



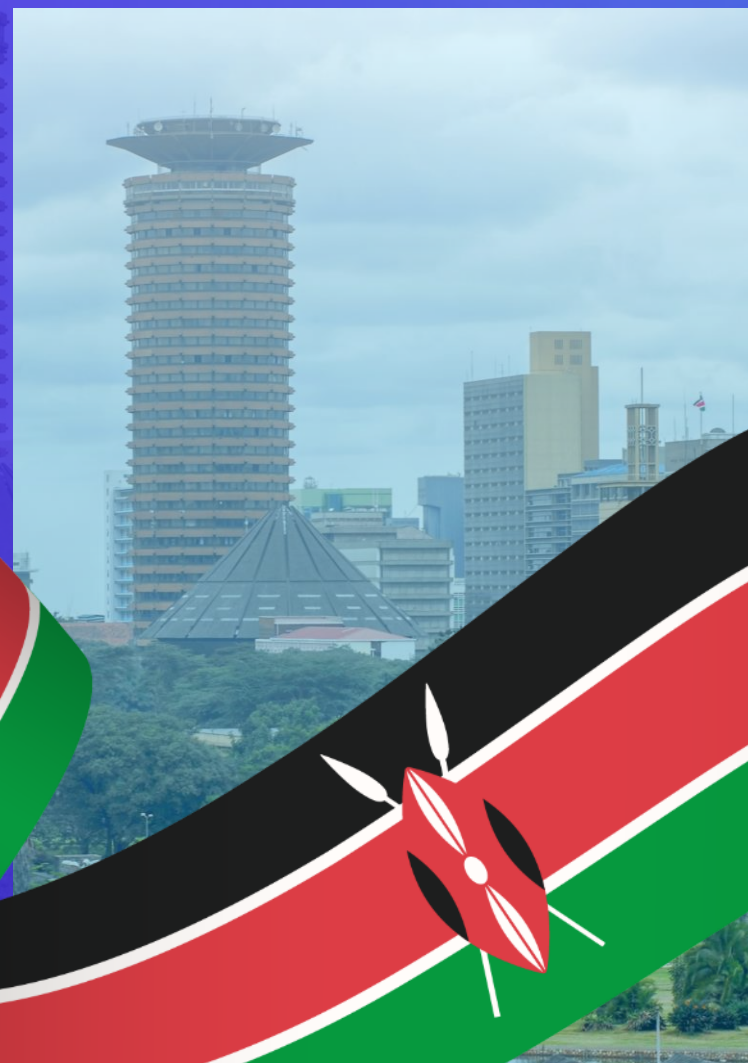
Finance Act, 2025

A KPMG Analysis.

Kenya

July 2025

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Foreword

The theme of the 2025 Budget Policy Statement (BPS) is "*Consolidating Gains under Bottom-Up Economic Transformation Agenda for Inclusive Green Growth*." The BPS, which is the third under the Kenya Kwanza Administration, highlights the progress made in the implementation of the Bottom-Up Economic Transformation Agenda (BETA) and aligns with Kenya's Vision 2030's Fourth Medium-Term Plan.

Notably, economic growth slowed to 4.6% in 2024 from 5.6% in 2023 due to reduced economic activity and slower private sector credit growth. However, it is expected to recover to 5.3% in 2025 and maintain that pace, supported by improved agricultural productivity, a strong services sector, and continued implementation of BETA priorities.

The global market has also experienced uncertainty introduced by the recently issued executive order by the U.S Government, introducing a new structure of reciprocal tariffs on imports. The increased tariffs particularly affect Kenyan exporters to the USA in the agriculture, textiles, floriculture and mining industries. With potential retaliatory tariffs expected from other economic powerhouses, the proposed Finance Act, 2025 seeks to cushion the Kenyan economy.

While the previous Finance Acts introduced significant changes for salaried persons, the Finance Act 2025 has focused on changes that widen the current tax base to meet the estimated revenue from taxes and appropriations-in-aid of **KES 3.32 trillion**. This is primarily made up of tax revenues of **KES 2.75 trillion**, appropriations-in-aid of **KES 567 billion** and grants of **KES 46.9 billion**. The Government's fiscal policy for FY 2025/26 focuses on fiscal consolidation to reduce public debt and create room for essential public services.

Among the changes introduced by the Finance Act 2025, is the Advance Pricing Agreements (APAs) for non-resident persons who carry out business with related resident persons or resident persons who carry on business with related persons in preferential regimes effective 01 January 2026.

On VAT, The Act has several changes to the First Schedule of the VAT Act. Notable is the proposed exemption of supply of accommodation, restaurant, beauty salon and laundry services provided by the Defence Forces Welfare Services. The Act has also provided for zero rate for packaging materials for tea and coffee on recommendation by the Cabinet Secretary Agriculture.

