			
Paragraph 31 and 32 **Specification of tariff heading for the supply of electric bicycles and solar and lithium-ion batteries**	N/A	The Act amended paragraph 31 by inserting the words "of tariff heading 8712.00.00" immediately after the word "bicycle" and even inserted the words "of tariff heading 8507.60.00" immediately after the word "batteries". The Provision now reads 31. The supply of electric bicycles of tariff heading 8712.00.00. 32. The supply of solar and lithium-ion batteries of tariff heading 8507.60.00.	The amendments restrict the zero-rating of electric bicycles to those classified under tariff heading 8712.00.00 and of solar and lithium-ion batteries to those under tariff heading 8507.60.00. This narrows the scope of the incentive, aligns the VAT treatment with specific tariff classifications, and enhances certainty in application.

Excise Duty Act, CAP. 472 ("EDA")

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Clause 34 and 36 (rate) Introduction of Excise Duty (ED) on Antique and Classic Vehicles	The Bill sought to introduce antique, vintage and classic vehicles into the ED ambit at the rate of 50% of the excisable value. Antique, vintage and classic vehicles - 50% of the excisable value. The category was defined under Section 2 per below: (b) by inserting the following new definition in proper alphabetical sequence— "antique, vintage or "classic vehicle" means a motor vehicle 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.	The Act has retained the provision proposed in the Bill.	The amendment introduces a 50% excise duty on antique, vintage and classic vehicles, alongside a clear statutory definition based on age (30+ years) and value (KSh 10 million+). The law formally recognizes such vehicles as a distinct luxury asset class for tax purposes. This will significantly increase the cost of acquisition for collectors likely dampening demand in this niche segment. It also reflects a policy shift towards taxing luxury and non-essential goods more heavily, while providing greater clarity and consistency in treatment through a defined category.
Clause 35 Section 29 – Introduction of excise duty refund on inputs used in manufacturing exempt goods for Defence Welfare Services (DEFWES	N/A	The Act has amended Section 29 as per the below: Section 29 of the Excise Duty Act is amended in subsection (1) by inserting the following new paragraph immediately after paragraph (b) — (c) the excise duty has been paid in respect of inputs used by a licensed or registered manufacturer to manufacture excisable goods otherwise exempt under Paragraph 12 of Part A of the Second Schedule, where the inputs are directly attributable to the manufactured goods.	The amendment introduces a refund mechanism for excise duty paid on inputs used to manufacture goods supplied to Defence Forces Welfare Services, where such goods are exempt. This extends the existing principle (currently limited to non-excisable outputs) to cover exempt supplies under Paragraph 12, aligning the treatment across scenarios. It will eliminate embedded excise duty costs in the production chain, improving margins and pricing competitiveness for manufacturers supplying to DEFWES. However, the benefit is conditional on clear attribution of inputs and successful refund claims, requiring robust documentation and processes to substantiate eligibility.
Excise duty on locally purchased or imported telephones upon activation	The Bill proposed to amend section 6 of the EDA by inserting the following new subsection immediately after subsection (4)— (4A) Despite subsections (1) and (4), the liability of an importer or a licensed manufacturer for excise duty on a locally purchased or imported telephones for cellular networks and other wireless networks shall arise at the time of the activation of the phone. (4B) The Cabinet Secretary may make regulations for the better carrying out of subsection (4A).	The Act did not retain the proposal in the Bill.	The proposal to shift the excise duty trigger from importation/manufacture to activation was not retained in the Act. As a result, the existing framework continues to apply, with excise duty arising at the point of importation or manufacture.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part I to the First Schedule of the ED Act – Excisable Goods – Clause 36

