Tax Alert

May 2026

Highlights of the Finance Bill 2026

The Bill is silent on any review of the PAYE tax bands, representing a missed opportunity for the Government to implement reforms that had been suggested earlier in the year.

The Finance Bill, 2026 ("the Bill") was presented in early May 2026 to the National Assembly for consideration.

The Bill proposes to amend various Laws which include: 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"), and the Miscellaneous Fees and Levies Act CAP. 469C ("MFLA").

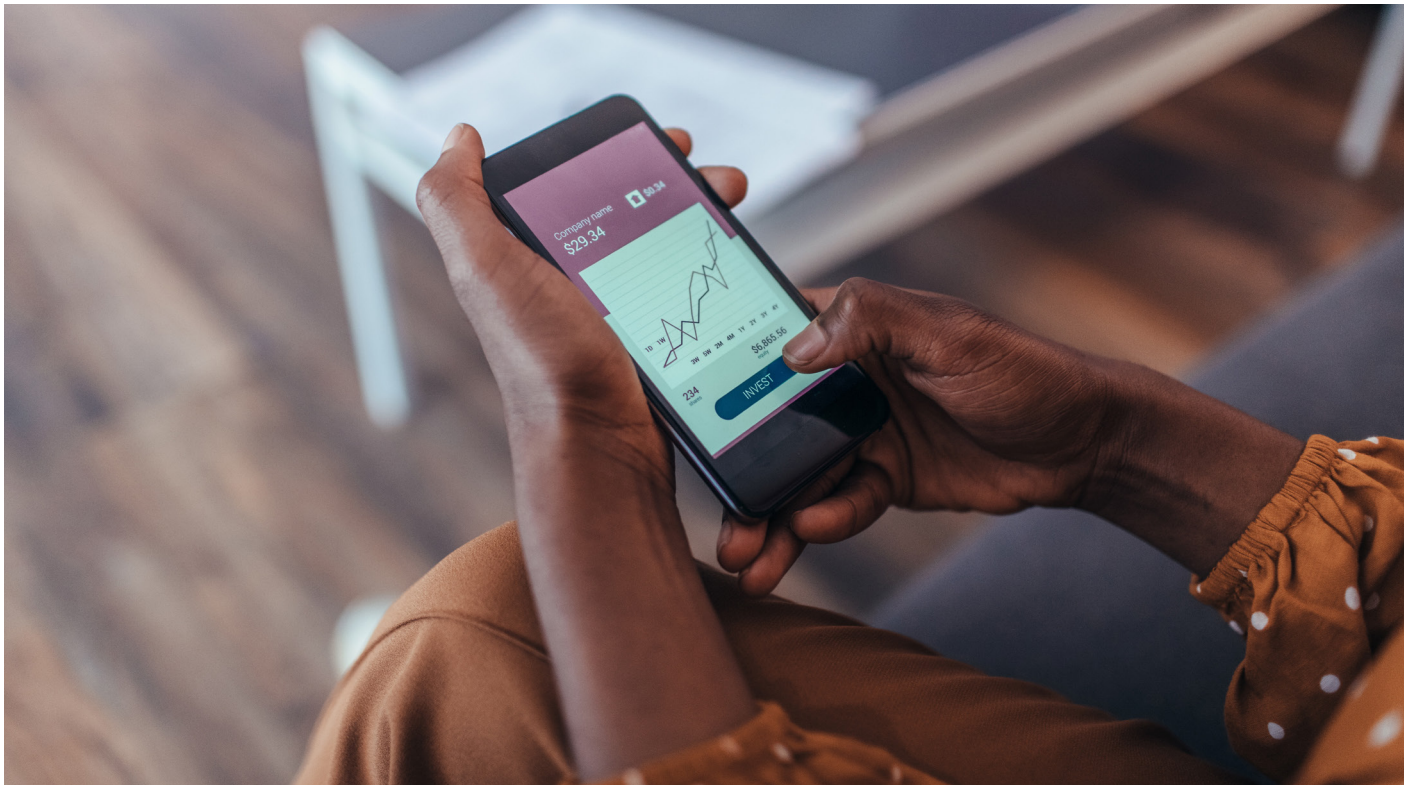
Notably, the Bill is silent on any review of the PAYE tax bands, representing a missed opportunity for the Government to implement reforms that had been suggested earlier in the year.

Some of the key amendments proposed by the Bill include:

a) Inclusion of merchant service fees and interchange fee(s) in the definition of management or professional fee(s) and therefore subject to withholding tax ("WHT");

b) Expansion of the definition of royalty to include payment processing fee(s) and payments for the use of the software through the distributor;

c) Accelerated tax compliance timelines through shorter return filing deadlines and early filing requirements for nil returns.



The Bill proposes to amend various Laws which include: the Income Tax Act, Value Added Tax, Excise Duty Act, Tax Procedures Act and the Miscellaneous Fees and Levies Act.

d) The trend of increasing the Commissioners powers and constraining taxpayer's rights continues with the proposed KRA assessment and enforcement powers, including commissioner-driven assessments, enhanced anti-avoidance provisions, and reduced procedural safeguards during disputes and appeals.

e) Targeted relief for historical tax debt through the extension of the tax amnesty period for interest and penalties for liabilities incurred for the period ending 2025 provided the same will be settled by 31 December 2026.

f) Conversion of various supplies from zero-rated status to exempt status and the narrowing of exempt financial services, including digital payment intermediation.

g) Realignment of betting and gaming taxation across income tax, excise duty and withholding tax, reflecting continued policy focus on the sector.

In this Alert, we provide an analysis of the changes proposed by the Bill including the changes highlighted above. The effective date for these changes is 1 July 2026, unless otherwise specified in the sections herein (Note that some of the provisions whose effective date is cited as 1 January 2027 are not available in the Bill).

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

Issue	Current tax provision	Proposed change	Impact
Section 2 – Amendment to the definition of Immovable Property	"immovable property" includes – (a) land, whether covered by water or not, any estate, rights, interest or easement in or over any land and things attached to the earth or permanently fastened to anything attached to the earth, and includes a debt secured by mortgage or charge on immovable property; and (b) a mining right, an interest in a petroleum agreement, mining information or petroleum information;	The Bill proposes to amend certain word as follows: "immovable property" includes – (a) land, whether covered by water or not, any estate, rights, interest or easement in or over any land and things attached to the earth or permanently fastened to anything attached to the earth, and includes a debt secured by mortgage or charge on immovable property; or (b) a mining right, an interest in a petroleum agreement, mining information or petroleum information;	The proposed amendment is 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 change if enacted into law should reduce interpretational disputes in applying provisions such as capital gains tax and other rules that rely on the definition of immovable property in the ITA.
Section 2 – Amendment to the definition of Management or Professional Fee	"management or professional fee" means a payment made to a person, other than a payment made to an employee by his employer, as consideration for managerial, technical, agency, contractual, professional or consultancy services however calculated;	The Bill proposes to expand the definition of management or professional fee by including the following section: "and includes interchange fees and merchant service fees arising from transactions that use a card as a means of payment."	The proposal expands the definition of management or professional fees to expressly include interchange fees and merchant service fees arising from card-based payment transactions bringing such fees within the withholding tax framework. This change appears to be a direct legislative response to the recent decision of the Supreme Court of Kenya in Petition No. 12 (E014) of 2022: Barclays Bank of Kenya Limited (now Absa Bank Kenya PLC) v Commissioner for Domestic Taxes (Large Taxpayers Office), where the Court held that interchange fees paid by acquiring banks to card-issuing banks do not constitute "management or professional fees" within the meaning of Section 2 of the ITA, hence not liable to withholding tax under Section 35 of the ITA and are therefore not subject to withholding tax. The merchant service fee(s) has three distinct components which include: interchange fee(s) paid to the card-issuing bank, acquirers fee(s) which is retained by acquiring bank and processing fee(s)/dues and assessment fee(s) paid to the card companies. We note that whilst merchant service fee(s) is included as part of the proposed 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). Further, WHT would also be applicable on interchange fee(s), which forms a portion of the merchant service fee(s), on payment by the acquiring bank to the issuing bank.

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

Issue	Current tax provision	Proposed change	Impact
			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. This proposal if enacted into law will lead to an increase in the overall cost of card transactions, especially where contractual arrangements require Kenyan payers to gross-up payments to non-resident recipients. This proposal is also likely to favour the use of cash as settlement mechanism instead of cashless payment systems. 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.
Section 2 – Amendment to the definition of Royalty	"royalty" means a payment made as a consideration for the use or the right to use — (a) any copyright of a literary, artistic or scientific work; (b) any software, proprietary or off-the-shelf, whether in the form of licence, development, training, maintenance or support fees; (c) any cinematograph film, including a film or tape for radio or television broadcasting; (d) any patent, trademark, design or model, plan, formula or process; (e) any industrial, commercial or scientific equipment; or (f) information concerning industrial, commercial or scientific equipment or experience, and any gains derived from the sale or exchange of any right or property giving rise to that royalty; or for information concerning industrial, commercial or scientific equipment or experience, and gains derived from the sale or exchange of any right or property giving rise to that royalty;	The Bill proposes to replace the definition of Royalty with the following new provision: - "royalty" means a payment made as a consideration for — (a) the use or the right to use – i) any copyright of a literary, artistic or scientific work; ii) any software, proprietary or off-the-shelf, whether in the form of licence, development, training, maintenance or support fees; iii) any cinematograph film, including a film or tape for radio or television broadcasting; iv) any patent, trademark, design or model, plan, formula or process; v) any industrial, commercial or scientific equipment; vi) information concerning industrial, commercial or scientific equipment or experience, and any gains derived from the sale or exchange of any right or property giving rise to that royalty; or	The proposed definition significantly broadens the scope of royalties to include consideration for the right to use proprietary digital platforms, payment networks, payment-card schemes, payment processing, switching, clearing and settlement systems. It also brings within scope regular payments made for the use of software through a distributor. As with the proposed amendment to the definition of management or professional fees (discussed above), this change appears to be a direct legislative response to the Supreme Court's decision in Barclays/Absa. As noted above, this will result in increased costs of processing payments in Kenya, a cost that will likely be borne by the Kenyan consumer should there be a gross up of withholding tax in response to the changes. This proposal is also likely to favour the use of cash as settlement mechanism instead of cashless payment systems. In addition, we also note that a specific proposed change targeting consideration for the distribution of software has been included in the revised definition of royalty.

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

Issue	Current tax provision	Proposed change	Impact
		vii) a proprietary digital platform, payment network, payment card scheme, payment processing system, switching system, clearing system or settlement system, including access, participation or usage rights in such system through a card, whether the consideration is periodic or transaction based and whether or not the payment is described as a service fee, transaction fee, network fee, assessment fee, processing fee or similar charge; or (b) the distribution of software where regular payments are made for the use of the software through the distributor;	This continues the trend over the last three years of amendments to the definition of royalty, largely aimed at clarifying the withholding tax treatment of software-related payments. While earlier amendments appeared to respond to the Seven Seas Technologies Limited v Commissioner for Domestic Taxes decision, which distinguished between the right to use copyright in software and the right to use copyrighted software, the proposal appears to move further away from that distinction. The expanded definition marks a departure from international best practice, where payments for ordinary use of copyrighted software are generally not treated as royalties unless rights in the copyright itself are transferred. As a result, the amendment if enacted into law may increase withholding tax exposure for software distributors, fintechs, payment processors, card schemes and other users of cross-border digital platforms, while also creating potential tension with narrower treaty definitions of royalties.

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

Issue	Current tax provision	Proposed change	Impact
Section 2 – Amendment to the definition of Withdrawals	"withdrawals" means the amount of money withdrawn by a customer from their betting or gaming wallet maintained by a person licensed under the Betting, Lotteries and Gaming Act;	The Bill proposes to replace the definition of Withdrawals with the following provision: - "withdrawals" means any amount of money, cash equivalent, or money's worth paid or disbursed to the account of a player, by a person licensed issued under the Gambling Control Act, 2025;	The proposal broadens the concept of withdrawals from amounts withdrawn from a betting or gaming wallet to any money, cash equivalent or money's worth paid or disbursed to a player's account by a person licensed under the Gambling Control Act, 2025. This proposal if enacted aligns the tax law with the new gambling regulatory framework and captures non-cash or equivalent value payouts that may not have been explicitly covered under the existing definition. We note that there have been several changes to the definitions relating to withdrawals and winnings in the past changes to the ITA. In particular, the frequency in changes results in uncertainty for businesses in the betting industry. Whilst we appreciate the proposed update to the definition of "withdrawals", we note that the Bill also proposes to reintroduce and define "winnings" as the basis upon which withholding tax will be imposed. Accordingly, if the charging provision is amended to subject "winnings" rather than "withdrawals" to WHT, the revised definition of "withdrawals" would have limited practical relevance to taxpayers for WHT purposes.

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

Issue	Current tax provision	Proposed change	Impact
Section 2 – Introduction of the definition of Winnings	N/A	The Bill proposes to introduce a definition of Winnings as follows: - "winnings" means a pay-out, by a person licensed issued under the Gambling Control Act, 2025, from a lottery or prize competition under the Gambling Control Act, 2025, but does not include the amount staked or wagered.	The reintroduction of a definition of winnings is a departure from the Finance Act 2025 which had deleted the definition of winnings. This was informed by amendments introduced by the Finance Act 2025 which sought to impose WHT on withdrawals instead of winnings. With this change and the proposed amendment to impose WHT on winnings instead of withdrawals, it signals a shift in approach excluding the amount staked or wagered from WHT. If enacted into law, similar to the changes in the definition of withdrawals, the frequent changes result in uncertainty for businesses in the betting industry. Further to our analysis on the proposed change to the definition of the term withdrawals, the proposed reintroduction of "winnings" creates a potential redundancy in the proposed definition of "withdrawals". If the charging provision for withholding tax is amended to apply only to "winnings", then the definition of "withdrawals" may no longer have any operative relevance for WHT purposes for the sector. Should the change be enacted into law, operators licensed under the Gambling Control Act, 2025 will need to configure their systems to distinguish the stake from the taxable winnings and account for withholding tax at the point of payout.
Section 6B – Introduction of imposition of non-resident rental income tax	The ITA currently imposes WHT at the rate of 30% on payments to non-residents in respect of rent or premium paid for use of immovable property and 15% WHT where the property in question is not immovable property. However, non-resident rental income tax is not provided for.	The Bill proposes to introduce a new non-resident rental income tax as follows: - (1) Where the income of a non-resident person is accrued in or derived from the use or occupation of property situated in Kenya, a tax to be known as non-resident rental income tax shall be payable by that non-resident person at the rate specified in the Third Schedule which shall be a final tax on the income. - (2) A non-resident person subject to the tax payable under subsection (1) shall— (a) register and account for the tax through a simplified registration framework prescribed by the Commissioner; and	The proposed non-resident rental income tax seeks to bring non-resident persons earning rental income from property situated in Kenya into a specific final tax regime. The Bill provides that the applicable rate will be as specified in the Third Schedule. However, no corresponding amendment appears to have been made to the Third Schedule to prescribe the rate for non-resident rental income tax. Income accrued or derived from the use of property received by resident person (on behalf of a non-resident) which is subject to WHT, where a person has been appointed a withholding rent agent by the Commissioner, is excluded from this tax.