For personal income taxes, the Act has expanded the per diem benefit from **KES 2,000 to KES 10,000**.

For companies operating in the country, the Act limits the period for the carrying forward of tax losses to five years from when the tax losses are incurred rather than in perpetuity.

A significant change is the deletion of the Digital Assets Tax under Income Tax Act and introduction of Excise duty on fees charged on virtual assets transactions by virtual asset providers at 10% of the excisable value.

We have also seen some provision proposed in the Bill being dropped by the Act. A seminal example is the controversial proposal for KRA to access personal and proprietary data.

We have summarized in the ensuing pages some of the proposals that have been dropped as well as those that have been enacted.

Proposed Amendments not adopted in the Act

Income Tax:

- The proposal to charge WHT on sale of scrap.
- The proposal to delete the incentive of claiming one hundred percent on cumulative investments done outside Nairobi and Mombasa or within the special economic zone with respect to hotel buildings, buildings used for manufacture and machinery used for manufacture where; the cumulative investment value in three preceding years outside Nairobi and Mombasa counties exceeds one Action shillings; the investment value outside Nairobi county and Mombasa county exceed two hundred and fifty million shillings in that year of income; or the person has invested in a special economic zone.
- The proposal to remove the 15% tax incentive for real estate developers that construct at least one hundred residential units annually.
- The proposal to remove the fifteen percent corporate tax incentive on local assemblers of motor vehicles.

Value - Added Tax (VAT):

- The proposal to repeal Section 17(5)(c) of the VAT Act, which currently allows taxpayers to offset excess VAT resulting from tax withheld by appointed VAT withholding agents against output VAT payable in the same month.
- The proposal to move the following items from zero-rated to standard rated for VAT purposes:

- all inputs and raw materials whether produced locally or imported, supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved from time to time by the Cabinet Secretary in consultation with the Cabinet Secretary responsible for matters relating to health;
 - the supply of locally assembled and manufactured mobile phones;
 - supply of motorcycles of tariff heading 8711.60.00 (Motor vehicle with electric motor for propulsion),
 - supply of electric bicycles, supply of solar and lithium-ion batteries,
 - supply of electric buses of tariff heading 87.02 (Motor vehicles for the transport of ten or more persons, including the driver;
 - 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 agriculture and
- The proposal to move the following items from exempt to standard-rated;
 - aircraft, spacecraft, and parts thereof;
 - direction-finding compasses, instruments and appliances for aircraft;
 - 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;
 - Taxable goods for the direct and exclusive use in the construction and equipping of specialized hospitals with a minimum bed capacity of fifty, approved by the Cabinet Secretary upon recommendation by the Cabinet Secretary responsible for health who may issue guidelines for determining eligibility for the exemption;

Proposed Amendments not adopted in the Act

v. Specially designed locally assembled motor vehicles for transportation of tourists, purchased before clearance through Customs by tour operators upon recommendation by the competent authority responsible for tourism promotion, provided the vehicles are exclusively used for transportation of tourist, licensed under the Tourism Vehicle Regime; and

vi. 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.

Tax Procedures Act:

- The proposal to delete Section 42(14) (e) empowering KRA to issue notices in recovery to taxes from third parties owing a taxpayer despite a taxpayer appealing against an assessment specified in a decision of the Tribunal or Court.
- The proposal to allow the Commissioner to access trade secrets and personal data information for integration into the electronic tax management system.
- The proposal to include Saturdays, Sundays and public holidays in computation of time in the objection and tribunal procedures.

Miscellaneous Fees and Levies Act (MFLA):

- The proposal to limit the IDF and RDL exemptions currently granted to all goods and parts under HS Code Chapter 88, which covers aircraft, spacecraft and related parts.
- The proposal to reduce the export and investment promotion levy from 17.5% to 10% of the customs value on semi-finished iron or non-alloy steel products containing less than 0.25% carbon, with a rectangular (including square) cross-section and a width less than twice the thickness.
- The proposal to reduce the export and investment promotion levy from 17.5% to 10% of the customs value on bars and rods of iron or non-alloy steel, hot-rolled in irregularly wound coils with a circular cross-section measuring less than 14 mm in diameter of cross-section of less than 8 mm, as well as other similar bars and rods with a circular cross-section measuring less than 14 mm in diameter.

Income Tax- Corporation Tax

Income Tax- Withholding Tax

Supply of goods to a public entity by resident person subject to withholding tax

Amendment:

The Act brings the supply of goods to a public entity to charge by including it in Section 10 of the Income Tax Act.

Implication:

The Tax Laws Amendment Act, 2024 introduced withholding tax on the supply of goods to public entity. However, this amendment was not effected through Section 10 of the Income Tax Act, which gives force to the application of withholding tax on such sources of income. By including this item under Section 10 of the Income Tax Act, the persons purchasing this item will be required by law to account for withholding tax on the supply of goods to public entities.