Issue	Bill	Act	Impact
Proposed increase in ED on imported cellular phones from 10% to 25%	The Bill sought to delete the provision charging 10% ED on imported cellular phones with the provision below: Description: Telephones for cellular networks and other wireless networks of tariff heading 8517. Rate of excise duty: 25% of the excisable value.	The Act did not retain the proposal in the Bill.	The decision to drop the proposal means that the excise duty rate on imported cellular phones remains at 10%, avoiding a significant increase to 25%. This is a welcome outcome for industry, as it preserves affordability of mobile devices, supports continued uptake, and avoids additional cost pressure across the telecoms value chain. It underpins financial inclusion and digital services growth.
Clarification on gas cylinders tariff chargeable to excise duty	N/A	The amendment introduces clarity on the category of imported gas cylinders chargeable to ED per below: In the description "Imported gas cylinders" by inserting the following words "of tariff code 7311.00.10" immediately after the words "gas cylinder"	The amendment introduces specificity by restricting the excise duty charge to imported gas cylinders under tariff code 7311.00.10 (Liquefied petroleum gas cylinders). The change reduces ambiguity and potential disputes around classification, ensuring a more consistent and predictable tax treatment while supporting accurate compliance.
Differentiation of Excise Duty on Sweetened vs Unsweetened Juices	The Bill sought to delete the existing provision covering fruit juices and vegetable juice, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter attracting excise duty at Shs. 14.14 per litre and replacing this with: Fruit juices (including grape must) and vegetable juice, unfermented and not containing added spirit - KSh. 14.14 per litre Fruit juices (including grape must) and vegetable juice, unfermented, containing added sugar or other sweetening matter and not containing added spirit - KSh. 20 per litre	The Act has retained the provision proposed in the Bill.	The amendment introduces a two-tier excise structure by separating sweetened and unsweetened fruit and vegetable juices, with higher excise (KSh 20 per litre) applying to juices containing added sugar or sweeteners, while unsweetened juices remain at KSh 14.14 per litre. This replaces the previous single-line provision that applied the same rate regardless of sugar content. In practical terms, this will increase costs for producers and importers of sweetened juices, likely resulting in higher retail prices and potential reformulation of products to reduce sugar content. It also aligns with a health-driven policy direction, incentivizing lower sugar consumption while creating a clearer and more structured excise framework for the industry.
Removal of Excise Duty on Bottled and Packaged Drinking Water	The Bill sought to remove 'bottled or similarly packaged waters from the ambit of excise duty as per below: in the description "bottled or similarly packaged waters and other non-alcoholic beverages, not including fruit or vegetable. juices," by deleting the words "bottled or similarly packaged waters and other" appearing immediately before the words "non-alcoholic beverages, not including fruit or vegetable juices;"	The Act has retained the provision proposed in the Bill.	The amendment reduces the cost of bottled water, supporting affordability and access, while leaving excise unchanged for other non alcoholic beverages. It is likely to improve margins or pricing flexibility for water producers and aligns with a broader policy objective of treating drinking water as an essential good rather than a revenue item.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part I to the First Schedule of the ED Act – Excisable Goods – Clause 36