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

Issue	Current tax provision	Proposed change	Impact
		(b) submit a return and pay the tax due on or before the twentieth day of the month following the end of the month for which the rent is paid. - (3) Subsection (2) shall not apply where the income accrued in or derived from the use or occupation of the property received by a resident person on behalf of the non-resident person who is subject to the deduction of tax specified in section 35(3)(j).	The ITA currently imposes WHT at the rate of 30% on payments to non-residents in respect of rent or premium paid for use of immovable property and 15% WHT where the property in question is not immovable property. Whilst the proposed non-resident rental income tax is a final tax on income, it is not clear from the drafting of this provision whether the WHT taxes on rent payments to non-residents for use of movable or immovable property will persist or not. Clarity is needed otherwise by virtue of the non-resident rental income tax being a final tax it can be interpreted that WHT ceases to apply on payments for such amounts where one has accounted for non-resident rental income tax.
Section 9 – Introduction of new subsection to income of certain non-resident persons deemed derived from Kenya	Currently, the tax is payable by the 20th day of the month following the month in which the deduction was made.	The Bill proposes to introduce a new subsection as follows: - (1A) The tax charged under subsection (1) shall be payable within five days after the payment is received or the ship leaves the port of lading, whichever is earlier.	The proposal accelerates the point at which tax on income of certain non-resident ship owners or charterers becomes payable. Previously, the tax was generally payable by the 20th day of the month following the month in which the deduction was made. The Bill now proposes to require payment within five days after the payment is received or the ship leaves the port of lading, whichever is earlier. This change is intended to secure tax collection before the non-resident vessel exits Kenya's taxing jurisdiction. The proposal also appears aimed at aligning the tax payment due date with the due date applicable to withholding tax on qualifying payments, thereby promoting consistency in the timing of tax remittance obligations. This will create cash flow and administrative obligations for shipping lines, charterers, agents and cargo operators. The "whichever is earlier" trigger may result in tax being due before payment has been fully reconciled, and taxpayers will need robust procedures to compute and remit the tax within the short timeline.
Section 10 – Introduction of new paragraphs to income from management or professional fees, royalty, interest and rents.	N/A	The Bill proposes to introduce the following two paragraphs (n) and (o) to the subsection 1 of section 10 that states: - (1) For the purposes of this Act, where a resident person or a person having a permanent establishment in Kenya makes a payment to any other person in respect of – … (n) sale of scrap metal; (o) winnings.	The inclusion of payments for the sale of scrap metal and winnings within section 10 confirms 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. This proposal was also contained in the Finance Bill 2024 and Finance Bill 2025 but was not adopted into law. If enacted under the Finance Bill 2026, the amendment would support the proposed withholding tax measures on scrap metal and winnings by properly embedding them within the income tax framework. It would also help minimise future disputes, particularly in respect of payments made to non-residents.

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

Issue	Current tax provision	Proposed change	Impact
Section 11 – Replacing trust income etc., deemed income of trustee, beneficiary, etc.	(1) Any income chargeable to tax under this Act and received by a person in his capacity as a trustee, executor or administrator, shall be deemed to be income of that trustee, executor or administrator. (2) Where an amount included in the income of the trustee, executor or administrator under subsection (1) consists of qualifying dividends or qualifying interest, that amount shall be deemed to be an amount chargeable to tax under section 3(2)(b) and not section 3(2)(e). (3) Any amount, received as income in a year of income by a person beneficially entitled thereto from a trustee in his capacity as trustee, or paid out of income by the trustee on behalf of that person, shall, subject to this Act, be deemed to be income of that person, and to the extent that any such amount is received or so paid out of income chargeable to tax under this Act on that trustee it shall be deemed to be income - (a) in any case other than that of an annuity directed to be paid free of tax - (i) of such gross amount as would, after deduction of tax at the rate paid or payable on that income by the trustee, be equal to the amount received or so paid; and (ii) that has borne tax at that rate; (b) in the case of an annuity directed to be paid free of tax, of such gross amount as is equal to the amount of the annuity together with the amount of the sums paid by the trustee to the annuitant to meet the liability of the annuitant to tax on the annuity. (3A) [Deleted by Finance Act 2023] (4) The trustee, executor or administrator may designate a part or all of the amounts paid by him to a person that is chargeable to tax under subsection (2) to be qualifying dividends or qualifying interest and, in that case, such designated amount shall be deemed to have been already tax paid. (5) The cumulative totals, at any time, of the amounts designated up to that time by a trustee under subsection (4) as qualifying dividends or qualifying interest shall not exceed the cumulative totals of qualifying dividends or qualifying interest, respectively, received by the trustee, in his capacity as a trustee, after the 31st December, 1990 and up to that time.	The Bill proposes to amend section 11 by deleting and replacing the same as follows: - (1) Any income chargeable to tax and received by a person in the capacity of a trustee, executor or administrator, shall be deemed to be the income of that trustee, executor or administrator. - (2) Dividend or interest which is included in the income of the trustee, executor or administrator under subsection (1) shall not be subject to further tax under this Act. - (3) Where a trustee, executor or administrator has paid tax on the chargeable income of the trust, a beneficiary of the trust shall not be liable to pay tax on that income.	The proposed replacement simplifies the taxation of trusts, executors and administrators. It preserves the principle that income received in that capacity is taxable on the trustee, executor or administrator, while providing that dividends and interest included in that income should not suffer further tax and that beneficiaries should not be taxed again where the trustee has already paid tax. 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.

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

Issue	Current tax provision	Proposed change	Impact
Section 12 – Substituting a paragraph in imposition of instalment tax	Section 12(1)(a): (a) if the minimum tax payable under section 12D is higher than the instalment tax under this section;	The Bill proposes to substitute paragraph (a) of Section 12(1) with the following new paragraph: - (a) if to the best of his judgement and belief he will have no income chargeable to tax for that year of income other than emoluments.	The proposed amendment removes the reference to minimum tax and replaces it with a rule excluding persons who, to the best of their judgement and belief, will have no income chargeable to tax other than emoluments from the instalment tax regime. This appears to be a rationalisation of the provision following the removal or inapplicability of minimum tax by Finance Act 2025.
Section 16 – Deductions not allowed	Section 16(2)(j)(iii)(E): non-deposit taking institutions involved in lending and leasing business;	The Bill proposes to amend Section 16(2)(j)(iii)(E) as follows: - non-deposit taking institutions involved in lending or leasing business, or both.	The proposal is a clarification measure. Replacing "lending and leasing business" with "lending or leasing business, or both" ensures that the provision applies to non-deposit taking institutions engaged in lending, leasing, or a combination of both. This should reduce ambiguity and ensure that institutions are not excluded merely because they undertake only one of the activities.
Section 18D – Amendment	Section 18D (1) Each ultimate parent entity that is resident in Kenya shall file a country-by-country report with the Commissioner in accordance with subsection (3). (2) An ultimate parent entity or a constituent entity shall file the country-by-country report referred to under subsection (1) not later than twelve months after the last day of the reporting financial year of the group. (3) A country-by-country report filed under subsection (1) shall consist of– (a)the information relating to the identity of each constituent entity, its jurisdiction of tax residence, if different, jurisdiction where such entity is organized, and the nature of the main business activity or activities of such entity; (b)the group's aggregate information including information relating to the amount of revenue, profit or loss before income tax, income tax paid, income tax accrued, stated capital, accumulated earnings, number of employees and tangible assets other than cash or cash equivalents with regard to each jurisdiction where the group has taxable presence; and (c)any other information as may be required by the Commissioner.	The Bill proposes to amend section 18D by deleting and replacing the same as follows: (a) in subsection (1), by deleting the expression "subsection (3)" appearing after the words "accordance with" and substituting therefor the expression "subsection (2)"; (b) in subsection (2), by deleting the expression "subsection (1)" appearing after the words "accordance with" and substituting therefor the expression "subsections (1) and (1A)"; (c) in subsection (5), by deleting the expression "subsection (1)" appearing after the words "accordance with" and substituting therefor the expression "subsections (1) and (1A)".	The proposed amendments to Section 18D are housekeeping in nature, intended to correct internal cross-referencing errors within this section and to ensure proper alignment between the existing CbC reporting obligations under section 18D(2). These changes do not introduce any new substantive compliance requirements; rather, they seek to rectify drafting inaccuracies that, if left unaddressed, create ambiguity in the legislative text and undermine the coherent operation of the filing of CbC reports. The current Section 18D (1) requires the ultimate parent entity ("UPE") resident in Kenya to file a country-by-country ("CbC") report "in accordance with subsection (3)". However, subsection (3) governs the master file and local file filing obligation, not the CbC report filing mechanism. The Bill proposes to redirect this cross-reference to "subsection (2)", which prescribes the 12-month filing deadline for a CbC report. This is a pure drafting correction that anchors the UPE's CbC filing obligation to the correct operative provision. No new compliance burden arises from this change. Additionally, the Bill proposes to amend both subsections (2) and (5) by deleting the expression "subsection (1)" appearing after the words "accordance with" and substituting therefore "subsections (1) and (1A)". The stated intent is to extend both provisions to cover CbC reports filed by ultimate parent entity or a constituent entity under subsection (1) and (1A).

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

Issue	Current tax provision	Proposed change	Impact
			However, the phrase "accordance with" does not appear in subsection (2) or subsection (5) of the current Income Tax Act. Subsection (2) reads: "…shall file the country-by-country report referred to under subsection (1)…" and subsection (5) reads: "A country-by-country report filed under subsection (1) shall consist of…". The Bill's reference to the words "accordance with" is therefore a drafting error in the amending text of the bill itself. To achieve the intended legislative objective, the amending provisions in the Bill should be revised as follows: (b) in subsection (2), by deleting the expression "subsection (1)" appearing after the words "referred to under" and substituting therefor the expression "subsections (1) and (1A)"; (c) in subsection (5), by deleting the expression "subsection (1)" appearing after the words "country-by-country report filed under" and substituting therefor the expression "subsections (1) and (1A)".
Section 18F – Amendment	Section 18F "a country-by-country report" means a report filed under section 18D(1) describing the financial activities of each constituent entity in all the jurisdictions where the group has taxable presence; "excluded multinational enterprise group" means, with respect to any financial year of the group, a group having total consolidated group revenue of less than the amount specified in section 18D(1); "ultimate parent entity" means an entity which– (a)is not controlled by another entity; and (b)owns or controls, directly or indirectly, one or more constituent entities of a multinational enterprise group.	a) The Bill proposes changes in the definition of "a country-by-country report", by deleting the expression "section 18D (1)" appearing after the words "filed under" and substituting therefor the expression "section 18D (1) and (1A)"; (b) The Bill proposes changes in the definition of "excluded multinational enterprise group", by deleting the expression "section 18D(1)" appearing after the words "specified in" and substituting therefor the expression "section 18D(1B)"; (c) The Bill proposes to amend definition of "ultimate parent entity" by deleting and replacing the same as follows: "ultimate parent entity" means a constituent entity of a multinational enterprise group where— (a) the constituent entity owns directly or indirectly a sufficient interest in one or more other constituent entities of the multinational enterprise group;	The proposed amendments to Section 18F are aimed at updating and refining the definitional framework underpinning Kenya's Country-by-Country Reporting (CbCR) regime. Amendments (a) and (b) are technical housekeeping measures designed to correct internal cross-references so that each definition points to the appropriate operative provision in Section 18D. Amendment (c), by contrast, is the sole substantive change: it replaces the existing control-based test for identifying an "ultimate parent entity" with a consolidation-based test modelled on the OECD BEPS Action 13 framework, thereby improving Kenya's alignment with internationally accepted transfer pricing standards. Proposed Amendment (a) – Definition of "a country-by-country report" The current definition in Section 18F refers to "a report filed under section 18D(1)", which only captures the primary filing obligation of an ultimate parent entity resident in Kenya. The Bill proposes to substitute this with "section 18D(1) and (1A)" so that the definition also encompasses secondary or surrogate CbC filings made by a constituent entity resident in Kenya under the conditions set out in subsection (1A). This is a cross-referencing correction that ensures the definition reflects the full scope of CbC filing obligations as they have existed since subsection (1A) was introduced. No new compliance obligation arises from this amendment.

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

Issue	Current tax provision	Proposed change	Impact
		(b) the constituent entity is required to prepare consolidated financial statements under accounting principles generally applied in its jurisdiction of tax residence, or would be so required if its equity interests were traded on a public securities exchange in its jurisdiction of tax residence; and (c) there is no other constituent entity of the multinational enterprise group that owns directly or indirectly a sufficient interest in any of the other constituent entities of the multinational enterprise group.	Proposed Amendment (b) – Definition of "excluded multinational enterprise group" The current definition refers the KES 95 billion consolidated turnover threshold to "section 18D(1)", which is the provision setting out the UPE's filing obligation rather than the provision that prescribes the turnover threshold. The Bill proposes to substitute this reference with "section 18D(1B)", which is the correct provision containing the KES 95 billion threshold. This is a long-standing cross-reference error in the existing legislation. The amendment does not alter the threshold amount itself; groups with consolidated turnover below KES 95 billion will continue to be excluded from the CbCR regime. Proposed Amendment (c) – Definition of "ultimate parent entity" This is the only substantive amendment proposed in the Bill. The current definition identifies a UPE as an entity that (a) is not controlled by another entity, and (b) owns or controls, directly or indirectly, one or more constituent entities of a multinational enterprise group. This is a control-based test. The Bill proposes to replace this with a consolidation-based test, under which a UPE is a constituent entity of a multinational enterprise group where: (a) the constituent entity owns directly or indirectly a sufficient interest in one or more other constituent entities; (b) the constituent entity is required to prepare consolidated financial statements under accounting principles generally applied in its jurisdiction of tax residence, or would be so required if its equity interests were traded on a public securities exchange in that jurisdiction; and (c) there is no other constituent entity of the group that owns directly or indirectly a sufficient interest in any of the other constituent entities of the group. This new formulation aligns Kenya's UPE definition with Article 1, paragraph 6 of the OECD BEPS Action 13 Model Legislation, including the "deemed listing" fallback for UPEs in jurisdictions that do not mandate consolidation for private entities. The practical implication is that UPE identification in Kenya would no longer turn on whether an entity is "controlled" by another, but on whether it is — or would be, if listed — required to prepare consolidated financial statements. This shift improves cross-border consistency with jurisdictions that have already adopted the OECD model and reduces the risk of mismatched UPE designations across different tax jurisdictions.