Effective date 1 July 2025

Withholding tax on payments made to non-resident ship owners or charterers

Amendment:

The Act subjects to withholding tax services provided by a non-resident ship owner to the resident person procuring the service. Currently, the obligation to withhold tax on these services was listed in the Third Schedule of the ITA at 2.5% of the gross amount, however, they were not listed as part of income subject to withholding tax under Section 35.

Implication:

This effectively moves the compliance obligation from the ship owners to the recipients of the service.

Effective date 1 July 2025



Key Impact

Withholding tax becomes enforceable on public supplies.

Income Tax- Withholding Tax

New - Withholding tax on making or facilitating payment over a digital marketplace

Amendment:

The Act brings to charge under Section 10 of the Income Tax Act the making or facilitation of payments over a digital marketplace.

Implication:

This provision is a duplication of Section 10(4) of the Income Tax Act which states the income earned by a person because of either a resident or non-resident owner of digital marketplaces or platforms that make or facilitate payments in respect to digital content monetization, property or services as accrued from or derived from Kenya. This is because Section 10(4) of the Income Tax Act covers both resident and non-residents owners of digital marketplaces.

Effective date 1 July 2025

New - Withholding tax on withdrawals

Amendment:

The Act subjects withdrawals made by punters to withholding tax under Section 10 of the Income Tax Act at the rate of 5%.

It further defines withdrawals to mean 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.

Implication:

This effectively shifts the tax base for betting and gaming proceeds from winnings to the amounts withdrawn.

Effective date 1 July 2025

New – Exemption from withholding tax on specialized digital systems support services provided to the national carrier

Amendment:

The Act exempts from withholding tax 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.

Implication:

Management or professional services with respect to the abovementioned services will only enjoy an exemption from withholding tax provided that such services are non available in Kenya or the service provider is certified or accredited by an international regulatory, standard-setting or licensing body.

Effective date 1 July 2025

Income Tax- Corporation Tax

Clarification of what falls under Significance Economic Presence Tax (SEPT)

Amendment:

The Act updates the type of businesses subject to significant economic presence tax to include businesses carried out over the internet or electronic network, in addition to through a digital marketplace. Further, the Act deletes the exemption from SEPT accorded to non-residents with an annual turnover of less than KES 5 Million.

Implication:

The amendment aims to broaden the scope and tax base of businesses subject to SEP by bringing into the tax net income earned by non-resident persons over the internet or electronic network in addition to a digital marketplace. The removal of the threshold also expands the number of entities that will now be required to account for the tax.

Additionally, the mandatory requirement to have Regulations in place within 6 months is a positive direction to ensure that there is no legal gap in the implementation of the SEPT. This is in contrast with the repealed Digital Assets Tax which existed for more than two years without Regulations being passed.

Effective date 1 July 2025



Income Tax- Corporation Tax

Reintroduction of diminution allowance

Amendment:

The Act reintroduces diminution allowance for items such as utensils, implements or similar articles excluding plant or machinery. The Act introduces a diminution allowance at rate of 100% to be deducted in the year of income in which the expense is incurred.

Implication:

The amendment will allow businesses especially in sectors such as hospitality to get an upfront capital allowances on these items which tend to be of low value. The change brings the much-needed clarity after several changes that have happened in last few years on this item.

Effective date 1 July 2025



Income Tax- Corporation Tax

Timber! No more deductions on the felling of timber

Amendment:

The Act deletes the following paragraphs;

- (l) in the case of gains or profits of the owner of any land from the sale of, or the grant of the right to fell, standing timber which was growing on such land at the time such owner acquired such land—
 - where such land was acquired for valuable consideration, so much of the consideration as the Commissioner may determine to be just and reasonable as representing the cost of such standing timber; or
 - where no valuable consideration was given for the land, so much of such amount as the Commissioner may determine to be just and reasonable as representing the value of such standing timber at the time the owner acquired such land, as is attributable to such timber sold during such year of income;
- (j) in the case of gains or profits from the sale of standing timber by a person who has purchased the right to fell such timber, so much of the price paid for such right as the Commissioner may determine to be just and reasonable as attributable to the timber sold during such year of income;

Implication:

This amendment would likely result in higher taxable income for both landowners and purchasers of timber rights, as they would no longer be able to offset income with these timber-related cost deductions. It may also discourage timber-related transactions or increase the effective tax burden on such activities.

Effective date 1 July 2025



Income Tax- Corporation Tax

Allowability of expenditure on a public sports facility

Amendment:

The Act provides an express provision that expenditure that is incurred in the construction of a public sports facility is deductible in the determination of taxable income.

Further, the Act has proposed to repeal the provision that allowed the deductibility of expenditure incurred on sports sponsorship with the prior approval by the Cabinet Secretary (CS) responsible for sports.