Issue	Bill	Act	Impact
Retention of Excise Relief for Small Independent Brewers	The Bill sought to remove relief of a lower excise duty rate for small independent brewers by deleting the provision in the below provision: Beer, Cider, Perry, Mead, Opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages of alcoholic strength not exceeding 6% KSh. 22.50 per centilitre of pure alcohol: Provided that, Beer, cider, perry, mead, opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages manufactured by licensed small independent brewers shall be subject to the rate of 'KSh 10 per centilitre of pure alcohol;	The Act did not retain the provision proposed in the Bill.	The decision to retain the reduced excise rate for small independent brewers is a positive outcome, preserving the preferential rate of KSh 10 per centilitre introduced by the Tax Laws (Amendment) Act 2024 (Effective 27 December 2024). It avoids a significant increase to the standard rate and protects margins and competitiveness for small brewers, supporting growth and innovation in the segment. It also signals a measured legislative approach, with Parliament opting to maintain recently introduced sector support measures rather than reverse them shortly after implementation, thereby enhancing policy stability and predictability for investors and emerging players.
Reduced Excise Rate on Ethanol for Licensed Beverage Manufacturers	The Bill proposed two amendments: 1) "in the description 'spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages' by deleting the words 'purchased by licensed manufacturers of spirituous beverages';" 2) "in the description 'spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages' by deleting the corresponding rate of excise duty and substituting therefor the following new rate of excise duty— 'kshs. 80 per litre	The Act did not retain the provision proposed in the Bill to open up reduced excise duty rate to all purchasers. The Act has retained the provision proposed in the Bill to reduce ED rate to KSH 80 per litre.	The final amendment retains the restriction of the reduced excise rate to licensed manufacturers, while it adopts the substantial rate reduction from KSh 500 to KSh 80 per litre, delivering a significant easing of the excise burden on extra neutral alcohol (ENA). This is a highly positive outcome for licensed manufacturers, materially reducing input costs, improving margins, and supporting more competitive pricing of finished spirit products. It may also contribute to curbing illicit production by narrowing cost differentials, while reinforcing a controlled and compliant value chain by limiting the benefit to licensed players.
Increase in duty rate for tobacco or tobacco substitutes products and introduction of excise duty on smokeless tobacco products	The Bill sought to increase the rate of excise duty: Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes from Shs. 16,260.29 per kg to Ksh. 18,000 per kg. Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences from Shs. 11,382.48 to KSh. 12,550 per kilogram";	The Act has retained the provision proposed in the Bill to increase excise duty rates on Tobacco related products. Further, the Act has introduced a category on smokeless tobacco products per below: Oral smokeless tobacco products (Swedish-style snus) being processed tobacco intended for placement in the mouth and not intended for smoking, combustion or heating - KSh. 2000 perkilogram	The increase in existing tobacco products categories raises the tax burden on premium tobacco products. The introduction of a specific excise rate on smokeless tobacco (snus) expands the tax base to alternative nicotine products. This will increase costs for importers and manufacturers, likely leading to higher retail prices and reduced demand, particularly in the premium segment. The change also aligns with public health objectives, as higher excise duties are intended to discourage consumption of tobacco products, while generating additional revenue.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part I to the First Schedule of the ED Act – Excisable Goods – Clause 36