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

Issue	Current tax provision	Proposed change	Impact
Section 19 – Amendment of ascertainment of income of insurance companies	Section 19 (5) The gains or profits for a year of income from the long term insurance business of a resident insurance company, whether mutual or proprietary, shall be the sum of the following - (a) the amount of actuarial surplus, as determined under the Insurance Act and recommended by the actuary to be transferred from the life insurance fund for the benefit of shareholders; (b) any other amounts transferred from the life insurance fund for the benefit of shareholders; and (5A) Where the actuarial valuation of the life insurance fund results in a deficit for a year of income and the shareholders are required to inject money into the life insurance fund, the amount of money so transferred shall be treated as a negative transfer for the purposes of subsection (5)(a): Provided that the amount of negative transfer shall be limited to the actuarial surplus recommended by the actuary to be transferred from the life insurance fund for the benefit of shareholders in previous years of income. (6) The gains or profits for a year of income from the long term insurance business of a non-resident insurance company, whether mutual or proprietary, shall be the sum of the following - (a) the same proportion of the amount of actuarial surplus recommended by the actuary to be transferred to the shareholders as the actuarial liability in respect of its long term insurance business in Kenya bears to the actuarial liability in respect of its total long term insurance business; and (b) the same proportion of any other amounts transferred from the life insurance fund for the benefit of shareholders as the actuarial liability in respect of its long term insurance business in Kenya bears to the actuarial liability in respect of its total long term insurance business; and (c) the same proportion of thirty per cent of management expenses and commissions that are in excess of the maximum amounts allowed by the Insurance Act as the actuarial liability in respect of its long term insurance business in Kenya bears to the actuarial liability in respect of its total long term insurance business.	The Bill proposes to delete the definition of "life insurance fund" and replace it with the definition of "statutory fund" and subsequently substitute the words "life insurance fund" with "statutory fund" wherever they occur under section 19. - "statutory fund" means a fund established under section 45 of the Insurance Act.	The proposal aligns the income tax provisions for insurance companies with the terminology used under the Insurance Act by replacing "life insurance fund" with "statutory fund". This appears to be a harmonisation measure, particularly given that statutory funds are established under section 45 of the Insurance Act. For insurers, the amendment should improve consistency between tax and insurance regulatory reporting.

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

Issue	Current tax provision	Proposed change	Impact
	(6A) Where the actuarial valuation of the life insurance fund results in a deficit for a year of income and the shareholders are required to inject money into the life insurance fund, the proportionate amount of the money so transferred shall be treated as a negative transfer for the purposes of subsection (6)(a): Provided that the amount of negative transfer shall be limited to the amount of actuarial surplus recommended by the actuary to be transferred from the life insurance fund for the benefit of the shareholders in the previous years on income. (7) In this section - "annuity fund" means, where an annuity fund is not kept separately from the life insurance fund of the company, that part of the life insurance fund which represents the liability of the company under its annuity contracts; "life insurance fund" does not include the annuity fund, if any, nor that part of the life insurance fund as represents the liability of the company under a registered annuity contract, registered trust scheme, registered pension scheme or registered pension fund;		
Section 23 – Repeal of transactions designed to avoid liability to tax.	(1) Where the Commissioner is of the opinion that the main purpose or one of the main purposes for which a transaction was effected (whether before or after the passing of this Act) was the avoidance or reduction of liability to tax for a year of income, or that the main benefit which might have been expected to accrue from the transaction in the three years immediately following the completion thereof was the avoidance or reduction of liability to tax, he may, if he determines it to be just and reasonable, direct that such adjustments shall be made as respects liability to tax as he considers appropriate to counteract the avoidance or reduction of liability to tax which could otherwise be effected by the transaction. (2) Without prejudice to the generality of the powers conferred by subsection (1), those powers shall extend - (a) to the charging to tax of persons who, but for the adjustments, would not be charged to the same extent; (b) to the charging of a greater amount of tax than would be charged but for the adjustments. (3) A direction of the Commissioner under this section shall specify the transaction or transactions giving rise to the direction and the adjustments as respects liability to tax which the Commissioner considers appropriate.	The Bill proposes to delete this section.	The proposed deletion appears to be a harmonisation and clean-up measure, following the proposed introduction of section 18A in the Tax Procedures Act, which consolidates and strengthens the Commissioner's general anti-avoidance powers for various tax laws i.e. Income Tax Act and the Value Added Tax Act.

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

Issue	Current tax provision	Proposed change	Impact
Section 24 – Amendment of avoidance of tax liability by non-distribution of dividends	(1) Where the Commissioner is of the opinion that a company has not distributed to its shareholders as dividends within a reasonable period, not exceeding twelve months, after the end of its accounting period that part of its income for that period which could be so distributed without prejudice to the requirements of the company's business, he may direct that that part of the income of the company shall be treated for the purposes of this Act as having been distributed as a dividend to the shareholders in accordance with their respective interests and shall be deemed to have been paid on a date twelve months after the end of that accounting period.	The Bill proposes to amend Section 24(1) as follows: - Where the Commissioner is of the opinion that a company has not distributed to its shareholders as dividends within a reasonable period, not exceeding twelve months, after the end of its accounting period that part of its income for that period which could be so distributed without prejudice to the requirements of the company's business, he may direct that at least sixty percent of that part of the income shall be treated for the purposes of this Act as having been distributed as a dividend to the shareholders in accordance with their respective interests and shall be deemed to have been paid on a date twelve months after the end of that accounting period.	The proposal modifies the deemed dividend rule by providing that, where the Commissioner considers that a company has failed to distribute distributable income within a reasonable period, at least 60% of that income may be treated as having been distributed as dividends. This comes against the backdrop of disputes where the revenue authority has sought to recharacterise retained earnings, shareholder advances, related-party balances or other value transfers as deemed dividends. The amendment may therefore widen the scope for deemed dividend assessments, particularly for companies that retain profits for working capital, expansion, debt servicing or regulatory capital purposes. The key concern is that the proposal gives the Commissioner significant discretion, while terms such as "reasonable period" and "distributable income" may be open to interpretation.
Section 35 – Amendment of deduction of tax from certain income	Section 35(1)(a)(iii) (a) a management or professional fee or training fee except - i. … ii. … iii. payments made by the national carrier to a non-resident for specialized technical, maintenance, compliance, training, or digital systems support services, where such services are not available in Kenya or the service provider is certified or accredited by an international regulatory, standard-setting, or licensing body.	The Bill proposes to delete the subparagraph Section35(1)(a)(iii).	The proposed deletion of the specific provision relating to payments by the national carrier to non-residents may result in such payments being subject to the ordinary withholding tax rules for management, professional, technical or other relevant service fees, unless another exemption or treaty relief applies. The applicable withholding tax rate will be 20%. Given that most contracts with non-residents are typically structured on a gross-up basis, it is highly likely that the additional withholding tax cost will be borne by the airline provider. This may increase the cost of specialised aviation services sourced from non-residents.
	Section 35(1)(u) (u) gains or profits which are chargeable to tax under section 9(1) derived from the business of a ship owner or charterer;	The Bill proposes to delete the paragraph Section 35(1)(u)	The Bill proposes to delete Section 35(1)(u), which currently brings such gains or profits within the withholding tax mechanism and was previously introduced through Finance Act 2025. The deletion of the withholding tax provision for non-resident ship owners or charterers appears to align with the proposed direct payment mechanism under section 9, which requires tax to be paid within five days of receipt of payment or the ship leaving the port of lading. The combined effect is that the proposal does not remove the tax charge on income earned by non-resident ship owners or charterers. Instead, it appears to move the collection mechanism away from withholding tax under Section 35 and into a direct payment obligation under Section 9. The income will still be deemed to be derived from Kenya, the 2.5% tax rate under the Third Schedule will continue to apply, and the obligation to account for the tax will rest with the non-resident ship owner or charterer.

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

Issue	Current tax provision	Proposed change	Impact
Section 35 – Amendment of deduction of tax from certain income	Section 35(1)(v) and (w) N/A	The Bill proposes to introduce the below paragraphs to Section 35(1): - (v) the sale of scrap metal; - (w) winnings;	The introduction of withholding tax on payments to both residents and non-residents for the sale of scrap metal and winnings aligns with the proposed amendments that expressly bring income from these payments within the scope of income deemed to be derived from Kenya. This is mostly driven by the growth of the scrap metal and betting/gaming sectors, both of which involve high transaction volumes and, in some cases, informal or difficult-to-track participants. The proposal to subject scrap metal payments to withholding tax was initially introduced under the withdrawn Finance Bill, 2024 and its reintroduction appears to reflect KRA's focus on taxing items and transactions that are susceptible to tax evasion. The Bill proposes withholding tax at 1.5% on payments for the sale of scrap metal and 20% on winnings, for both resident and non-resident recipients, which should provide a clearer collection mechanism and reduce disputes on whether such income is taxable in Kenya.
	Section 35(3)(p) and (q) N/A	The Bill proposes to introduce the below paragraphs to Section 35(3): - (p) the sale of scrap metal; - (q) winnings.	
Section 52 – Amendment of returns of income and notice of chargeability	Section 52(1): (1) The Commissioner may, by notice in writing, require a person to furnish him within a reasonable time, not being less than thirty days from the date of service of the notice, with a return of income for any year of income containing a full and true statement of the income of that person, including income deemed to be his under this Act, liable to tax and of those particulars that may be required for the purposes of this Act; and that return shall include a declaration signed by that person, or by the person in whose name he is assessable, that the return is a full and true statement; but where a person carrying on a business has made a provisional return of income, the return of income under this subsection may be made within a period not exceeding nine months from the date to which he makes up the accounts of that business.	The Bill proposes to amend Section 52(1) as follows: - (1) The Commissioner may, by notice in writing, require a person to furnish him by the last day of the fourth month following the end of the person's year of income, with a return of income for any year of income containing a full and true statement of the income of that person, including income deemed to be his under this Act, liable to tax and of those particulars that may be required for the purposes of this Act; and that return shall include a declaration signed by that person, or by the person in whose name he is assessable, that the return is a full and true statement; but where a person carrying on a business has made a provisional return of income, the return of income under this subsection may be made within a period not exceeding nine months from the date to which he makes up the accounts of that business. The Bill proposes to introduce Section 52(1A) as follows: (1A) Where the tax return submitted under subsection (1) relates to a nil amount of tax payable, the person required to submit the tax return shall submit the return within one month following the end of the year of income to which the return relates.	The proposal significantly shortens the time for filing a return of income where required by notice, by requiring submission by the last day of the fourth month following the end of the year of income. It also introduces a one-month deadline for nil returns. This change is in line with the revenue authority's measures aimed at accelerating tax compliance and revenue monitoring. In having the nil returns filed quite early (a month following the year end), increased scrutiny is expected on nil filings. Additionally, the reduction of timelines for returns, will likely place pressure on taxpayers to close accounts, reconcile tax positions and prepare returns within a shorter period. The above notwithstanding, the proposal may present practical challenges for entities that are subject to additional statutory and regulatory reporting obligations, including those regulated by the CBK, IRA, SASRA and other sector regulators. Such taxpayers typically require sufficient time to finalise audited financial statements, obtain board approvals, complete regulatory filings and reconcile their tax positions before submitting annual income tax returns. The shortened timelines may therefore increase compliance costs, without necessarily generating additional revenue for the revenue authority.

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

Issue	Current tax provision	Proposed change	Impact
Section 52B – Amendment of final return with self-assessment	Section 52B (1) Notwithstanding any other provision of this Act - (a) every individual chargeable to tax under this Act shall for any year of income commencing with the year of income 1992, furnish to the Commissioner a return of income, including a self assessment of his tax from all sources of income, not later than the last day of the sixth month following the end of his year of income; and every individual chargeable to tax under this Act shall for any year of income commencing with the year of income 1992, furnish to the Commissioner a return of income, including a self assessment of his tax from all sources of income, not later than the last day of the sixth month following the end of his year of income; and (b) every person, other than an individual chargeable to tax under the Act, shall for any accounting period commencing on or after 1st January, 1992, furnish to the Commissioner a return of income, including a self-assessment of his tax on such income, not later than the last day of the sixth month following the end of his accounting period;	The Bill proposes to amend Section 52B(1)(a) as follows: - (1) Notwithstanding any other provision of this Act - - (a) every individual chargeable to tax under this Act shall for any year of income commencing with the year of income 1992, furnish to the Commissioner a return of income, by the last day of the fourth month following the end of the person's year of income; and every individual chargeable to tax under this Act shall for any year of income commencing with the year of income 1992, furnish to the Commissioner a return of income, by the last day of the fourth month following the end of the person's year of income; and The Bill proposes to introduce a new subsection to section 52B as follows: (1A) Where the tax return submitted under subsection (1) relates to a nil amount of tax payable, the person required to submit the tax return shall submit the return within one month following the end of the year of income to which the return relates.	We understand that the rationale behind this change could be to give the Commissioner more time to review taxpayers data. However, the Commissioner under the Tax Procedures Act has about 5 years from the date the return is filed to query the same. It is therefore not clear how the reduction in the duration within which returns are to be filed gives the Commissioner more time to review taxpayer's data. The proposed accelerated filing timeline may also reflect an assumption that income tax returns can increasingly be prepared using information already available through the Commissioner's systems. This is consistent with other proposed TPA amendments, including the introduction of pre-populated tax returns and Commissioner-originated assessments, which point towards greater reliance on KRA-held data in the return preparation and assessment process. While this may support administrative efficiency, it may also further dilute the practical operation of the self-assessment regime if taxpayers are expected to file within shortened timelines before they have had sufficient time to finalise, reconcile and verify their own records. This is particularly relevant for income tax, where taxpayers may need to rely on audited financial statements to determine their full tax liability accurately. The change will also require individuals, employers, tax agents and platform operators to provide income and withholding information earlier than is currently the case. Individuals with multiple income sources, investment income or foreign income may face increased compliance pressure.
First Schedule to the ITA – Introduction of new paragraph	N/A	The Bill proposes to introduce a new paragraph as follows: - 76. Any capital gains relating to the transfer of property to a real estate investment trust registered by the Commissioner under section 20(1).	The proposed capital gains tax exemption for transfers of property to a real estate investment trust registered by the Commissioner will ensure that transfers associated with seeding assets into REIT structures are tax neutral. This is a positive measure for the real estate and capital markets sectors. The exemption is likely to encourage property owners and developers to use REITs as investment and financing vehicles, improve liquidity in the real estate market and support broader participation by investors. Taxpayers will need to ensure that the relevant REIT is duly registered and that the transaction falls squarely within the exemption conditions.