Implication:

There is a significant increase in expenditure in relation to facilities in preparation for the upcoming 2027 African Cup of Nations that will be co-hosted by Kenya. This proposal is seeking to ensure that private players who undertaking such projects have a legal provision to rely on in deducting the related expenditures as an incentive for the continued investment in such infrastructure.

Effective date 1 July 2025

Income Tax- Corporation Tax

Carrying forward of losses incurred in the transfer of property

Amendment:

The Act deletes Section 15(3)(f) of the Income Tax Act that allows for the carrying forward of losses incurred in the transfer of property. Currently, any losses incurred in the transfer of property are deductible against future gains arising from the transfer of capital assets.

Implication:

Taxpayers will not be allowed to carry forward any losses incurred by them against future capital gains from transfer to property.

Effective date 1 July 2025

Carry forward of losses to be capped to 5 years

Amendment:

The Act introduces a 5 years cap on deductibility of tax losses. Currently, the law permits taxpayers to carry forward losses indefinitely.

Implication:

Businesses with substantial capital expenditure incur huge tax losses which can take longer to utilise, especially if the business does not generate profitability as quickly. Without room for applying for an extension of time to utilize the tax losses, businesses with significant tax losses may be negatively affected since they will lose tax losses that will not be utilized within the 5-year period.

Effective date 1 July 2025



Tax losses will expire after 5 years under the proposed cap.

Income Tax- Corporation Tax

Timeline for Commissioner's decision on change of accounting period

Amendment:

Currently, the Commissioner is required to respond on application for change of year end within six months. The Act has reduced this period to three months.

The Act proposes that where the Commissioner fails to give a decision within three months from the date of application, the change is automatically deemed to have been accepted by the Commissioner.

Implication:

The Act seeks to remove uncertainty in the determination of an application of a change in an accounting year-end. This offers relief to taxpayers who used to wait for the Commissioner's decision for a long period of time.

Effective date 1 July 2025



Income Tax- Corporation Tax

Dividend distribution out of untaxed profits

Amendment: The Act deletes Section 52B(4) and replace it with a new provision requiring that any company distributing dividends out of untaxed gains or profits to include an assessment of the same with the self-assessment return and pay the applicable tax by the due date for self-assessment.

Implication:

The amendment clarifies that a company must file and pay tax on dividends distributed out of untaxed profits by the 30th day of the sixth month following the end of its financial year.

Effective date 1 July 2025

Income Tax- Corporation Tax

Update on compliance notices by taxpayers

Amendment:

The Act amends Section 109 of the ITA by making the following adjustments to Section 109 :

- a) Deletion of Paragraph 1(b) which states that 'a person shall be guilty of an offense without reasonable excuse if they fail to furnish a full and true return in accordance with the requirements of any notice served on him under this Act'
- b) Deletion of paragraph 1(c) which states that 'a person shall be guilty of an offense without reasonable excuse if they fail to fails to furnish within the required time to the Commissioner or to any other person any document which under this Act, or under a notice served on him under this Act, he is required so to furnish'
- c) Deletion of paragraph 1(f) which states ' a person shall be guilty of an offense if they fail to produce a document for the examination of the Commissioner in accordance with the requirements of a notice served on him under this Act'
- d) Deletion of paragraph 1(h) which states 'a person shall be guilty of an offense if they fail to attend at a time and place in accordance with the requirements of a notice served on him under this Act'
- e) Deletion of paragraph 1(j) and substituting it with 'fails to supply prescribed certificates as is required by section 37.

Implication:

The amendments ease the compliance burden of taxpayers in relation to complying with a notice from the Commissioner.

Effective date 1 July 2025

Income Tax- Corporation Tax

Charge to stamp duty on transfer of property by the Commissioner

Amendment:

The Act revokes the exemption from stamp duty for all securities of whatever nature over property, movable or immovable and all transfers of property in favour of or by the Commissioner.

Implication:

This provision is a clean up as it seeks to align the provisions on exemption from Stamp Duty on transfer of property attached as security by the Commissioner with the provisions of the Tax Procedures Act.

Effective date: 1 July 2025

Consequence for failing to Withhold on Rent deleted

Amendment:

The Act deletes Section 35(6A), which provides that no Collector of Stamp Duties and no Registrar of Titles or Land Registrar shall register property under any written law, until the rent withholding tax has been duly accounted for.

Implication:

Deletion of this subsection removes the restriction on stamping and registering transfer documents for properties where tax on rent or premiums has not been withheld and remitted to the Commissioner by the due date. Further, there is a proposal in the TPA not to penalize persons who have not withheld tax for as long as the recipient of income has accounted for tax.

Effective date: 1 July 2025



Income Tax- Corporation Tax

Extension of approval period for Income Tax exemption application

Amendment:

The Act amends the First Schedule to the Income Tax Act by extending the period of approval of Income Tax exemption applications from 60 days to 90 days.

