



# Tax Alert

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## Shaping Tax Compliance: Impact of KRA public notice on income and expenses validation

### Get in touch

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### Overview of the public notice

On 7 November 2025, the Kenya Revenue Authority (KRA) issued a public notice (see copy attached) announcing that effective 1 January 2026, it will validate income and expenses declared in both individual and non-individual income tax returns. This validation will occur upon submission of the tax returns for the 2025 year of income and will rely on three key data sources: TIMS/eTIMS invoices, withholding income tax gross amounts and import records from Customs systems.

Expenses must be supported by valid electronic tax invoices transmitted

with the buyer's PIN, subject to exemptions under the Tax Procedures Act, 2015 and relevant regulations. KRA has invited feedback from taxpayers to support a smooth and effective implementation of this public notice.

### Background on eTIMS

The Electronic Tax Invoice Management System (eTIMS) was initially introduced to enhance VAT compliance, improve reporting accuracy, and curb tax evasion. Subsequent amendments to tax law extended its scope to Corporate Income Tax (CIT) and limited the deductibility of expenses to those

**Exempt expenses include emoluments, imports, interest, investment allowances, airline passenger ticketing, payments subject to final withholding tax, internal accounting adjustments, and fees charged by financial institutions**

supported by eTIMS-compliant invoices. This forms the basis of the validation of income and expenses as set out in the public notice.

### Implications for taxpayer returns

Taxpayers must ensure that every expense claimed in their 2025 income tax return is backed by an eTIMS-compliant invoice, unless exempt under the TPA and eTIMS regulations. Exempt expenses include emoluments, imports, interest, investment allowances, airline passenger ticketing, payments subject to final withholding tax, internal accounting adjustments, and fees charged by financial institutions. Additionally, the Commissioner may exempt specific taxpayers through gazettelement.

Taxpayers must validate claimed expenses to ensure eTIMS compliance before filing tax returns. Non-compliance may result in disallowed expenses, increased taxable income, and potential penalties and interest.

Taxpayers must also validate income subject to withholding tax and customs data to ensure accurate reporting of revenues and costs.

### Potential compliance challenges

While the intention of the public notice is clear, potential compliance challenges are likely to arise due to:

- Non-compliance by some government entities that procure services from taxpayers;
- Micro, Small and Medium Enterprises facing infrastructure and system limitations;
- Timing mismatches between accounting periods and eTIMS invoices issuance; and
- Limited awareness and technical capacity among suppliers regarding eTIMS requirements.

This directive is also likely to increase the compliance burden, especially for entities with high transaction volumes, and raise the cost of doing business for those engaging with non-eTIMS-compliant suppliers.

### The next steps

To ensure compliance with KRA's public notice, businesses should conduct internal reviews to confirm that claimed costs are supported by eTIMS-compliant invoices. This includes reconciliations between accounting records and eTIMS schedules, pre-filing compliance checks to identify gaps, and engagement with KRA and their suppliers for any remedial measures.

The validation exercise is likely to bring to light tax risks, and taxpayers are encouraged to consult their tax advisors to mitigate potential risks.

Please feel free to contact your usual PwC contact or any of our experts listed herein should you wish to discuss this further.