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

Issue	Current tax provision	Proposed change	Impact
Second Schedule to the ITA – Amendment of deduction of investment allowance in relation to capital expenditure incurred on industrial building	Paragraph 1(a) (viii) (viii) Industrial Building - 10%	The Bill proposes to amend Paragraph 1(a)(viii) as follows: - (viii) Industrial Building - 10% per year, in equal instalments.	The proposal clarifies that investment allowance on industrial buildings is claimed at 10% per year in equal instalments. This confirms the straight-line nature of the allowance and should reduce ambiguity in the timing of claims
Third Schedule to the ITA – Amendment of rates of tax	Paragraph 2(i) (i) for the year of income 1974 and each subsequent year of income up to and including the year of income 1989 9.00	The Bill proposes to delete the subparagraph (i).	The deletion of the historical 1974 to 1989 rate appears to be a clean-up measure with no current substantive impact.
	Paragraph 3(d) (d) in respect of a dividend, fifteen per cent of the amount payable: Provided that the rate applicable to citizens of the East African Community Partner States in respect of dividend shall be five percent of the gross sum payable	The Bill proposes to delete the proviso to subparagraph (d).	The deletion of the preferential 5% dividend withholding tax rate for citizens of East African Community Partner States would increase the applicable rate on such dividends to the general non-resident rate of 15%, unless treaty relief applies. This may increase the tax cost of cross-border EAC investment. In particular, the proposal appears inconsistent with the broader objective of promoting EAC economic integration, which Kenya has historically supported, as it removes a tax preference that facilitated regional investment by citizens of Partner States. The change may therefore be perceived as reducing Kenya's commitment to preferential intra-EAC investment treatment and could make Kenya less attractive for individual investors from the region.
	N/A	The Bill proposes to introduce new subparagraphs to Paragraph 3 as follows: - (x) in respect of the sale of scrap metal, one and a half per cent of the gross amount; (y) in respect of winnings, twenty per cent;	The Bill proposes to introduce new subparagraphs to Paragraph 5 as follows: - (q) in respect of the sale of scrap metal, one and a half per cent of the gross amount; - (r) in respect of winnings, twenty per cent; The introduction of withholding tax rates of 1.5% on the gross amount for sale of scrap metal and 20% on winnings provides the charging mechanism for the new withholding tax measures. This will increase compliance obligations for payers and may affect pricing in the scrap metal sector and net payouts in the gaming sector.

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

Issue	Current tax provision	Proposed change	Impact
Eighth Schedule to the ITA – Amendment of taxation of gains	Paragraph 2 (c) gains, other than those to which subparagraph (a) applies, derived from the alienation of shares of a company resident in Kenya if the alienator, at any time during the three hundred and sixty-five days preceding such alienation, held directly or indirectly at least twenty per cent of the capital of that company:	The Bill proposes to amend Paragraph 2(c) as follows: (c) gains, other than those to which subparagraph (b) applies, derived from the alienation of shares of a company resident in Kenya if the alienator, at any time during the three hundred and sixty-five days preceding such alienation, held directly or indirectly at least twenty per cent of the capital of that company:	The proposed amendment to the cross-reference in paragraph 2(c) appears to be a technical correction. Based on the proposal, save for gains to which subparagraph (b) applies, any gains derived from the alienation of shares of a company resident in Kenya where the alienator held at least 20% of the capital of that company either directly or indirectly, at any time during the preceding year will be subject to capital gains tax in Kenya.
		The Bill proposes to introduce a subparagraph as follows: (d) gains derived from the alienation of shares by a non-resident person where the shares derive their value from Kenya or the alienation results in a change of the group membership of a company resident in Kenya or of ownership of, title in, or interest in property located in Kenya.	This creates a clearer distinction between indirect disposals of shares in property-rich entities, which fall under Paragraph 2(b), and indirect disposals of Kenyan resident companies, which fall under Paragraph 2(c). The amendment does not however address the uncertainty that has arisen from the express provisions of Paragraph 2(c). In particular, by reference to alienation of shares of a company resident in Kenya, it could be interpreted that unless an offshore company becomes resident in Kenya through control and management being exercised in Kenya it follows that disposal of such shares by a non-resident even where the alienator has indirectly held 20% of the capital of such a company in the preceding 1 year will not be captured. The above notwithstanding, we note that the bill proposes a paragraph (d) which appears to be quite broad and far reaching and could extend to cover all disposal of shares by non-residents where the shares derive value from Kenya. The proposed amendment seeks to expand Kenya's capital gains tax net to cover gains arising from transfer of shares which derive value from Kenya by non-residents or where the transfer by the non-resident results in a change of group membership of a company resident in Kenya or ownership of title or property located in Kenya. Absent a definition on 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.

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

Issue	Current tax provision	Proposed change	Impact
			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. The proposal may 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.
Ninth Schedule to the ITA – Amendments to taxation of extractive industries	N/A	The Bill proposes to introduce a new subparagraph to Paragraph 2 of the Ninth Schedule to the ITA as follows: - (4) The non-resident tax rates for repatriated income by a licensee under section 7B shall be fifteen per cent.	The proposal seeks to align the income tax rate for non-resident contractors in the extractive sector with that of resident contractors by reducing the rate from 37.5% to 30%. This promotes fairness and tax neutrality between resident and non-resident contractors and may make Kenya more attractive to foreign investors, particularly in sectors such as mining, oil and gas, where specialised expertise and significant capital investment are often required. At the same time, the introduction of a 15% tax on repatriated income by non-resident licensees and contractors ensures that Kenya retains taxing rights over profits generated from the exploitation of its natural resources before those profits are transferred offshore. The amendment also provides clarity by expressly setting the applicable rate for repatriated income, which should assist taxpayers in planning, pricing contracts, and complying with their tax obligations, while also giving KRA a clear basis for enforcement. However, the benefit of reducing the income tax rate may be partly offset by the new 15% repatriation tax, as non-resident contractors and licensees that remit profits offshore could face a higher overall effective tax burden. As a result, investors will need to consider the combined impact of the 30% income tax and the 15% repatriated income tax when assessing the viability of extractive projects in Kenya.
	Paragraph 7(3) (3) The rate of income tax applicable to a contractor is - (a) in the case of a resident company, thirty per cent; or (b) in the case of a non-resident company, thirty seven and a half per cent.	The Bill proposes to amend Paragraph 7(3) as follows: - (3) The rate of income tax applicable to a contractor is - - (a) in the case of a resident company, thirty per cent; or - (b) in the case of a non-resident company, thirty per cent.	
	N/A	The Bill proposes to introduce a new subparagraph to Paragraph 7 as follows: - (4) The non-resident tax rates for repatriated income by a contractor under section 7B shall be fifteen per cent.	

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

Issue	Current tax provision	Proposed change	Impact
Section 5(4)(g) – Gratuity	Notwithstanding anything to the contrary in subsection (2) "gains or profits" do not include – (g) an amount paid by an employer as a gratuity or similar payment in respect of employment or services rendered, which is paid into a registered pension scheme: Provided that - (a) this paragraph shall only apply in respect of amounts not exceeding three hundred and sixty thousand shillings for each year of service; (b) this paragraph shall not apply to any person who is eligible for deductions under section 22A;	The Bill proposes to amend section 5(4)(g) to restrict the tax exemption on gratuity or similar payments made by an employer into a registered pension scheme to instances where the gratuity relates to a contract of service for a continuous period of at least three (3) years. The Bill further proposes to introduce a new paragraph 5(4) (ga) to exempt any contribution to a gratuity in respect of employment or services rendered, provided that: I. the gratuity was for a contract of service for a continuous period of at least three (3) years; II. the total contributions does not exceed thirty-one per cent (31%) of the basic salary of the employee; and III. this paragraph shall not apply to any person who is eligible for deductions under section 22A.	The proposal enhances clarity on the conditions under which gratuity qualifies for an income tax exemption. However, it narrows the current broad exemption by introducing a minimum service period of 3 years and by limiting the exemption where an employee has already utilised their available pension tax relief. This may be viewed as restrictive for both short-term employees and those with significant retirement contributions. Employers may need to review their gratuity schemes, including contribution levels and employee eligibility, to ensure compliance with the new requirements and to confirm that the intended tax treatment is achieved.
Section 15 – Introduction of an allowable deduction for interest on housing loans advanced by the Central Bank of Kenya ("CBK") to employees	N/A	The Bill proposes to amend Section 15(2) by inserting a new paragraph (af) immediately after paragraph (ae), to allow, in the case of an employee, a deduction of the amount of interest, not exceeding 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.	The proposal extends mortgage interest relief to employees with Central Bank of Kenya ("CBK") housing loans, placing them on equal footing with employees who borrow from commercial banks. Previously, such employees were ineligible for the relief, as the CBK is not among the first 6 financial institutions specified under the Fourth Schedule to the ITA. The proposed KES 360,000 per annum cap mirrors the existing mortgage interest relief available to other employees, thereby achieving parity of tax treatment.
Part I of the First Schedule to the ITA – Income from pensions	Payment of pension benefits from a registered pension fund, registered provident fund, registered individual retirement fund, public pension scheme or National Social Security Fund, upon attainment of the retirement age determined in accordance with the rules of the fund or the scheme: Provided that this exemption shall also apply to— (a) payment of gratuity; (aa) other allowances paid under a public pension scheme; (b) payment of a retirement annuity; or (c) withdrawals from the fund prior to attaining the retirement age due to ill health; or withdraws from the fund after the twenty years from the date of registration as a member of the fund.	The Bill proposes to amend the proviso to paragraph 53 of the First Schedule to the ITA by introducing an additional paragraph that extends the exemption to pension benefits paid as a result of the death of a member.	This proposal will provide relief to the dependants and beneficiaries of deceased members by exempting from tax pension benefits paid on death of a member. This proposed amendment enhances the policy objective of encouraging retirement savings by ensuring that accumulated pension benefits are preserved for the benefit of dependants without tax leakage upon the death of a member. It effectively places death benefits on the same footing as other exempt payments such as retirement benefits, gratuities and withdrawals due to ill health.

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

Issue	Current tax provision	Proposed change	Impact
Section 3(1) **Deletion of the definition of "certificate of origin"**	"certificate of origin" means an official document issued by a competent authority of the government of the source country which certifies that the goods being imported into Kenya were manufactured in that particular source country.	The Bill proposes to delete the definition of the term.	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"**	N/A	The Bill proposes 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 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 conceptual consistency across tax and financial regulation, reducing interpretational disputes on what constitutes a taxable virtual asset transaction. From a tax perspective, the definition broadens the scope of assets that may be captured within existing compliance, reporting and enforcement provisions of the TPA where value is transferred or held in digital form. This increases certainty that transactions involving virtual assets are within the tax net, particularly for purposes such as financial reporting, audits and data matching, even where no immediate tax charge is imposed by the definition itself. The amendment therefore strengthens the legal basis for KRA's oversight of virtual asset activity without introducing a new charging provision.

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

Issue	Current tax provision	Proposed change	Impact
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 Service Providers Act, 2025	The introduction of a definition for "virtual asset service provider" has a more targeted and operational impact, as it identifies the intermediaries through whom virtual-asset transactions are facilitated and around whom compliance obligations are likely to crystallise. 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, record-keeping and enforcement framework in relation to virtual-asset transactions. In practical terms, the definition lays the foundation for intermediary-based compliance. This has immediate relevance for subsequent provisions in the Bill, particularly those introducing information-return obligations and penalties, by clearly identifying the entities responsible for collecting, maintaining and submitting transaction data to the Commissioner. Virtual-asset service providers operating in or into Kenya should therefore expect heightened compliance obligations comparable to those applied to traditional financial institutions.

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

Issue	Current tax provision	Proposed change	Impact
Section 6C **Virtual asset providers to file information returns**	N/A	The Bill proposes to introduce the following new section after Section 6B: - 6C. (1) Each virtual asset service provider shall file an information return with the Commissioner in respect of all the virtual-asset users with which it maintains a relationship in every calendar year and that are identified as reportable users or as having controlling persons that are reportable persons - (2) A virtual asset provider shall be required to file the information return under subsection (1) if the virtual asset service provider provides a service that effectuates exchange transactions or making available a trading platform on behalf of a customer, and includes acting as a counterparty, or as an intermediary, to the exchange transactions - (3) A person who makes a false statement in an information return under subsection (1) commits an offence and shall be liable on conviction to a fine of one hundred thousand shillings for each false statement, or imprisonment for a term not exceeding three years, or to both. - (4) A person who omits any information required to be included in an information return under subsection (1), shall be liable to a penalty of one hundred thousand shillings for each omission. - (5) A person shall not be liable under subsection (3) or (4) where the information required to be included in an information return under subsection (1) is in respect of another person and a reasonable effort was made by the person to obtain the information from that other person. - (6) A virtual asset service provider that fails to file an information return or a "nil" information return when required under subsection (1) shall be liable to pay a penalty of one million shillings for each failure.	The introduction 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 virtual asset service providers 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.

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

Issue	Current tax provision	Proposed change	Impact
Section 6D **Agreements for the automatic exchange information with other countries on virtual asset transactions**	N/A	The Bill proposes to introduce the following new section: - 6D. (1) Kenya may enter into an agreement with another country for the automatic exchange of information relating to transactions involving virtual assets. - (2) An agreement under subsection (1) shall provide for the exchange of information relating to— (a) information returns filed under section 6C(1). (b) due diligence reporting and record keeping obligations prescribed under this section; (c) the virtual asset users with which a virtual asset service provider maintains a relationship in every calendar year and that are identified as reportable users or as having controlling persons that are reportable persons; (d) nil return filings by virtual asset service providers who do not maintain a relationship with virtual asset users that are identified as reportable users or as having controlling persons that are reportable persons; and (e) arrangements or practices by virtual asset service providers, the main purpose or one of the main purposes of which can reasonably be considered to be to avoid obligations imposed under this Act. - (5) In this section— "information return" means a report, setting out prescribed information which a reporting virtual-asset service provider is required to file with the Commissioner. - (6) The Cabinet Secretary may make regulations necessary for the implementation of this section.	The proposed 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. Virtual asset businesses and users should therefore expect that anonymity and jurisdictional fragmentation will offer diminishing protection going forward. 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.

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

Issue	Current tax provision	Proposed change	Impact
Section 10 **Reinstatement of Registration for a taxpayer who had previously applied for deregistration**	N/A	The Bill proposes 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 proposal introduces a clearer framework for reinstating taxpayers who had previously deregistered but later qualify for registration under the Act. This addresses practical challenges that have arisen where businesses resume taxable activities after deregistration, or where deregistration proves to have been premature, leaving uncertainty around how and when the taxpayer should re enter the tax system. 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.
Section 12 **Exemption from requirement of a PIN when opening an account with an investment bank**	N/A	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.	This appears aimed at reducing 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.

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

Issue	Current tax provision	Proposed change	Impact
Section 18A **Power of the Commissioner in relation to tax avoidance schemes**	N/A	The Bill proposes the introduction of the following new section: - 18A. (1) Where the Commissioner determines in accordance with the information obtained under subsection (2) that— (a) a person has entered into or carried out a tax avoidance scheme; (b) a person has obtained a tax benefit in connection with the scheme; and (c) the purpose of enabling the person referred to in paragraph (b) is to obtain a tax benefit, the Commissioner may determine the tax liability of the person who obtained the tax benefit as if the scheme had not been entered into or carried out. - (2) The Commissioner shall rely on— (a) information submitted to the Commissioner under section 35(5) of the Income Tax Act; (b) the accounting of tax deducted under section 37(1) of the Income Tax Act; (c) information submitted to the Commissioner under section 5A of the Kenya Revenue Authority Act; (d) information submitted through the electronic system established under section 23A; (e) information submitted to the Commissioner under section 24A; (f) information obtained from the inspection of goods and records conducted under section 58; (g) information obtained from the auditing of the records produced under section 59; or (h) information submitted to the data management and reporting system established under section 59A; or (i) information submitted to the Commissioner under any other written law, to make a determination under subsection (1).	The proposed introduction of section 18A enhances the Commissioner's general anti avoidance powers by expressly authorising the re characterisation of arrangements that result in a tax benefit and are considered to be tax avoidance schemes. While anti avoidance concepts already exist across Kenya's tax laws, the provision consolidates and strengthens these powers within the TPA, supported by a broad definition of both a "scheme" and a "tax benefit", and a wide range of information sources that may be relied upon in originating assessments. A key concern is the breadth of discretion conferred on the Commissioner, particularly in the absence of explicit procedural guardrails. The provision does not clearly require a demonstration of intentionality, proportionality, dominant purpose, or prior engagement with the taxpayer before an assessment is issued on this basis, which may increase uncertainty for taxpayers engaged in complex commercial arrangements where tax advantages arise incidentally. Although the inclusion of a defined limitation period provides some certainty, the practical impact of the proposal will depend heavily on how the powers are exercised in practice and whether further guidance is issued to distinguish aggressive avoidance from legitimate tax planning grounded in commercial substance and proper application of the law. A key practical consideration is how the provision will interact with existing specific anti-avoidance rules in other tax laws and the commissioner's power to raise default or amended assessments. Clear guidance would be needed on whether the Commissioner would first apply targeted rules, and when the proposed provision would be invoked as a broader residual power, would support consistent application and reduce uncertainty. The proposal may also raise questions on how the taxpayer's liability should be reconstructed where a scheme is disregarded.