Implication:

The amendment will have taxpayers waiting longer to get an approval for Income Tax exemption approval.

Effective date: 1 July 2025



Income Tax- Corporation Tax

Gains on transfer of property within a special economic zone

Amendment:

The Act amends the First Schedule by exempting from tax the transfer of property by licensed SEZ developers, operators or enterprises.

Implication:

The amendment seeks to clarify that the exemption from Capital Gains Tax resulting from the transfer of property can only apply where the property is transferred within an SEZ by a licensed SEZ developer, operator or enterprise.

Effective date: 1 July 2025

Dividends paid by a company certified by the Nairobi International Financial Centre

Amendment:

The Act exempts from tax dividends paid out by companies certified by the Nairobi International Financial Centre where the company reinvests at least two hundred and fifty million shillings in Kenya in that year of income.

Implication:

The amendment seeks to spur investment in companies certified by Nairobi International Financial Centre making it easier and more attractive to invest and conduct financial services and related activities in and from Kenya.

Effective date: 1 July 2025



KES 250M

Tax-Free Dividends: Nairobi IFC companies reinvesting

Income Tax- Corporation Tax

New - Investment allowance on purchase or acquisition of spectrum license

Amendment:

The Act introduces investment allowance on the costs incurred in purchasing a spectrum license by telecommunication operator. The investment allowance on spectrum licenses purchased before 1 July 2025 is limited to the to the unamortized portion over the remaining useful life of the spectrum license.

Implication:

The amendment expands the category of assets that telecommunications operators can claim investment allowances to include spectrum licenses, in addition to an indefeasible right to use a fibre optic cable.

Effective date: 1 July 2025

10%
**Investment
deduction on
spectrum
licences.**

Income Tax- Corporation Tax

Preferential corporation tax rates for NIFC certified companies

Amendment: The Act introduces a provision allowing a company certified by the Nairobi International Financial Centre Authority to benefit from a reduced corporate tax rate of 15% for the first ten years of operation, and 20% for the following ten years, provided that:

- i. The company invests at least KES 3 Action in Kenya within its first three years;
- ii. If it is a holding company, at least 70% of its senior management staff are Kenyan citizens; and
- iii. If it has its regional headquarters in Kenya, at least 60% of its senior management staff are Kenyan citizens.

In addition, in the case of a start-up certified by the Nairobi International Financial Centre Authority, 15% for the first three years and 20% for the succeeding four years;

Implication:

The amendment seeks to provide incentives to start ups and companies registered with the NIFCA and, also incentives companies to set up headquarters and regional offices in Kenya.

Effective date: 1 July 2025

New - Repeal of digital asset tax

Amendment: The Act deletes the provision imposing digital asset tax at the rate of 3%. The tax was imposed on the transfer or exchange value of the digital asset.

Implication:

Owners of a digital asset platform or persons facilitating the exchange of digital assets on the said platform will no longer be required to pay digital asset tax on the transfer or exchange of the digital asset.

Effective date: 1 July 2025

Income Tax- Corporation Tax

Amendment to the definition of transfer

Amendment:

The Act amends paragraph 6(2)(h)(v) to include “an individual” before the word spouse for purposes of determining a transfer.

Currently, the Act provides that there is no transfer where the transfer of assets are to a company where spouses or a spouse and immediate family hold one hundred percent shareholding.

Implication:

The amendment aims to expand the exclusion from Capital Gains Tax by including individuals, in addition to spouses or a spouses and immediate family who already enjoyed an exemption from Capital Gains Tax provided that these individuals have a 100% shareholding in the company to whom the assets are being transferred.

Effective date: 1 July 2025

Aligning penalties for underpayment of instalment tax to the Tax Procedures Act.

Amendment:

The Act repeals the penalty on underpayment of instalment tax where the Income Tax Act currently provides a penalty of twenty percent on the difference between the amount of instalment tax payable and the instalment tax actually paid.

Implication:

Currently, the underpayment of instalment taxes is subject to a penalty of 20% of the underpayment. By deleting this provision, the Act seeks to align the administration of penalties on instalment taxes with the Tax Procedures Act.

Effective date: 1 July 2025

Income Tax- Withholding Tax

WHT on qualifying dividend and qualifying interest deemed as final tax

Amendment:

The Act makes the resident withholding tax on qualifying dividend and the withholding tax payable on qualifying interest on housing bonds, bearer instruments and in any other case a final tax.

Implication:

The amendment would ensure that no additional taxes would be charged on individuals earning dividend income and qualifying interest. Further, KRA benefits from upfront revenue collection and reduced administrative burden since there is no need to track further tax on these dividends as the tax is withheld at source.

Effective date: 1 July 2025



Income Tax- Transfer Pricing



Income Tax- Transfer Pricing

Definition of “related person” broadened, and married people are in scope!