Issue	Bill	Act	Impact
Significant Increase in Excise Duty on Imported Sugar	N/A	The Act seeks to increase the rate of excise duty on imported sugar from the current Shs. 7.50 per kg per below change: in the description "imported sugar excluding by a registered pharmaceutical manufacturer and raw sugar imported for processing by a licensed sugar refinery" by deleting the corresponding rate of excise and substituting therefor the following new rate of excise duty— "KSh. 40.00 per kilogram"	The amendment introduces a significant increase in excise duty on imported sugar from KSh 7.50 to KSh 40 per kilogram, signaling a strong policy intent to encourage local sugar production and manufacturing, reinforced by the continued exclusion of raw sugar imports for licensed refiners from the duty. While this may incentivize local sourcing and support domestic industry, it will also substantially raise input costs for manufacturers reliant on imported sugar, particularly given that local production capacity does not fully meet demand. This could lead to higher production costs and consumer prices, placing pressure on affected sectors until local supply constraints are adequately addressed.
Clean up of excise duty provisions on imported articles of plastic – tariff 3923.30.00 and 3923.90.90	The Bill sought to delete existing provisions and give a new category covering local manufacturers as follows: (1) by deleting the descriptions "imported articles of plastic of tariff heading 3923.30.00" and the corresponding rate of excise duty" and "imported articles of plastic of tariff heading 3923.30.00 and 3923.90.00" and the corresponding rate of excise duty" (2) "by adding the following new tariff descriptions and corresponding rates of excise duty— Tariff Description Articles of plastic of tariff heading 3923.30.00 and 3923.90.90 Rate of excise duty 10%	The Act has retained the provision proposed in the Bill on deletion of existing provisions. However, the proposal to delete the word 'imported' was not retained. The provision reads: Imported Articles of plastic of tariff heading 3923.30.00. and 3923.90.90 - 10%	The amendment is largely a technical clean-up, confirming that excise duty at 10% continues to apply only to imported plastic articles under tariff headings 3923.30.00 and 3923.90.90, with no change in the category of covered items. This provides clarity and restores consistency following recent shifts in policy—where the term "imported" was removed by the Tax Laws (Amendment) Act, 2024 and subsequently reinstated by the Finance Act, 2025. While the Bill had again proposed to remove the import qualifier and extend excise to locally manufactured products, this was not adopted, signaling a measured approach by Parliament to limit frequent reversals of recent tax changes. The outcome is positive for industry, preserving the current position, avoiding additional cost pressures on local manufacturers, and reinforcing a more stable and predictable excise framework.
Clarification and standardization of applicable Excise Duty on Ceramic Products of tariff heading 6907 and 6910	The Bill proposed an amendment on the applicable rates to provide for an *ad valorem* rate of 5% of the excisable value as per below: in the description "imported ceramic sinks, wash basins, wash basin pedestals, baths,bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of tariff heading 6910" by deleting the corresponding rate of excise duty and substituting therefor the following new rate of excise duty— 5% of the excisable value in the description of "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" by deleting the corresponding rate of Excise duty and substituting therefor the following new rate of excise duty— "5% of the excisable value	The Act has retained the changes but instead provided for a hybrid rate of 5% of the excisable value or KSh. 50 per kilogram, whichever is higher.	The amendment standardises the excise duty structure on ceramic products under tariff headings 6907 and 6910 by adopting a hybrid approach—5% of the excisable value or a fixed rate of KSh. 50 per kg, whichever is higher. Under the existing law, these products were already subject to dual rates *(ad valorem* or specific), but without clear priority, creating ambiguity in application. Tariff heading 6910 items attracted excise duty at '5% of custom value or KSh.50 per kg' while tariff heading 6907 items attracted '5% of custom value or KSh. 300 per square meter'. While the Bill had proposed a shift to a pure ad valorem rate of 5% of the excisable value, the Act instead introduces a clarified hybrid model, ensuring a minimum excise threshold is consistently applied. This removes interpretational gaps, ensures uniform compliance across taxpayers, and protects revenue by preventing under-declaration where the ad valorem value may be low.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part I to the First Schedule of the ED Act – Excisable Goods – Clause 36

Issue	Bill	Act	Impact
Retention of East Africa Community Excise Duty Relief with Limited Targeted Removal	The Bill had sought to implement a blanket removal of exclusion of EAC originating goods from the ambit of excise duty – refer to our alert on the Finance Bill. These included, but were not limited to: • Glass bottles and other packaging materials • Plastic packaging products (e.g., plates, films, wrapping materials) • Paper and paperboard (including labels and printed packaging materials) • Printing inputs such as inks • Furniture • Most glass products (e.g., processed glass, safety glass, insulating glass units)	The Act has not retained the provisions proposed in the Bill on blanket removal of EAC exclusions apart from the below. In the description "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 recommendation by the Cabinet Secretary responsible for matter relating to industry and those originating from East African Community Partner States that meet the East African Community Rules of Origin, by deleting the words "and those originating from East African Community Partner States that meet the East African Community Rules of Origin"	While the Bill had proposed a broad removal of the excise duty exclusion for goods originating from EAC Partner States, the Act largely retains the relief, rejecting most of the earlier proposed changes. Only a limited removal applies to specific products (e.g., float glass under tariff 7005). This is a welcome outcome, as it preserves the principle of non-discrimination within the EAC, helping to avoid potential disputes with Partner States, reduce the risk of retaliatory tax measures, and uphold regional integration objectives. The retention of the relief supports continued access to lower-cost inputs from the region, helping maintain competitive cost of goods and stable pricing across affected industries. However, for the limited items where the exclusion has been removed, EAC-origin imports will now attract excise duty, and this additional cost is likely to be passed through the value chain, potentially leading to higher prices where such inputs are used.
Retention of excise scope on Imported Sugar Confectionery – tariff 17.04	Under the below category line, the bill sought to delete the word "imported" in the description. Imported sugar confectionary of tariff heading 17.04; KSh. 85.82 per kg	The Act did not retain the provision proposed in the Bill.	The decision to retain the "imported" qualifier means excise duty at KSh 85.82 per kg continues to apply only to imported sugar confectionery, with the proposal to extend the tax to locally manufactured products not adopted. This is a positive outcome for local manufacturers, as it avoids an expansion of excise duty to domestic production, preserving margins and preventing upward pressure on locally produced confectionery prices. It also maintains the current competitive position of local producers relative to imports, while ensuring continuity and certainty in the excise framework.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part I to the First Schedule of the ED Act – Excisable Goods – Clause 36