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

Issue	Current tax provision	Proposed change	Impact
		- (3) The Commissioner shall issue to the person referred to in subsection (1) (b) an assessment of the tax liability determined under subsection (1) within five years from the last day of the tax period to which the tax liability relates. - (4) In this section— "scheme" includes a course of action, and an agreement, arrangement, promise, plan, proposal, or undertaking, whether express or implied, and whether or not legally enforceable; and "tax benefit" means – (a) a reduction in the liability of a person to pay tax; (b) an increase in the entitlement of a person to a deduction for input tax; (c) an entitlement to a refund; (d) a postponement of a liability for the payment of tax; (e) an acceleration of an entitlement to a deduction for input tax; (f) any other advantage arising because of a delay in payment of tax or an acceleration of the entitlement to a deduction for input tax; (g) anything that causes a taxable supply or taxable import not to be a taxable supply or taxable import, as the case may be; or (h) anything that gives rise to a deduction for input tax for an acquisition or import that is used or is intended to be used other than in making taxable supplies.	
Section 29A **Power of Commissioner to originate an Assessment**	N/A	The Bill proposes the amendment of the TPA by the introduction of the following new section: - 29A. (1) The Commissioner may, in accordance with the information obtained in accordance with subsection (2), issue an assessment on the income of a person as he may deem necessary. - (2) The Commissioner shall rely on— (a) the information submitted to the Commissioner under section 35(5); (b) the accounting of tax deducted under section 37(1);	The proposed 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.

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

Issue	Current tax provision	Proposed change	Impact
Section 29A **Power of Commissioner to originate an Assessment**		(c) the information submitted to the Commissioner under section 5A of the Kenya Revenue Authority Act; (d) the information submitted to the electronic system established under section 23A of the Tax Procedures Act; (e) the information submitted to the Commissioner under section 24A; (f) the information obtained from the inspection of goods and records conducted under section 58; (g) the information obtained from the auditing of the records produced under section 59; (h) the information submitted to the data management and reporting system established under section 59A; or (i) the information submitted to the Commissioner under written law, to issue an assessment under subsection (1).	By contrast, the proposed 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 departure from the conceptual balance underlying self assessment. While the provision may be intended to strengthen enforcement in an increasingly data rich tax environment, it blurs the line between corrective intervention and primary assessment. In effect, it introduces an authority driven assessment power that sits alongside, rather than behind, the self assessment process, raising the question of whether Kenya is moving towards a more administrative assessment model in practice, even if self assessment remains the formal starting point. The absence of express thresholds or procedural guardrails heightens this concern. Unlike default or amended assessments, which are anchored to objectively identifiable events, section 29A does not clearly require prior engagement with the taxpayer, reconciliation of the underlying data, or an explanation before an assessment is issued. If applied broadly or aggressively, the provision could increase uncertainty and dispute risk, particularly where assessments are generated from incomplete, automated or untested information. This risk is heightened in a digital environment where the Commissioner may treat system-generated data as conclusive, while taxpayers may be required to disprove assessments arising from data mismatches or contextual errors. The real impact will therefore depend on how narrowly the power is exercised if the provision is enacted and whether administrative guidance emerges to confine its use to clear, risk based scenarios rather than routine assessment origination. Furthermore, the proposal does not appear to make a corresponding adjustment to the dispute framework or the burden of proof where an assessment is originated by the Commissioner under the proposed section 29A. Under the current TPA framework, the burden generally rests on the taxpayer to prove that a tax decision is incorrect, a position that has been explained by case law by reference to Kenya's self-assessment regime and the taxpayer's access to relevant records. If section 29A is enacted, this may require closer consideration where the assessment is based primarily on third-party, system-generated, or other external data that the taxpayer may not have had prior visibility of or an opportunity to reconcile before the assessment is issued.

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

Issue	Current tax provision	Proposed change	Impact
Section 37E **Amnesty of interest, penalties or fines on unpaid tax**	(1) Notwithstanding any other provision of this Act, the Commissioner shall refrain from recovering penalties or interest or fines on tax debt where a person shall have paid all the principal tax due before the 31st December, 2023. (2) Where all the principal tax due shall not have been paid before the 31st December, 2023, the person from whom the tax is due shall apply to the Commissioner for an amnesty of interest, penalties or fines on the unpaid tax, and propose a payment plan for the outstanding amount. (3) For the purposes of subsection (2) — (a) the amnesty shall be on interest, penalties or fines on the unpaid tax that have accrued up to the 31st December, 2023; (b) the amnesty shall only be granted once, if the person— (i) applies for amnesty and pays all the outstanding principal taxes not later than the 30th June, 2025; (ii) does not incur a further tax debt; and (iii) gives a written undertaking for the settlement of all outstanding taxes that the person may owe. (4) Despite subsection (2), where a person has paid part of the principal tax due as on the 31st December, 2023, and has been granted amnesty on the unpaid principal tax, and interest, penalties and fines thereon, any amount that remains unpaid on the 30th June, 2025, shall attract interest and penalties for which no amnesty shall be granted.	The Bill proposes the amendment of the TPA by: - **in subsection (1):** deleting the expression "31 December, 2023" and substituting it with the expression "31 December, 2025". - **in subsection (2)** deleting the expression "31 December, 2023" in subsection and substituting it with the expression "31 December, 2025". - **in subsection (3)** deleting the expression "31 December, 2023" in subsection (3), paragraph (a) and substituting it with the expression "31 December, 2025". deleting the expression "31 December, 2023" in subsection (3), paragraph (b) and substituting it with the expression "31 December, 2026". - **in subsection (4)** deleting the expression "31st December, 2023" appearing immediately after the words "as on the" and substituting it with the expression "31st December, 2025" by deleting the expression "30th June, 2025" appearing immediately after the words "unpaid on the" and substituting it with the expression "31 December 2026".	The proposed amendments 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. This is a welcome provision, as it effectively 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.

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

Issue	Current tax provision	Proposed change	Impact
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**	(2) Despite subsection (1), a person who does not deduct, withhold or remit tax on a payment shall not be required to pay the principal tax not deducted, withheld or remitted where the recipient of the payment has paid and accounted for the full principal tax and the tax not deducted, withheld or remitted.	The Bill proposes to amend the TPA by deleting this provision.	The Bill proposes to delete 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 was recently introduced through the Finance Act, 2025, with effect from 1 July 2025, and appears to have been designed as a fairness measure to prevent double collection of principal tax on the same income. The proposed repeal is therefore significant because it would remove this protection less than one year after it was enacted. From an impact perspective, this may affect legislative certainty and taxpayer expectations, particularly because the provision was introduced to address circumstances where there is no net revenue loss to the Exchequer. If enacted, the repeal would revert the position to one where a withholding agent may be exposed to principal tax liability even where the recipient has already fully accounted for the tax. This may increase the risk of economic double collection, unless the payer can practically recover the amount from the recipient. It may also result in more conservative withholding practices, higher dispute volumes, and increased compliance friction, particularly where withholding obligations are identified after the payment has already been made.
Section 42 **Agency notices to be issued where taxpayers lose at the Tribunal or High Court**	(14) The Commissioner shall not issue a notice under this section unless- …….. (e) the taxpayer has not appealed against an assessment specified in a decision of the Tribunal or court.	The Bill proposes to amend the TPA by deleting this paragraph (e) in section 42, subsection (14).	The proposed amendment would allow the Commissioner to issue and enforce agency notices notwithstanding the existence of a pending appeal, thereby permitting tax collection to proceed while the dispute is still before the appellate forums. This materially alters the balance between enforcement and dispute resolution under the TPA, as taxpayers may be subject to immediate collection measures, including the freezing of bank accounts, even where the underlying tax liability has not been finally determined. In practical terms, the proposed amendment would shift the burden onto taxpayers to seek discretionary relief, such as stays or conservatory orders, to halt enforcement, increasing cash-flow pressure and dispute costs during the appeal process.

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

Issue	Current tax provision	Proposed change	Impact
Section 42 **Agency notices to be issued where taxpayers lose at the Tribunal or High Court**			This proposal is not new. Similar amendments were proposed in both the Finance Bill, 2024 and the Finance Bill, 2025, and were rejected on both occasions following consideration by the Departmental Committee on Finance and National Planning. In the Finance Bill, 2024, clause 53(c) proposed to amend section 42(14) of the TPA by deleting paragraph (e). Stakeholders opposed the proposal on the basis that empowering the Commissioner to issue agency notices for assessed taxes despite an ongoing dispute would prejudice taxpayers' rights to justice, the right of appeal, and fair administrative action. The Committee agreed with the stakeholder concern. The same proposal was reintroduced in the Finance Bill, 2025 under clause 47(m)(v), which again sought to delete section 42(14)(e), alongside broader amendments to extend the agency notice framework to non-resident persons subject to tax in Kenya. Stakeholders again proposed that the amendment be rejected, noting that it would allow KRA to issue agency notices where a taxpayer had appealed against an assessment specified in a decision of the Tribunal or court. The Committee agreed with the stakeholder, stating that the proposal would prejudice taxpayers' rights to justice, the right of appeal, and fair administrative action. While the broader extension of the agency notice framework to non-resident persons subject to tax in Kenya was ultimately reflected in the current TPA, section 42(14)(e) was retained. The current TPA therefore still provides that the Commissioner shall not issue an agency notice unless, among other conditions, the taxpayer has not appealed against an assessment specified in a decision of the Tribunal or court. Against this background, the Finance Bill, 2026 proposal represents a third attempt to remove a safeguard that has twice been considered and rejected. If enacted, it would allow the Commissioner to enforce agency notices while an appeal is pending, unless the taxpayer obtains discretionary relief such as a stay or conservatory order. Earlier Finance Bills pursued the same objective through deposit or payment-before-appeal requirements rather than enforcement powers. In particular, the Finance Bill, 2022 proposed a deposit of 50% of the disputed amount. After that unsuccessful attempt, the proposal was reintroduced in the Finance Bill, 2023, to require a taxpayer to deposit 20% of the disputed tax as a condition for lodging an appeal before the Tax Appeals Tribunal. Viewed against this background, the Finance Bill, 2026 proposal represents a further attempt to achieve, through enhanced enforcement powers, an outcome broadly similar in effect to the earlier deposit-based proposals. While the present approach does not mandate an explicit upfront deposit, permitting agency notices to be issued during pending appeals may, in practice, result in the collection of disputed tax before the appellate process is concluded, with comparable cash-flow and dispute-cost implications for affected taxpayers.

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

Issue	Current tax provision	Proposed change	Impact
Section 44A **Certificate of Origin**	(1) This section applies to all goods imported into Kenya. (2) No person shall import any goods into Kenya without presenting a valid Certificate of Origin to the Commissioner or an authorised officer. (3) The Commissioner or an authorized officer shall not process any import entry documentation without a valid Certificate of Origin being presented. (4) The Commissioner or an authorised officer shall require production of a Certificate of Origin and other supporting documents as proof of origin on goods imported into Kenya prior to their clearance for entry into Kenya. (5) A Certificate of Origin shall be valid if it discloses the following information – (a) name and address of the exporter; (b) name and address of the importer; (c) port of origin; (d) accurate description of the goods; (e) quantity of the goods; (f) country of origin; and (g) country of destination (6) Any person who contravenes the provisions of this section commits an offence and shall have their goods seized or forfeited to the Commissioner or an authorised officer in accordance with section 44 of this Act.	The Bill proposes to amend the TPA by repealing this whole section.	The repeal removes the statutory requirement under the TPA to present a Certificate of Origin for all imports and eliminates the associated offence and enforcement provisions under that Act. This reflects a policy shift to consolidate origin-related requirements within customs-specific legislation, particularly the EACCMA and related regulations, rather than duplicating them within the tax administration framework. In practice, the change reduces overlap between the TPA and customs laws and avoids the risk of parallel enforcement under both regimes. Importantly, the repeal does not remove the obligation to comply with rules of origin, which will continue to apply under the EACCMA and applicable trade agreements; rather, it clarifies that origin compliance is to be administered and enforced solely through the customs legal framework.
Section 47 (1) **Offsets of overpaid tax**	(1) Where a taxpayer has overpaid a tax under any tax law, the taxpayer may apply to the Commissioner in the prescribed form— (a) to offset the overpaid tax against the taxpayer's outstanding tax debts and future tax liabilities including instalment taxes and value added tax payable on imports …….	The Bill proposes to amend the TPA by deleting in section 47 (1) the words, "and value added tax payable on imports".	The proposed amendment restricts the utilisation of tax overpayments by preventing taxpayers from offsetting such amounts against VAT payable on imports. This will require affected taxpayers to pay import VAT in cash at the point of importation, even where they have confirmed overpaid tax or credits reflected on their tax ledger. The change is likely to have adverse cash-flow implications for import-intensive businesses, particularly those with persistent VAT credits or pending refunds. In practice, taxpayers may be forced to pursue refunds which are often subject to audits and extended processing timelines rather than deploying available credits to meet immediate import VAT obligations. The proposal therefore increases working capital strain and may heighten refund positions and disputes, especially in sectors with significant cross border trade activity.