Amendment:

The Act deletes the current definition and expand the same to include definition of related person as;

An individual who-

- i. Participates directly or indirectly in the management, control or capital of the business of the two persons;
- ii. is associated with the two persons by marriage, consanguinity or affinity; and
- iii. the two persons participate in the management, control or capital of the business of the individual.

Implication:

With this amendment, the Act aims to capture more complex relationship within the definition of related person, particularly where more than two persons are involved. With respect to individuals, the Act expands the definition of a related person to include individuals who participate in the management, control or capital of the business of the two persons, association of the individual with another through marriage and instances where two persons participate in the management, control or capital of the business of the individual.

This expanded definition is likely intended to strengthen enforcement of Transfer Pricing and related-party rules by bringing within scope indirect ownership structures and non-commercial relationships that could affect the terms of transactions.

The change would have implications for determining related-party transactions and the associated disclosure obligations.

Effective date: 1 July 2025

Income Tax- Transfer Pricing

Due date for payment of Minimum top tax clarified

Amendment:

The Act introduces the due date for minimum top-up tax which shall be payable by the end of the fourth month after the end of the year of income.

Implication:

Minimum top up tax was introduced by the Tax Law (Amendment) Act, 2024 where the covered persons are required to pay the tax where the combined effective tax rate in respect of that person for a year of income is less than 15%. For a company in Kenya to be obligated to pay minimum top up tax, the entity should be part of a multinational group with a consolidated annual turnover of **EUR 750 million (Approximately KES 104 Billion)** or more in the consolidated financial statements of the ultimate parent entity in at least two of the previous four years of income immediately preceding the first year of income.

At the time of enactment of the Tax Law (Amendment) Act, 2024, there was lack of clarity of the due date for payment of this tax. The Act proposes to clarify this due date by proposing that minimum top up tax is due for payment by the end of the fourth month following the close of the year of income of a company.

While clarity has been provided regarding the due date of payment of the tax, substantive implementation guidelines are yet to be issued, and these will be crucial in clarifying the computation mechanism and scope of application of this tax.

Effective date: 1 July 2025



Income Tax- Transfer Pricing

No more surrogates for Country-by-country reporting

Proposed amendment:

The Act removes the requirement of the multinational enterprise group to appoint one of the constituent entities as a surrogate parent entity for purposes of filing the country-by-country report where there are more than one constituent entities in Kenya and instead have one of the constituent entities notify and file the country-by-country report in such form as the Commissioner may specify.

The Act also deletes the provision of the ITA which provided for circumstances under which a surrogate parent entity of a multinational enterprise group was not required to file a country-by-country report with the Commissioner.

Implication:

Under current transfer pricing rules in Kenya, multinational enterprise (MNE) groups with more than one constituent entity resident in Kenya may designate one of them as a surrogate parent entity (SPE) to file the Country-by-Country Report (CbCR) locally.

The Act proposes to delete the reference to “surrogate parent entity” under Section 18(8) and instead allow an MNE group to designate a constituent entity in Kenya to submit the CbCR and notify the Commissioner.

In our view, this change does not affect the substance of the CbCR filing requirement but appears intended to avoid potential confusion arising from the use of the term “surrogate parent entity,” which is also used under the OECD framework but with a narrower, condition-based meaning.

The OECD limits the SPE role to cases where the ultimate parent entity cannot file due to the absence of a local filing requirement, a lack of exchange agreements, or systemic failure. While the ITA definition of SPE does not impose the conditional requirements found in the OECD framework, removing the term SPE helps preserve clarity and ensures the reporting obligation remains practical and easy to enforce under Kenya’s domestic framework.

Effective date: 1 July 2025



Income Tax- Transfer Pricing

Tax Certainty with Advance pricing agreements!

Amendment:

The Act introduces a provision allowing non-resident persons who carry out business with related resident persons, permanent establishments of the non-resident entities or resident persons who carry on business with related persons operating in a preferential regime, to enter into Advance Pricing Agreements (APA) with the Commissioner.

The APA shall be valid for a period not exceeding five consecutive years. The Act further proposes to empower the Commissioner to declare an APA null and void from the date of its execution if it is found that the taxpayer misrepresented material facts during the agreement process.