Issue	Bill	Act	Impact
Introduction of excise duty on new categories of wood and timber products	N/A	The Act introduces the below lines on wood and timber products: 1. Imported MDF of tariff number 4411.12.00, 4411.13.00, 4411.14.00, 4411.92.00, 4411.93.00, 4411.94.00 - 30% of the excisable value 2. Imported particle boards of tariff number 4410.11.00, 4410.19.00, 4410.90.00 - 30% of the excisable value 3. Imported Block board of tariff number 4412.51.00, 4412.52.00, 4412.59.00, 4412.91.00, 4412.92.00, 4412.99.00 - 30% of the excisable value 4. Imported Plywood of tariff number 4412.10.00, 4412.31.00, 4412.33.00, 4412.34.00, 4412.39.00 - 30% of the excisable value 5. Imported timber of tariff number 4407.19.00 - 30% of the excisable value	The introduction of 30% excise duty on imported wood-based products signals a clear policy shift towards protecting and promoting local manufacturing. This will increase the cost of imported construction and furniture inputs, encouraging local sourcing where capacity exists. However, where there are local supply constraints in some segments, the change may raise construction and production costs, with potential pass-through to consumers.
Introduction of Excise Duty on Plastic Sheeting and Advertising Materials	N/A	The Act introduces the below lines on Plastic Sheeting and Advertising Materials: 1. Imported unprinted banner sheeting, flex banner and unprinted PVC sheeting of tariff 3921.12.10 and 3921.90.10 - KSh. 200 per kilogram or 35% of the excisable value 2. Unprinted plastic sheets of tariff number 3920.43.10 - 10% of the excisable value	The inclusion of flex banners, PVC sheeting and plastic sheets introduces excise duty primarily on imported plastic-based materials, reinforcing a policy shift towards protecting local industry while broadening the excise base. Generally, this will increase costs for imported advertising and packaging inputs, which may be passed on to end users, particularly SMEs. At the same time, it creates a relative cost advantage for locally produced alternatives, supporting domestic manufacturing while encouraging businesses to reassess sourcing strategies.
Introduction of Excise Duty on Imported Sanitary Fittings and Components	N/A	The Act introduced excise duty on below sanitary fittings items: 1. Imported shower heads (whether or not fitted with heating elements) including fully assembled units designed for domestic or commercial use of tariff heading 8516.10 - 35% of the excisable value. 2. Imported heating elements used exclusively in the manufacture of shower heads of tariff heading 8516.10 - 35% of the excisable value	The imposition of 35% excise duty on imported shower heads and related components increases the tax burden specifically on imported sanitary fittings, signaling a clear policy direction towards protecting and promoting local manufacturing and assembly. This will raise the cost of imported fittings, with likely pass-through to construction and real estate projects. At the same time, it creates a relative advantage for locally manufactured or assembled alternatives, encouraging investment in domestic production and supporting localization of the supply chain over time.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part I to the First Schedule of the ED Act – Excisable Goods – Clause 36