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

Issue	Current tax provision	Proposed change	Impact
Section 75 **Expansion of the uses of electronic tax systems**	(1) The Commissioner may, authorise the following to be carried out through the use of information technology, including computer systems, mobile electronic devices, electronic and mobile communication systems - (a) an application for registration under a tax law; (b) the submitting or lodging of a tax return or other document under a tax law; (c) the payment or repayment of a tax under a tax law; or (d) the doing of any other act or thing that is required to be done under a tax law. (2) A certificate of registration, service of a notice, issuing of any document, or other act or thing that is required to be issued, served, made, or done by the Commissioner under a tax law, may be issued, served, made, or done through a computer system, mobile electronic device or other form of electronic or mobile communication.	The Bill proposes to amend this section by the addition of the following subsections: - (3) The Commissioner may use the information technology contemplated under subsection (1) to generate a prepopulated tax return on behalf of a person required to submit or lodge a tax return. - (4) A person required to submit or lodge a tax return may rely on the prepopulated return generated by the Commissioner under subsection (3) to submit or lodge the return.	The proposal marks a significant shift in Kenya's tax compliance framework by introducing pre-populated returns into the self-assessment system. In principle, this could simplify compliance, reduce administrative burden and improve accuracy for taxpayers whose data is already captured through withholding, third-party reporting and electronic invoicing systems. However, the change also raises important practical considerations. Prepopulated returns will depend heavily on the completeness and accuracy of KRA held data, and taxpayers will remain responsible for ensuring that the information is correct before submission. Any errors, omissions or mismatches could result in assessments, penalties or disputes, particularly where taxpayers rely on prefilled data without sufficient validation. This risk is heightened where information is drawn from multiple systems, such as withholding tax records, electronic tax invoice data, third-party reporting, and taxpayer filings, which may not always reconcile cleanly due to different tax bases. The effectiveness of the system will therefore depend on the quality of underlying data, clarity of implementing regulations and the extent to which taxpayers retain the ability to amend or override preppopulated information where necessary.
Section 77 (2) **Computation of time for lodging objections and appeals**	(2) In computing the period for the lodgement of an objection to the Commissioner under section 51, an appeal to Tax Appeals Tribunal under section 52, an appeal to the High Court under section 53 or an appeal to the Court of Appeal under section 54, the computation shall not include Saturdays, Sundays or public holidays.	The Bill proposes to delete this particular provision.	The proposed amendment would require objection and appeal timelines to be computed on a strict calendar-day basis, with Saturdays, Sundays and public holidays counting towards statutory time limits. This would materially shorten the effective time available to taxpayers to prepare and lodge objections and appeals, particularly where deadlines fall close to weekends or public holidays. In practical terms, taxpayers may face increased risk of late filings, heightened reliance on applications for extension of time, and a greater likelihood that disputes are determined on procedural compliance rather than on their substantive merits. The amendment also increases administrative and cash-flow pressure on taxpayers involved in complex disputes, where internal approvals, collation of documentation or engagement of advisers is required within already tight statutory windows.

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

Issue	Current tax provision	Proposed change	Impact
Section 77 (2) **Computation of time for lodging objections and appeals**			Section 77(2) was only recently introduced through the Tax Procedures (Amendment) Act, 2024, to expressly exclude Saturdays, Sundays and public holidays when computing objection and appeal timelines. Notwithstanding its recent enactment, the Finance Bill, 2025 proposed to delete the provision barely five months later. That proposal did not proceed following stakeholder engagement and consideration by the Departmental Committee of Finance and National Planning, and section 77(2) was retained in the Finance Act, 2025. The reintroduction of the same proposal in the Finance Bill, 2026 therefore represents a renewed attempt to reverse a recently enacted procedural safeguard, raising concerns around certainty and stability in tax dispute-resolution rules.
Section 86 **Failure to comply with electronic tax system**	(1) Where a tax law requires a taxpayer to issue an electronic tax invoice, submit a tax return in electronic form or pay tax electronically, and the taxpayer fails to comply with that law, the Commissioner shall issue a notice in writing to the taxpayer requesting the reasons for non-compliance. (2) Where the reasons given under subsection (1) do not satisfy the Commissioner, the taxpayer shall be liable to a penalty of two times the tax due.	The Bill proposes to repeal this whole section and replace it with the following new section: - - 86. (1) Where the Commissioner determines that a taxpayer has failed to comply with the requirement under a tax law to issue an electronic tax invoice, submit a tax return in electronic form, or pay tax electronically pursuant to section 75, the Commissioner shall issue a notice in writing to the taxpayer requiring the taxpayer to provide reasons for the non-compliance. - (2) Upon receipt of the response of the taxpayer as required under subsection (1), the Commissioner shall consider whether— (a) the failure to comply arose from circumstances beyond the reasonable control of the taxpayer; (b) the failure to comply was not due to the wilful neglect or deliberate default of the taxpayer; and (c) the taxpayer took reasonable steps to comply with the relevant requirement as soon as practicable. - (3) Where the Commissioner is not satisfied by the reasons given under subsection (2), the taxpayer shall be liable to pay the higher of the following penalties— (a) two times the value of the tax due; (b) one hundred thousand shillings; or (c) in the case of an individual, ten thousand shillings.	The proposed amendment 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. From an administration and enforcement perspective, the amendment reinforces the centrality of electronic systems in Kenya's tax compliance framework and signals continued intolerance for system-based non-compliance. 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	Current tax provision	Proposed change	Impact
Section 89 5A and 5B **Waiver of penalties on electronic systems**	Section 5A currently reads as follows: (5A) The Cabinet Secretary may, on the recommendation of the Commissioner, waive the whole or part of any penalty or interest imposed under this Act where the liability to pay the penalty or interest was due to— (a) an error generated by an electronic tax system; (b) a delay in the updating of an electronic tax system; (c) a duplication of a penalty or interest due to a malfunction of an electronic tax system; or (d) the incorrect registration of the tax obligations of a taxpayer. **Section 5B** N/A	The Bill proposes the following amendments to this section: **In subsection 5A, paragraph (c)** - deleting the words "due to a malfunction of an electronic tax system" **Introduction of paragraph (ca) immediately after (c)** - (ca) a malfunction of an electronic tax system; **Introduction of Subsection 5B immediately after 5A** (5B) Despite subsection (5A), the Commissioner may waive the whole or part of any penalty or interest imposed under this Act where the liability to pay the penalty or interest does not exceed two million shillings and was due to an error generated by an electronic tax system.	The proposed amendment enhances the flexibility of the penalty-waiver framework by enabling the Commissioner to directly waive penalties and interest arising from electronic system errors where the exposure does not exceed KES 2 million. This is a pragmatic measure that may improve the timeliness and efficiency of relief in lower-value cases, reducing the need for escalation to the Cabinet Secretary and easing administrative bottlenecks for both taxpayers and the Kenya Revenue Authority. However, the amendment also implicitly formalises monetary thresholds within the waiver regime, signalling that larger amounts will continue to require higher-level approvals. Taxpayers with system-related penalties exceeding the KES 2 million threshold may therefore remain exposed to longer resolution timelines and greater administrative uncertainty.
Section 112 (2) **Content to be covered by Regulations**	(1) The Cabinet Secretary may make Regulations for the better carrying into effect of the provisions of this Act. (2) Without prejudice to the generality of subsection (1), the Regulations may - (a) prescribe conditions and procedures for registration; (b) provide for the submission of returns and the place at which returns are to be submitted and tax to be paid; (c) prescribe offence and penalties thereto; (d) provide rules and procedure for collection of unpaid tax by distrait; (e) prescribe any other thing required to be prescribed.	The Bill proposes to amend the TPA through the introduction of a new paragraph (ba) in section 112 (2) immediately under paragraph (b) which would read as follows: (ba) the procedure for the submission or lodging of returns based on prepopulated tax returns generated by the Commissioner.	The proposed amendment provides the regulatory underpinning for the introduction of pre-populated tax returns under section 75 of the TPA. By expressly empowering the Cabinet Secretary to prescribe detailed procedures through regulations, the amendment enables the operationalisation of pre-populated returns without requiring further primary legislation. From a policy perspective, the change signals a clear shift towards a more administratively assisted, system-driven compliance model, with greater reliance on third-party data, electronic invoicing systems and KRA-generated information. The practical impact for taxpayers will largely depend on the content of the regulations to be issued, including the extent to which taxpayers will be permitted to amend, override or explain pre-populated data before submission. The amendment also has governance implications. As core aspects of return preparation and submission may now be defined through subsidiary legislation, taxpayers will need to closely monitor regulations and administrative guidance to understand their obligations, accountability for errors, and interaction between pre-populated data and the self-assessment principle.

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

Issue	Current tax provision	Proposed change	Impact
Section 2 **Deletion of certain definitions**	"assessment" means— (a) a self-assessment return submitted under section 45; (b) an assessment made by the Commissioner under section 45; or (c) an amended assessment under section 46; "information technology" means any equipment or software for use in storing, retrieving, processing or disseminating information; "tax computerized system" means any software or hardware for use in storing, retrieving, processing or disseminating information relating to tax;	The Bill proposes to amend Section 2 (1) of the Value Added Tax Act ("VAT Act") as follows: by deleting the definition of the terms: 1. assessment; 2. information technology; and 3. tax computerized system.	This amendment harmonizes VAT and TPA procedural definitions to eliminate duplicate and outdated information in respect of procedural definitions and administrative framework. By aligning these provisions, the amendment enhances legislative consistency across tax laws, facilitating effective tax compliance and administration.
Section 13 **Restriction of VAT exclusion on financial charges to licensed hire purchase businesses**	(6)(a) In the case of a supply of goods under a hire purchase agreement, any financial charge payable in relation to a supply of credit under the agreement; or…	The Bill proposes to delete subsection 6(a) and substitute it with the following new paragraph— (a) in the case of a supply of goods from a person licenced to carry on hire purchase business under a hire purchase agreement registered in accordance with the Hire Purchase Act, any financial charge payable in relation to the supply of credit under the agreement.	This measure aims to clarify and tighten the VAT treatment of financial charges under hire-purchase arrangements. The proposal limits the exclusion to financial charges under legally registered hire purchase agreements that are both issued by a licensed hire purchase provider and registered under the Hire Purchase Act. In practice, taxpayers entering into hire purchase arrangements must ensure that their counterparty holds a valid licence and that the agreement is properly registered. Failure to do so will result in the entire consideration, including the financing element, being subject to VAT at the standard rate of 16%.
Section 17A **Input tax adjustment following exempt reclassification**		The Bill proposes to introduce a new section immediately after section 17 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 proposal establishes a mechanism to ensure the recovery of input tax is adjusted where goods or services previously subject to input tax recovery are subsequently utilized to make exempt supplies. Taxpayers that have deducted input tax on such supplies will be required to account for the resulting liability at the point of exempt reclassification and settle the VAT liability where the adjustment results in excess input tax. Affected taxpayers should model the potential adjustments and consider inventory and pricing strategies to manage the financial and operational impact of the proposed change.

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

Issue	Current tax provision	Proposed change	Impact
Section 31 **Revised timeline for VAT relief on bad debts**	(1) Where a registered person has made a supply and has accounted for and paid tax on that supply but has not received any payment from the person liable to pay the tax on that supply and that person– (a) has not received any payment from the person liable to pay the tax, he may, after a period of two years from the date of the supply; or (b) the person to whom the supply was made has been placed under statutory management through the appointment of an administrator, receiver, or liquidator, he may apply to the Commissioner for refund of the tax involved:	The Bill proposes to amend section 31(1) by deleting the words "two years" under paragraph (a) immediately after the words "period of" and substituting the words "three years".	The proposal reverses the Finance Act 2025 amendment by extending the minimum qualifying period for VAT relief on irrecoverable debts from two to three years. The change delays access to VAT refunds, increasing costs for suppliers extending credit in industries with lengthy payment cycles or high default risk. From the government's perspective, it likely reflects a policy view that the previous two-year period was short relative to actual debt recovery patterns. Further, it potentially facilitates the Exchequer manage its cash flow and VAT refunds more conservatively.
Section 42 **Enhanced invoice requirements to restrict VAT charges to only taxable supplies**	(1) Subject to subsection (2), a registered person who makes a supply shall, at the time of the supply furnish the purchaser with the tax invoice containing the prescribed details for the supply. (2) No invoice showing an amount which purports to be tax shall be issued on any supply— (a) which is not a taxable supply; or (b) by a person who is not registered.	The Bill proposes 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.	By replacing the term "registered person" with "person" in section 42(1), the Bill extends the requirement to issue tax invoices beyond VAT registered taxpayers to any person who makes a supply and is required to issue a fiscalised tax invoice under the TIMS/ eTIMS framework. The amendment of subsection (2) with the new provision reinforces the principle that VAT can only be charged where there is a taxable supply under the Act.
Section 66 **Repeal of tax avoidance schemes**	This section empowers the Commissioner to counteract schemes designed primarily to secure VAT advantages rather than achieve genuine commercial outcomes subject to certain conditions. If these conditions are met, the Commissioner may redetermine the person's VAT position as if the scheme had not occurred and issue an assessment accordingly, within five years of the last day of the relevant tax period. The aim is to protect the VAT base and deter artificial avoidance arrangements.	The Bill proposes to repeal section 66 of the VAT Act entirely.	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 rather than being driven predominantly by tax benefits.

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

VAT Schedule changes for goods (The First & Second Schedule)			
Exempt to Standard Rated			
Impact	**Previous position (combined view – First & Second Schedules)**	**Proposed change (First & Second Schedules)**	**Impact**
Affordable housing scheme goods (para 109 – First Schedule)	First Schedule – Exempt: Para 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.	First Schedule: Para 109 deleted – goods for such affordable housing schemes will no longer enjoy exemption; unless covered elsewhere, they become standard-rated (16%).	Goods for approved affordable housing projects move from exempt to standard-rated. This introduces VAT at 16% on qualifying inputs. Since sale of residential houses is exempt from VAT, with this change, developers will not recover the resultant input tax resulting in higher project costs, which could affect overall project affordability.
Denatured ethanol (para 153 – First Schedule)	First Schedule – Exempt: Para 153. The supply of denatured ethanol of tariff number 2207.20.00.	First Schedule: Para 153 deleted – supply of denatured ethanol becomes standard-rated (16%).	The exemption for denatured ethanol under paragraph 153 was introduced by the Tax Laws (Amendment) Act, 2024, effective 27 December 2024. The current proposal to delete paragraph 153 would therefore reverse a relatively recent exemption and reinstate VAT at 16% on supplies of denatured ethanol (2207.20.00). This proposed change, if adopted, will increase costs for industries that use denatured ethanol and may either be passed on to consumers through higher prices or force a shift towards alternative inputs where possible.
Deletion of paragraph 58 (Direction-finding compasses)	58. Direction-finding compasses, instruments and appliances for aircraft.	These aircraft instruments and appliances will become taxable at 16%.	This increases the cost of specialised aircraft navigation and instrument equipment, narrowing aviation sector relief.
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.	Goods previously under para 62 will become taxable at 16% subject to approval by the Cabinet Secretary responsible for matters relating to recreational parks.	This increases the cost of developing new tourism infrastructure and may impact investment decisions in the hospitality and tourism sector which is a critical foreign exchange earner for Kenya.