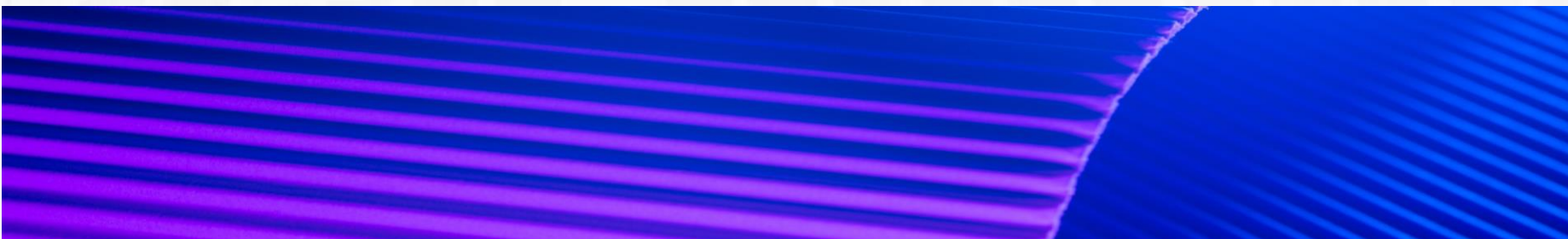
Implication:

The introduction of Advance Pricing Agreements (APAs) was first proposed in the Finance Act, 2024 but the measure was not enacted.

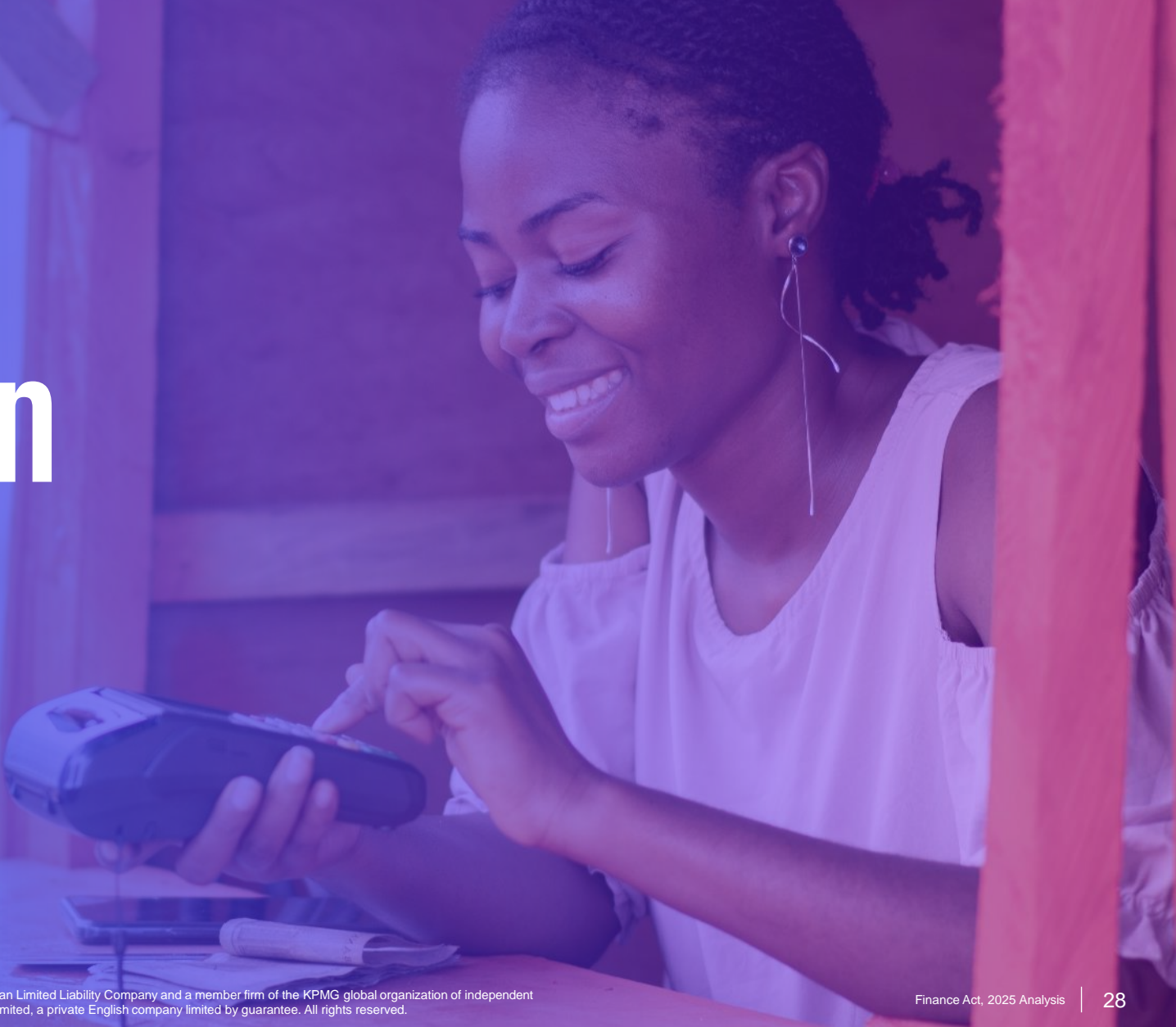
Kenya would align with regional peers such as Tanzania, Uganda, and Rwanda, whose tax laws already provide for APAs. However, experience across the region indicates that relatively few APAs have been concluded to date, often due to capacity limitations, procedural uncertainties, or low uptake from taxpayers.