Issue	Bill	Act	Impact
Introduction of excise duty on pre-personal chip modules	N/A	The Act introduces a new category to cover 'pre-personal chip modules of tariff number 8542.31.00 at 10% of the excisable value'	The inclusion of pre-personal chip modules at 10% brings selected electronic components into the excise regime. This will increase input costs for digital and telecom value chains, while reflecting a broader move to tax emerging and high-value sectors.
Retention of Non-Imposition of Excise Duty on Coal	The Bill proposed to add coal into the excise duty ambit as follows: "By adding the following new tariff descriptions and corresponding rates of excise duty— Tariff Description Coal Rate of excise duty 5% of the excisable value"	The proposed amendment was dropped in the Act.	The decision to drop the proposal to introduce a 5% excise duty on coal is a welcome outcome for industry, particularly for energy-intensive sectors such as manufacturing. Notably, coal had previously been subject to excise duty at 2.5% of customs value before being removed by the Finance Act, 2025, and the proposal would have reintroduced it at a higher rate. Retaining the current position avoids a direct increase in input costs, preserving margins, supporting competitiveness for coal-reliant industries and maintaining pricing stability in downstream sectors.

Excise Duty Act, CAP. 472 ("EDA") (Cont'd)

Part II – Excisable Services

Issue	Current tax provision	Proposed change	Impact
Broadening of excise duty base on Betting and Gaming Deposits	The Bill proposed to make the following changes: (i) in paragraph 4A, by deleting the words "into a customer's betting wallet" appearing immediately after the word "deposited" and substituting therefor the words "for betting purposes". (ii) by deleting the proviso to paragraph 4A. (iii) in paragraph 4B, by deleting the words "into a customer's betting wallet" appearing immediately after the word "deposited" and substituting therefor the words "for gambling purposes". (iv) by inserting the word "service" immediately before the word "providers" appearing in paragraph 9; **Part III** (i) by deleting the definition of "amount deposited into a customer's betting wallet"; (ii) by inserting the following new definitions in proper alphabetical sequence— "amount deposited" means 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;	The Act has retained the provision proposed in the Bill.	The Act fully implements the broader wording and definition and removes the wallet-based limitation and the horse racing carve-out. The amendment significantly broadens the excise duty base, confirming the shift away from a narrow "wallet-based" trigger to any value made available for betting or gaming purposes. This removes reliance on form (i.e., wallets) and captures a wider range of transactions, including operator-funded incentives and non-cash equivalents, thereby eliminating gaps and avoidance risks. This will increase excise costs for betting and gaming operators, as more transactions fall within scope, and reduce structuring opportunities around wallet mechanics. It also provides greater clarity and consistency in application, but at the same time signals a clear policy direction to tighten taxation of the betting sector and enhance revenue collection.

Excise Duty Act, CAP. 472 (“EDA”) (Cont’d)

Part II – Excisable Services			
Issue	**Current tax provision**	**Proposed change**	**Impact**
Formal Recognition of Virtual Assets in the Excise Duty Framework	The Bill proposed to insert the following new definitions in Part III of the First Schedule: “virtual asset” has the meaning assigned to it in section 2 of the Virtual Asset Service Providers Act, 2025; “virtual asset service provider” has the meaning assigned to it in section 2 of the Virtual Asset Service Providers Act, 2025.	The Act has retained the provision proposed in the Bill.	The Finance Act incorporates the definitions as drafted, formally embedding virtual asset concepts into the excise framework. The amendment clarifies and standardizes the terminology by aligning it with the Virtual Asset Service Providers Act, 2025. This provides legal clarity and reduces ambiguity for taxpayers and the KRA, ensuring consistent interpretation of what constitutes virtual assets and who qualifies as a service provider. It also signals a clear policy direction to formalize and regulate the digital assets sector, laying the groundwork for enhanced compliance, enforcement, and potential future expansion of tax measures in this space.
Extension of Excise exemption to goods supplied to National Intelligence Service	N/A	The Act amends the Second Schedule to the Excise Duty Act in Part A, by inserting the words “National Intelligence Service” immediately after the words “Kenya Defence Forces” appearing in paragraph 11.	The amendment extends the excise duty exemption to cover goods supplied for official use by the NIS, aligning its treatment with other key national security agencies (Kenya Defence Forces, the Defence Forces Welfare Services, and the National Police Service). This is a harmonization measure, ensuring consistent tax treatment across security institutions and removing any prior ambiguity on NIS eligibility. It will reduce procurement costs for the NIS and support operational efficiency, while having a limited revenue impact given the targeted scope of the exemption.