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

Amendments and New Exempt Provisions			
Impact	**Previous position (combined view – First & Second Schedules)**	**Proposed change (First & Second Schedules)**	**Impact**
Aircraft / aviation sector (paras 49 & 89 – First Schedule)	First Schedule – Exempt (previous framing): 1) Para 49 – All goods and parts thereof of chapter 88; 2) Para 89 – Any other aircraft spare parts imported by aircraft operators or persons engaged in the business of aircraft maintenance upon recommendation by the competent authority responsible for civil aviation.	First Schedule: 1) Para 49 deleted 2) Para 89 amended – The Bill amends 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.	Read together, the change narrows and retargets relief. The deletion of paragraph 49 removes the broad exemption for all chapter 88 goods and parts, while the amended paragraph 89 now specifically exempts aircraft parts imported by aircraft operators or aircraft maintenance businesses, on recommendation of by the competent authority. The removal of the blanket chapter 88 exemption means that only aircraft parts imported by operators or maintenance businesses with a recommendation from the competent civil aviation authority will qualify for VAT exemption. All other chapter 88 goods, and aircraft-related imports that do not meet these conditions, will now be subject to VAT at 16%, resulting in a more targeted and narrower relief than under the previous regime.
Amendment to Paragraph 51. To include "spare parts" in the list of exempt items for official aid-funded projects.	Taxable goods imported or purchased for direct and exclusive use in the implementation of official aid funded projects excluding fuels, lubricants and tyres for vehicles upon approval by the Cabinet Secretary responsible for the National Treasury.	The Bill proposes 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 amendment appears to move spare parts into the list of goods excluded from the VAT exemption for official aid-funded projects (alongside fuels, lubricants and tyres), while grandfathering 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.
Traveller's baggage threshold (para 99(i) – First Schedule)	First Schedule – Exempt: Para 99(i) – Goods up to USD 300 per traveller (subject to other conditions) were exempt when imported as accompanied baggage by travellers outside Kenya for more than 24 hours.	First Schedule: The Bill increases the value threshold in paragraph 99(i) from USD "three hundred" to "two thousand".	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.
Dialyzers (para 158 – First Schedule)	–	First Schedule – New exemption: Dialyzers of tariff number 8421.29.00.	The exemption lowers cost of dialysis related equipment, reducing treatment cost pressure for renal care providers and patients, and reinforcing health sector support.
Scrap metal (para 159 – First Schedule)	–	First Schedule – New exemption: Scrap metal.	The exemption may be aimed at formalising the scrap 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)

Amendments and New Exempt Provisions			
Impact	**Previous position (combined view – First & Second Schedules)**	**Proposed change (First & Second Schedules)**	**Impact**
Worn clothing and other worn articles (para 169 – First Schedule)	–	First Schedule – New exemption: Para 169 – Worn clothing and other worn articles of tariff heading 6309, other than upon importation.	The measure aims to support the domestic second-hand clothing market by exempting local resales from VAT, while maintaining VAT upon importation. However, traders cannot claim input VAT, so embedded VAT costs may be passed on to consumers, even as the change encourages sector growth and safeguards VAT collection at the border.
Public-Private Partnership (para 170 – First Schedule)	–	First Schedule – New exemption: Para 170 – 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 exemption is designed to reduce capital costs of Public-Private Partnership ("PPP") infrastructure projects, improving project viability and attracting private investment.
Zero-Rated to Exempt Goods			
Motorcycles (para 30 – Second Schedule; para 164 – First Schedule)	Second Schedule – Zero-rated: Paragraph 30 – Supply of motorcycles of tariff heading 8711.60.00 is currently zero-rated.	Second Schedule: Paragraph 30 is deleted. First Schedule – New exemption: Paragraph 164 – The supply of motorcycles of tariff heading 8711.60.00.	The change moves motorcycles from zero-rated to VAT-exempt. Sales remain free of output VAT, but dealers lose full input-VAT recovery, creating embedded VAT in their costs and likely causing some increase in prices.
Electric bicycles (para 31 – Second Schedule; para 165 – First Schedule)	Second Schedule – Zero-rated: Paragraph 31 – Supply of electric bicycles is currently zero-rated.	Second Schedule: Paragraph 31 is deleted. First Schedule – New exemption: Paragraph 165 – The supply of electric bicycles.	Electric bicycles also shift from zero-rated to VAT-exempt. This maintains demand-side support for e-bikes (no VAT charged to consumers) while backing the green-mobility agenda, but suppliers can no longer fully recover input VAT, increasing embedded VAT and slightly weakening the incentive compared to the previous zero-rating.
Animal feed inputs/raw materials (para 160 – First Schedule; para 34 – Second Schedule)	Second Schedule – Zero-rated: Para 34 – Inputs or raw materials locally purchased or imported for the manufacture of animal feeds.	Second Schedule: Para 34 is deleted (no longer zero-rated). First Schedule: New exemption: para 160 Inputs or raw materials locally purchased or imported for the manufacture of animal feeds upon recommendation by the Cabinet Secretary for the time being responsible for matters relating to agriculture (now exempt).	The shift from zero-rated to exempt means that animal-feed manufacturers will lose full input-VAT recovery and refund rights, increasing risk of embedded VAT on overheads and non-qualifying inputs. The non recoverable portion of input tax may be passed on to the final consumers thereby increasing final feed prices.
Pharmaceutical manufacturing inputs (para 161 – First Schedule; para 11 – Second Schedule)	Second Schedule – Zero-rated: Para 11 – Inputs or raw materials (locally produced or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved by the CS in consultation with the CS for health.	Second Schedule: Para 11 is deleted. First Schedule: New para 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.	The move from zero-rated to exempt means that the manufacturers would no longer deduct and claim VAT refunds. This reduces refund outflows (consistent with MTRS) but introduces irrecoverable input VAT on overheads and some services, possibly increasing production costs for medicaments unless offset by pricing or other incentives.

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

Zero-Rated to Exempt Goods			
Impact	**Previous position (combined view – First & Second Schedules)**	**Proposed change (First & Second Schedules)**	**Impact**
Transportation of sugarcane (para 162 – First Schedule; para 21 – Second Schedule)	Second Schedule – Zero-rated: Para 21 – Transportation of sugarcane from farms to milling factories.	Second Schedule: Para 21 is deleted. First Schedule: New para 162 – Transportation of sugarcane from farms to milling factories.	The proposal shifts transportation of sugarcane from zero-rated (Second Schedule para 21) to exempt (First Schedule para 162). While this keeps the service VAT-free to recipients, transport providers will no longer be able to claim input VAT on related costs, leading to some embedded VAT in their cost base, which may be passed on to farmers.
Telephones (para 163 – First Schedule; para 29 – Second Schedule)	Second Schedule – Zero-rated: Para 29 – Supply of locally assembled and manufactured mobile phones.	Second Schedule: Para 29 is deleted. First Schedule: New para 163 – The supply of imported or locally purchased telephones for cellular networks and other wireless networks. Excise Duty is imposed at 25%, liability at activation.	The change moves telephones from a zero-rated regime for locally assembled phones to a VAT-exempt regime for both imported and local phones, while introducing 25% excise at activation. This removes VAT on telephone sales to consumers but denies suppliers full input-VAT recovery and shifts the primary tax burden to excise, potentially increasing overall tax cost for users despite the apparent VAT relief.
Solar and lithium-ion batteries (para 166 – First Schedule; para 32 – Second Schedule)	Second Schedule – Zero-rated: Para 32 – Supply of solar and lithium-ion batteries is currently zero-rated.	Second Schedule: Para 32 is deleted. First Schedule: New para 166 – The supply of solar and lithium-ion batteries.	The change shifts solar and lithium-ion batteries from zero-rated to VAT-exempt. Supplies remain VAT-free to customers, but suppliers will no longer recover input VAT in full, leading to embedded VAT in their costs and potentially higher prices compared to the previous zero-rating regime.
Electric buses (para 167 – First Schedule; para 33 – Second Schedule)	Second Schedule – Zero-rated: Para 33 – Supply of electric buses of tariff heading 87.02 is currently zero-rated.	Second Schedule: Para 33 is deleted. First Schedule: New para 167 – The supply of electric buses of tariff heading 87.02.	The change moves electric buses from zero-rated to VAT-exempt. Sales remain free of output VAT, but suppliers lose full recovery of input VAT, creating embedded VAT in their cost base and some upward pressure on prices. While this reduces VAT refund outflows and maintains support for the green transport agenda, the shift from zero-rating to exemption makes the incentive less generous than before.
BEV stoves (para 168 – First Schedule; para 35 – Second Schedule)	Second Schedule – Zero-rated: Para 35 – Bioethanol vapour (BEV) stoves classified under HS Code 7321.12.00	Second Schedule: Para 35 is deleted. First Schedule: New para 168 – Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).	The change moves BEV stoves from zero-rated to VAT-exempt. Sales remain free of output VAT, but suppliers lose full input-VAT recovery, leading to embedded VAT in their costs and some upward pressure on prices. While this still supports 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)

VAT Schedule changes for Services (The First Schedule)			
Impact	**Previous position (combined view – First & Second Schedules)**	**Proposed change (First & Second Schedules)**	**Impact**
Public-Private Partnership (para 170 – First Schedule)	–	First Schedule – New exemption: Para 170 – 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 exemption is designed to reduce capital costs of Public-Private Partnership ("PPP") infrastructure projects, improving project viability and attracting private investment.
Paragraph 1 Amendment to exempt financial services	Paragraph 1(b) provides that the following services are exempt: The issue, transfer, receipt or any other dealing with money, including money transfer services and accepting over the counter bill payments, excluding carriage of cash, ATM restocking, sorting or counting of money. Money transfer and payment processing services generally fell within the broad "dealing with money"	The Bill proposes 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 amendment narrows the VAT exemption for financial services by expressly standard-rating digital payment and processing services supplied via software platforms. This is likely to increase transaction costs for fintechs, merchants and consumers, potentially dampen innovation and financial inclusion.

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

VAT Schedule changes for Services (The First Schedule)			
Issue	**Current tax provision Exempt**	**Proposed change Standard Rated (16%)**	**Impact**
Paragraph 25 Services of tour operators, excluding in house supplies, were exempt but without clear statutory definitions of "tour operator" and "in house supplies".	–	Exemption retained for services of tour operators, excluding in house supplies, but now with explicit definitions: "tour operator" means licensed tour/safari operator; "in house supplies" means supplies from own resources or materially altered from third party purchases.	Defining "tour operator" and "in house supplies" tightens the scope of the exemption and reduces disputes. Only licensed operators and genuinely qualifying services remain exempt; operators must carefully analyse their supply mix to distinguish exempt tour operator services from taxable in-house or re packaged supplies.
Paragraph 26 Taxable services for direct and exclusive use in constructing tourism facilities, large recreational parks and convention/ conference facilities were exempt upon CS recommendation.	–	Services previously under para 26 are now standard rated.	Deleting this services exemption aligns with the removal of the corresponding goods exemption in para 62 and shifts VAT cost back onto tourism infrastructure projects. This reduces tax expenditure but raises project costs, which may impact returns and investment appetite in these facilities.
Paragraph 39 Public-Private Partnership		New exemption: supply of services for direct and exclusive use in implementing infrastructure projects under a PPP framework, upon CS approval and line ministry recommendation.	Complements para 170 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.

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

Issue	Current tax provision	Proposed change	Impact
Section 2 **Addition of the definition of antique, vintage or classic vehicle**	N/A	(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 new definition of antique, vintage or classic vehicles lays the foundation for a distinct excise treatment of high value collectible cars, recognising them as a separate luxury category for tax policy purposes.
Section 6 **Excise duty on locally purchased or imported telephones upon activation**	N/A	The Bill proposes 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).	Shifting the excise duty liability on locally purchased or imported telephones for cellular and other wireless networks from importation/ manufacture to activation ties excise to actual use in the Kenyan market and is likely intended to enhance traceability and compliance in the handset ecosystem. In practice, this raises several implementation questions. First, the reference to "locally purchased or imported" suggests that liability may arise for all phones activated on Kenyan networks, regardless of whether there is significant local manufacturing, and will require clear allocation of responsibility among importers, local distributors and any manufacturers operating in Kenya. Second, activation typically involves mobile network operators and/or SIM registration processes: it is not clear from the EDA as drafted whether these parties are required to be licensed under the Excise Duty Act or whether importers/ licensed manufacturers will remain the legal persons accountable for excise at the point when activation data is triggered. Third, the term "activation" is not defined in the EDA and may need to be aligned with definitions under related telecoms legislation or clarified through the regulations contemplated in subsection (4B), to avoid interpretational disputes (e.g. multiple SIMs, re activation, device swaps, pre activation tests). Importers, any local manufacturers and mobile network operators will therefore need additional guidance on how activation will be tracked, which party is responsible for accounting for the excise at that point, and how systems and data sharing arrangements with KRA will be structured to ensure compliant and practical implementation. We expect the CS to publish regulations to operationalize the new provision.

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

Amendment of the First Schedule (Excise Duty Rates)			
Part I – Excisable Goods			
Issue	**Current tax provision**	**Proposed change**	**Impact**
Imported cellular phones	Imported cellular phones 10%	The Bill proposes to delete the description 'imported cellular phones' and the corresponding rate of excise duty and substituting therefor the following new description and rate of excise duty— Tariff Description: Telephones for cellular networks and other wireless networks of tariff heading 8517. Rate of excise duty: 25% of the excisable value.	The proposal will significantly increase the excise burden and remove the distinction between imported and locally purchased cellular phones. In addition, the alignment of section 6 (import) and section 36 (time of supply) means excise on locally purchased or imported telephones will generally crystallise at activation, not at physical entry or sale, which has cash-flow and compliance implications for mobile operators and manufacturers.
Excise on fruit and vegetable juices	Fruit juices (including grape must), and vegetable juice, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter Shs. 14.14 per litre	The Bill proposes to delete the description 'fruit juices (including grape must) and vegetable juice, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter' and the corresponding rate of excise duty; It also proposes to introduce 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 Kshs. 20 per litre	Producers and importers of sweetened juices (with added sugar) will incur higher excise costs, which may be passed on through higher retail prices and could shift consumer demand towards unsweetened products.
Wording for bottled water and other non alcoholic beverages	Bottled or similarly packaged waters and other non-alcoholic beverages, not including fruit or vegetable juices. Shs. 6.41 per litre	The Bill proposes to amend 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 specific reference to "bottled or similarly packaged waters" was first introduced into the excise duty framework in July 2018.This proposed amendment removes bottled/similarly packaged water from the excise duty description, effectively taking drinking water out of the excise ambit. This should improve affordability and support access to safe drinking water as a basic social need. Excise continues to apply to other non alcoholic beverages (excluding fruit/vegetable juices) at the existing rate, so the impact on the broader beverage segment remains unchanged.

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

Amendment of the First Schedule (Excise Duty Rates)			
Part I – Excisable Goods			
Issue	**Current tax provision**	**Proposed change**	**Impact**
Beer and similar low strength alcoholic beverages – proviso	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 Bill proposes to amend the description 'Beer, Cider, Perry, Mead, Opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages of alcoholic strength not exceeding 6%', by deleting the proviso to the corresponding rate of excise duty;	The proviso was introduced by the Tax Laws (Amendment) Act 2024 (Effective 27 December 2024) to support small industry players. With the deletion, small independent brewers lose a key tax concession, increasing their unit production costs and potentially reducing their price competitiveness against larger players or informal producers.
Spirits – extra neutral alcohol purchased by licensed manufacturers	Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages. Ksh. 500 per litre	The Bill proposes 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 amendments significantly reduce the excise burden on extra neutral alcohol ("ENA"). Although the wording removes the restriction to ENA "purchased by licensed manufacturers of spirituous beverages", the effective rate for ENA used in spirit manufacturing drops from KES 500 to KES 80 per litre, materially lowering the cost of this key raw material. This is a welcome move for ethanol users in the spirits value chain, as it reduces cost of goods and may ease pricing or margin pressures in the sector.
Tobacco – cigars, cheroots, cigarillos	Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes Shs. 16,260.29 per kg	The Bill proposes to amend the description 'cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes' by deleting the corresponding rate of excise duty and substituting therefor the new rate of excise duty of 'Ksh. 18,000 per kg';	Importers and manufacturers of premium tobacco will bear higher specific duty per kilogram, compressing margins or forcing higher shelf prices, which may depress demand in the high end segment.
Tobacco – other manufactured tobacco and substitutes	Other manufactured tobacco and manufactured tobacco substitutes; "homogeneous" and "reconstituted tobacco"; tobacco extracts and essences Shs. 11,382.48	The Bill proposes to amend the description 'other manufactured tobacco and manufactured tobacco substitutes; 'homogeneous' and 'reconstituted tobacco'; tobacco extracts and essences' by deleting the corresponding rate of excise duty and substituting therefor the following new rate of excise duty 'Ksh. 12,550 per kg';	Manufacturers of tobacco substitutes will incur higher taxes, reducing profitability and likely pushing up consumer prices across this category.
Sugar confectionery – tariff 17.04	Imported sugar confectionery of tariff heading 17.04; KSh. 85.82 per kg	The Bill proposes to delete the word "imported" in the description	Removing the word "imported" extends excise duty to all sugar confectionery under HS 17.04, whether imported or locally manufactured, at KSh 85.82 per kg. This equalises tax treatment across local and imported products, increasing the tax burden for local confectionery manufacturers and potentially feeding into higher retail prices.

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

Amendment of the First Schedule (Excise Duty Rates)			
Part I – Excisable Goods			
Issue	**Current tax provision**	**Proposed change**	**Impact**
Imported articles of plastic – tariff 3923.30.00 and 3923.90.90 (existing combined line)	Imported Articles of plastic of tariff heading 3923.30.00 and 3923.90.90 10%	The Bill proposes to delete and introduce the following: (1) by deleting the description "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 wording "imported" was deleted by the Tax Laws (Amendment) Act, 2024 and reintroduced in the Finance Act, 2025. The current proposal removes the import qualifier again and applies the 10% excise to all articles of plastic under HS 3923.30.00 and 3923.90.90. This brings local manufacturers, not just importers, into the excise net on qualifying plastic packaging, increasing input costs for packaged goods across the board.
Ceramics – Tariff 6910	Imported Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of tariff heading 6910 5% of custom value or KSh. 50 per kg	The Bill proposes to amend this provision as follows: 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 or Ksh. 50 per kg, whichever is higher";	The shift to a uniform 5% ad valorem excise is likely to reduce tax on low value, heavy ceramic imports, lowering consumer prices but intensifying competition for local manufacturers and weakening existing protective effects.

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

Amendment of the First Schedule (Excise Duty Rates)			
Part I – Excisable Goods			
Issue	**Current tax provision**	**Proposed change**	**Impact**
East Africa Community Partner States Exemption	The current provision grants excise relief to qualifying imports (listed below) through the proviso "but excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin." • Imported Glass bottles (excluding imported glass bottles for packaging of pharmaceutical products) • Imported furniture of tariff heading 9403 • Imported printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 • Imported plates of plastic of tariff heading 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90 • Imported paper or paper board, labels of all kinds whether or not printed of tariff heading 4821.10.00 and 4821.90.00 • Imported printing ink of tariff 3215.11.00 and 3215.19.00 • Imported Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked of tariff 7005 but excluding those imported by a registered processor upon the recommendation by the Cabinet Secretary responsible for matter relating to industry • Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number 3919.90.90, • Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90,	The Bill proposes to delete the existing proviso that grants an exclusion for goods originating from East African Community Partner States that meet the East Africa Community Rules of Origin.	Deleting the EAC-origin exclusion will subject qualifying regional imports to excise duty, likely increasing their landed cost and reducing their price advantage over non-EAC goods. This may boost domestic revenue and offer greater protection to local manufacturers,but could dampen intra-EAC trade and strain regional integration objectives.

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

Amendment of the First Schedule (Excise Duty Rates)			
Part I – Excisable Goods			
Issue	**Current tax provision**	**Proposed change**	**Impact**
East Africa Community Partner States Exemption	• Imported printed polymers of vinyl chloride containing by weight not less than 6% of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.43.90, • Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other polyesters of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90, • Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90 • Printed self-adhesive paper of tariff number 4811.41.90 • Gummed paper and paperboard of tariff number 4811.49.00 • Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; unbleached of tariff number 4804.11.00 • Imported other kraft paper or paperboard weighing 150g/m^2 or less, in rolls or sheets; unbleached of tariff number 4804.31.00 • Imported other kraft paper or paperboard weighing more than 150g/m^2 but less than 225 g/m^2, in rolls or sheets; unbleached of tariff number 4804.41.00 • Imported other kraft paper or paperboard weighing 225 g/m^2 or more others in rolls or sheets; unbleached of tariff number 4804.51.00 • Imported Glass of heading 70.03, 70.04 or 70.05, bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials of Tariff Heading 70.06 • Imported safety glass of tariff numbers 7007.19.00 and 7007.29.00 • Imported Multiple-walled insulating units of glass of Tariff Heading 70.08		

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

Amendment of the First Schedule (Excise Duty Rates)			
Part I – Excisable Goods			
Issue	**Current tax provision**	**Proposed change**	**Impact**
Coal	–	The Bill proposes to include the following under 37(a)(xxxiv): "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"	Coal using industries (e.g. in manufacturing and energy) will face a higher excise burden, with coal being re introduced into the Excise Duty Act at 5% of excisable value after its deletion by the Finance Act, 2025 (when it had been excisable at 2.5% of customs value). This will increase coal input costs, potentially squeezing margins and reinforcing incentives to transition towards cleaner or alternative energy sources.
New excise line – antique, vintage and classic vehicles	–	The Bill proposes to include a new description and rate in 37(a)(xxxiv): "Antique, vintage and classic vehicles 50% of the excisable value"	High net worth individuals and collectors will incur a substantial additional tax on acquisitions, making such vehicles more expensive to import or register and possibly dampening demand in this niche market.

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

Part II – Excisable Services			
Issue	**Current tax provision**	**Proposed change**	**Impact**
Base for betting excise – phrase "amount deposited into a customer's betting wallet"	4A. Excise duty on betting shall be five percent on the amount deposited into a customer's betting wallet: Provided that this paragraph shall not apply to horse racing. 4B. Excise duty on gaming shall be five per cent on the amount deposited into a customer's gaming wallet.	The Bill proposes to make the following changes: **Part II** (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"; **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 licence 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 amendments broaden the excise base from amounts paid "into a customer's betting/gaming wallet" to any amount deposited for betting or gambling purposes, including funds provided by operators and amounts not held in a formal wallet. This widens the 5% excise scope, removes the explicit horse-racing carve-out, and may increase excise costs for betting and gaming operators.
Introduction of virtual asset concepts into Excise Duty framework	N/A	The Bill proposes 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.	Brings virtual assets and their service providers clearly within the tax law's terminology, laying the groundwork for future excise rules, compliance obligations, and enforcement on virtual-asset related activities.

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

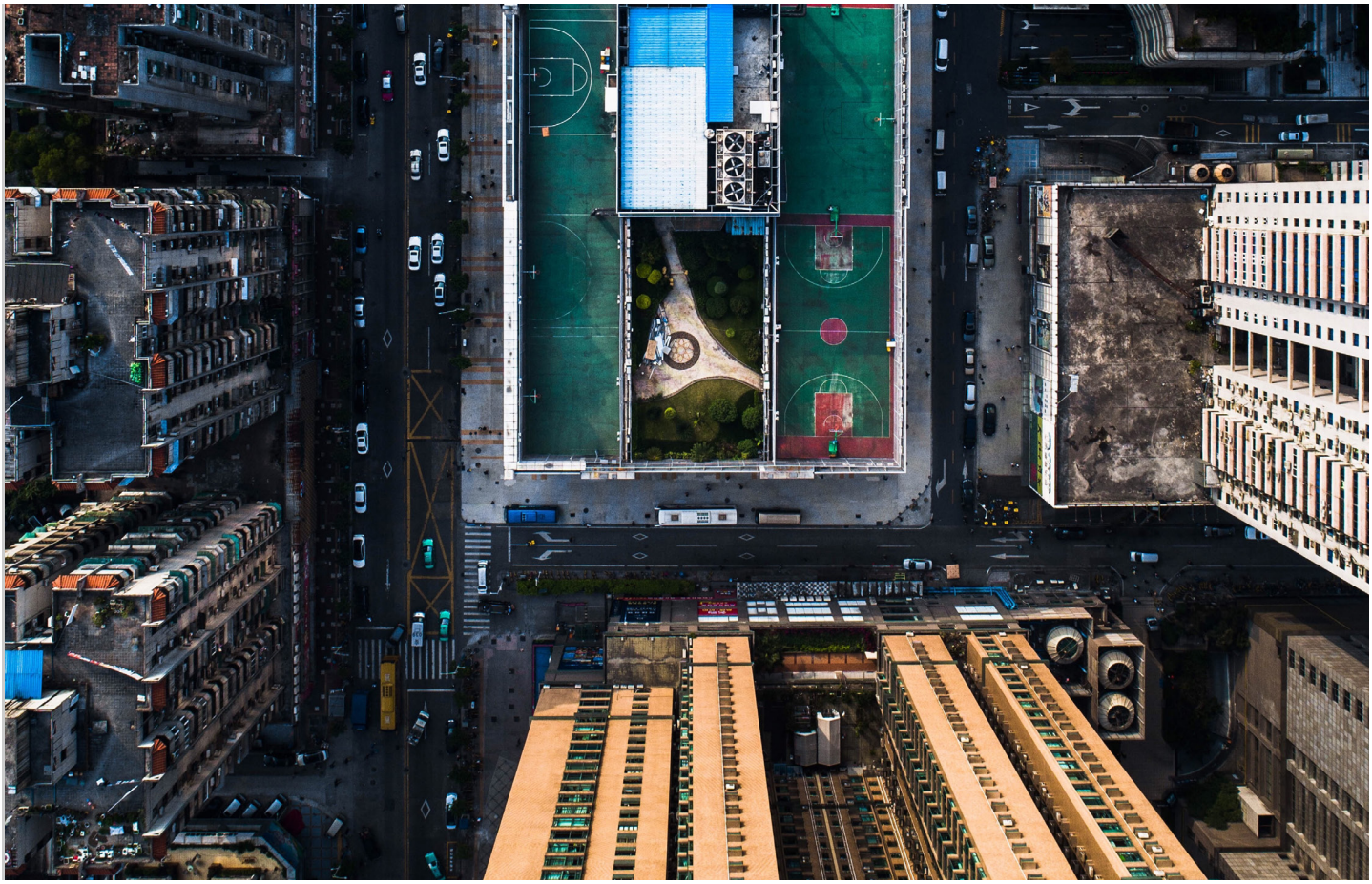
Issue	Current tax provision	Proposed change	Impact
Section 7(6) and 7(7) **Amendment to allocation of Import Declaration Fee ("IDF") collections**	These subsections currently provide for the allocation and use of IDF as follows: (6) Out of the fee collected under subsection (2), twenty per cent shall 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, while ten percent shall be used for revenue enforcement initiatives.	The Bill proposes to amend section 7(6) and 7(7) to read as follows: (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 proposal reduces the portion payable into the Fund established and managed in accordance with the Public Finance Management Act to 10% down from 20%. It also removes the express allocation for revenue enforcement initiatives which was only recently introduced through the Finance Bill, 2025.
Section 9 **Application of the provisions of the East African Community Customs Management Act, 2004 ("EACCMA")**	Section 9 currently provides as follows: 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 import declaration fee, railway development levy and export levy.	The Bill proposes to amend section 9 to read as follows: 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.	This proposal seeks to broaden the application of the EACCMA provisions to all fees and levies imposed under Part III of the MFLA. Notably, Part III of the MFLA now includes other levies and fees in addition to IDF, RDL and export levy, such as the Export and Investment Promotion Levy and the anti-adulteration levy. The proposal therefore strengthens the legal basis for the Commissioner to apply customs valuation, collection and enforcement mechanisms across the wider range of fees and levies imposed under the MFLA.

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

Issue	Current tax provision	Proposed change	Impact
Amendments to Part A of the Second Schedule covering goods exempt from IDF.	Part A of the Second Schedule exempts specific goods from IDF, e.g: (xv) All goods and parts thereof of Chapter 88.	The Bill proposes to substitute paragraph (xv) with the following new paragraph: (xv) all parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00. The Bill further proposes to insert the following new paragraph immediately after paragraph (xxxii): (xxxiii) imported telephones for cellular networks and other wireless networks.	Some of these proposals seek to restrict the scope of IDF and RDL exemptions for Chapter 88 goods which typically cover aircraft, spacecraft, and parts. The exemption will therefore be limited to all parts, and specific goods, i.e., aeroplanes and other aircraft, of an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg & those with an unladen weight exceeding 15,000 kg. This change appears to be aimed at narrowing tax expenditure by preserving the tax relief for parts and only larger aircraft, while excluding other Chapter 88 goods like smaller aeroplanes and helicopters. In addition, IDF and RDL exemptions have now been extended to imported telephones for cellular networks and other wireless networks. This is a welcome measure, noting that the same goods will now be subject to Excise duty at the rate of 25%, up from 10% previously which is a significant rise.
Amendments to Part B of the Second Schedule covering goods exempt from Railway Development Levy ("RDL").	Part B of the Second Schedule exempts specific goods from RDL, e.g., (xiii) all goods and parts thereof of Chapter 88;	The Bill proposes to substitute paragraph (xiii) with the following new paragraph: (xiii) all parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00. The Bill further proposes to insert the following new paragraph immediately after paragraph (xviii): (xix) imported telephones for cellular networks and other wireless networks.	

Stamp Duty Act, CAP 480

Issue	Current tax provision	Proposed change	Impact
Section 96A Inclusion of instruments that transfer beneficial interest in property to a Real Estate Investment Trust (REIT)	Section 96A subsection 1 currently provides as follows: This section applies only to real estate investments trusts authorized under the Capital Markets Act (Cap. 485A), in respect of which it is shown to the collector — (a)that the effect thereof is to convey or transfer a beneficial interest in property from one trustee to another trustee or to an additional trustee; or (b)that the effect thereof is to convey or transfer a beneficial interest in property from a person or persons for the transfer of units in the real estate investment trust.	The Bill proposes to amend Section 96A subsection (1) by adding paragraph immediately after paragraph (b) as follows: (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 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	Current tax provision	Proposed change	Impact
Section 3 - Amendment to Imposition of Levy	Section 3 subsection 2 currently provides as follows: Out of the levy collected under subsection (1) there shall be paid an amount of three shillings 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 Bill proposes 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 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.

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