Miscellaneous Fees and Levies Act, CAP 469C ("MFLA")

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 7(6) and 7(7) **Allocation of Import Declaration Fee ("IDF") collections**	The Bill sought to amend sections 7(6) and 7(7) to reduce the portion of IDF collections paid into the Fund established and managed under the Public Finance Management Act from 20% to 10%, and to remove the express 10% allocation for revenue enforcement initiatives through the below proposed change: (6) Out of the fee collected under subsection (2), ten per cent shall be paid into a Fund established and managed in accordance with the Public Finance Management Act. (7) Ten percent of monies in the Fund under subsection (6) shall be used for the payment of Kenya's contributions to the African Union and any other international organisation to which Kenya has a financial obligation.	The proposed amendment was dropped in the Act.	Retaining the current existing framework is a positive and stabilising outcome. It preserves a structure that was only recently updated by the Finance Act, 2025, avoids frequent policy reversals, and reinforces predictability and consistency in public finance allocation. Importantly, it ensures continued ring-fenced funding for revenue enforcement initiatives, supporting KRA's tax administration capacity and compliance efforts, alongside Kenya's international financial obligations.
Section 9 **Application of the provisions of the East African Community Customs Management Act, 2004 ("EACCMA")**	The Bill sought to broaden the application of EACCMA provisions relating to valuation of imported goods, and the collection and enforcement of duty to all fees and levies imposed under Part III of the MFLA through the below proposed change to section 9: "The provisions of the East African Community Customs Management Act, 2004, relating to the determination of value of imported goods, collection and enforcement of the payment of duty shall apply for the purposes of assessment, collection and enforcement of the payment of the fees and levies imposed under Part III."	The Act has retained the proposal as drafted in the Bill.	The amendment broadens the legal basis for the Commissioner to apply EACCMA customs valuation, collection and enforcement mechanisms consistently across the wider range of MFLA levies. This is primarily a clarification and strengthening measure, ensuring consistent treatment across all levies and closing gaps where newer charges, such as the Export and Investment Promotion Levy and anti-adulteration levy may not previously have benefitted from a formalised valuation and enforcement framework. Taxpayers should expect more robust assessment, collection and enforcement of these levies on importation.

Miscellaneous Fees and Levies Act, CAP 469C ("MFLA") (Cont'd)

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Amendments to Part A of the Second Schedule covering goods exempt from IDF.	The Bill proposed to: (i) Narrow Chapter 88 exemption by substituting the existing paragraph with "all parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00" — thereby limiting relief to aircraft parts and to aeroplanes/aircraft of unladen weight exceeding 2,000 kg but not exceeding 15,000 kg (8802.30.00) and exceeding 15,000 kg (8802.40.00); and (ii) introduce a new IDF exemption for "imported telephones for cellular networks and other wireless	The Act partially adopted the Bill's proposals as follows: • It adopted the narrowing of the Chapter 88 exemption (now limited to all parts of Chapter 88 and goods of tariff headings 8802.30.00 and 8802.40.00). • It did not adopt the proposed IDF exemption for imported telephones for cellular and other wireless networks. • It introduced a new exemption for goods used in the construction of liquefied petroleum gas (LPG) storage tanks and related infrastructure by inserting the following new paragraph immediately after paragraph (xxxii) – (xxxiii) Goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure: Provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Kenya amounts to at least five billion shillings and has been recommended by the Cabinet Secretary responsible for matters relating to energy.	The narrowing of the Chapter 88 exemption from IDF and RDL targets the relief more precisely toward aircraft parts and larger aircraft, while excluding smaller aeroplanes and helicopters – consistent with the broader policy shift on Chapter 88 goods mirrored in the VAT changes and aimed at curbing tax expenditure. The non-adoption of the telephone exemption is significant and should be read together with the Excise Duty changes: because the Act dropped the proposed increase in excise duty on cellular phones from 10% to 25% and the proposed shift of the excise tax point to activation, there was no longer a policy rationale to grant a compensating IDF/RDL exemption. Imported telephones therefore remain subject to IDF and RDL under the existing framework. The new LPG infrastructure exemption is a targeted incentive designed to lower the cost of large-scale LPG storage investments and support the Government's clean-energy and energy-access agenda. Investors should note the KES 5 billion threshold and the requirement for a recommendation from the Cabinet Secretary responsible for energy as conditions to access the relief.
Amendments to Part B of the Second Schedule covering goods exempt from Railway Development Levy ("RDL").	The Bill proposed to: (i) Substitute the existing Chapter 88 paragraph with "all parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00" (mirroring the Part A narrowing); and (ii) Introduce a new RDL exemption for "imported telephones for cellular networks and other wireless networks."	Consistent with the position adopted under Part A, the Act partially adopted the Bill's proposals as follows: • It adopted the narrowing of the Chapter 88 RDL exemption; • It did not adopt the proposed RDL exemption for imported telephones; and • It introduced a new RDL exemption for goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure by inserting the following new paragraph immediately after paragraph (xviii) – (xix) Goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure: Provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Kenya amounts to at least five billion shillings and has been recommended by the Cabinet Secretary responsible for matters relating to energy.	

Stamp Duty Act, CAP 480

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 96A Inclusion of instruments that transfer beneficial interest in property to a Real Estate Investment Trust (REIT)	The Bill proposed to amend Section 96A of the Stamp Duty Act by inserting the following new paragraph immediately after paragraph (b)- (c) that the effect thereof is to convey or transfer a beneficial interest in property from a person or persons to the real estate investment trust.	The Act has retained the proposed amendment to section 96A without modification, thereby confirming and preserving the extension of stamp duty relief to instruments transferring beneficial interests in property to a REIT.	The proposed stamp duty amendment will expressly cover instruments that transfer a beneficial interest in property from one or more persons to a Real Estate Investment Trust (REIT), thereby reducing uncertainty where REIT transactions involve economic or beneficial ownership rather than direct legal-title transfers. Its main impact is to support property transfers into REIT structures, potentially lowering transaction costs where section 96A relief applies, and make REITs more attractive for property owners, developers and investors. It also complements the Bill's related income tax proposal exempting capital gains on transfers of property to a registered REIT, creating a more facilitative framework for moving real estate assets into REIT vehicles.

Road Maintenance Levy Fund Act, CAP 427

Issue	The Proposal as per Finance Bill, 2026	Change as per the Finance Act, 2026	Impact
Section 3 - Amendment to Imposition of Levy	The Bill proposed to amend Section 3 subsection (2) as follows: Out of the levy collected under subsection (1) there shall be paid an amount of one shilling and fifty cents per litre of petroleum sold into the Road Annuity Fund established under the Public Finance Management Act (Cap. 412A) to fund the construction of roads under the Road Annuity Programme and similar roads approved by the National Assembly.	The Act has retained the proposal as drafted in the Bill.	The proposal reduces the portion of the road maintenance levy allocated to the Road Annuity Fund from KES 3 per litre to KES 1.50 per litre of petroleum sold. This is largely a reallocation measure and does not, on its own, reduce the road maintenance levy payable on petroleum fuels by consumers or importers. Instead, it reduces the amount ring-fenced for the Road Annuity Fund, which is used to finance roads under the Road Annuity Programme and similar roads approved by the National Assembly. The proposal may therefore affect the funding available for road projects financed through the Road Annuity Fund, unless the shortfall is met through other budgetary allocations or financing arrangements. For taxpayers, the key point is that the amendment is unlikely to lower fuel prices, as it changes the distribution of the levy collected rather than the levy rate itself.

Contact us

For further information on the Finance Act 2026 please contact any of the people below or your usual PwC contact.

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