To ensure this provision achieves its intended purpose of enhancing tax certainty and reducing disputes, it will be important to complement the regulations with practical guidance, institutional support, and clear timelines for implementation. This would help ensure that the APA framework is not only embedded in law but also becomes an effective and accessible tool for both taxpayers and the tax administration.

To this effect, the Act provides that the Cabinet Secretary may make regulations within 6 months from 1 July 2025 for better implementation.



Pay As You Earn



Pay As You Earn

Expenditure incurred on construction of residential premises

Amendment: The Act seeks to expand the allowability of interest expense to include the construction of residential owned premises. Currently, the provision allows for the deduction of up to **KES 360,000** on interest incurred from money borrowed from institutions such as banks, building societies, the National Housing Corporation and cooperative societies for the purchase or improvement of the owner-occupied premises.

Implication: Taxpayers who construct their own homes will now benefit from the same deduction of up to **KES 360,000** annually as those who purchase or improve existing ones. This could spur growth in the residential construction sector due to improved financing incentives.

Effective date 1 July 2025



KES 360,000 annual deduction now applies to self-built homes.

Deductions relief of employment income paid to certain non-resident persons no longer allowable

Amendment: The Act deletes the following paragraph:

- (r) an amount equal to one-third of the total gains and profits from employment of an individual who is not a citizen of Kenya and
- i. whose employer is a non-resident company or partnership trading for profit;
 - ii. who is in Kenya solely for the performance of his duties in relation to his employer's regional office, which office has been approved for the purposes of this paragraph by the Commissioner;
 - iii. who is absent from Kenya for the performance of those duties for a period or periods amounting in the aggregate to one hundred and twenty days or more in that year of income; and
 - iv. whose gains and profits from that employment are not deductible in ascertaining the total income chargeable to tax under this Act of his employer or of any company or partnership which controls, or is controlled by, that employer;

Implication: This update seeks to align with the provision that all income derived and accrued from Kenya is subject to tax in Kenya.

Effective date 1 July 2025

Pay As You Earn

From KES 2,000 to KES 10,000!

Amendment: The Act increases the threshold for per diem from **KES 2,000 per day to KES 10,000 per day**.

Implication:

This amendment will benefit employees with additional perks by increasing the per diem threshold from **KES 2,000 per day to KES 10,000 per day** is expected to ease financial pressure on employees who travel for work, providing them with a wider tax-exempt cushion to cater for daily expenses.

Effective date 1 July 2025

Definition of “individual retirement fund” amended

Amendment: The Act amends the definition of ‘individual retirement fund’ by deleting the requirement to abide by the Income Tax (Retirement Benefits) Rules which would require them to be registered with Commissioner

Implication: The amendment seeks to align the registration requirements of individual retirement funds which previously required the approval of both the Commissioner and Retirement Benefits Authority. Following the enactment of the Tax Laws (Amendment) Act, 2024, such schemes now are to be registered with the Retirement Benefits Authority only.

Effective date 1 July 2025

Deduction of tax from emoluments

Proposed amendment: The Act amends the ITA by introducing a requirement to have employers grant employees all applicable deductions, reliefs and exemptions before computing the tax deductible .

Implication: The amendment seeks to align the ITA with the newly introduced deductions under AHL, SHIF and post retirement medical Funds introduced by the Tax Laws Amendment Act, 2024

Effective date 1st July 2025

Removal of penalty for failure to supply Commissioner with PAYE deduction certificate

Amendment: The Act deletes the provision of the ITA which required an employer to provide the Commissioner with a PAYE deduction certificate.

Implication: The amendment seeks to relieve employers from the legal requirement of supplying the Commissioner with a PAYE deduction certificate. This may be reflective of the fact that with *iTax*, any PAYE payment is reflected in real time and therefore the Commissioner has visibility of the PAYE remitted by employers.

Effective date 1 July 2025

Pay As You Earn

Reform of preferential 'retirement income' tax treatment

Amendments under Section 8:

- a) Update of subsection 1 by deleting 'husband' and replacing it with 'spouse'.
- b) Deletion of subsection 4 which exempts the first **KES 300,000** from tax on the pension income received by resident individuals in Kenya.
- c) Deletion of subsection 5 which exempts the first **KES 600,000** lump withdrawals from pension funds or individual retirement funds.
- d) Deletion of subsection 6 which exempts the beneficiaries of lump sum / pension income / lump sum to an estate.
- e) Deletion of subsection 7 which provides for the treatment of a registered individual retirement fund, or a registered home ownership savings plan are treated for tax purposes upon the death of a beneficiary.
- f) Deletion of subsection 9 which speaks to the compliance requirement for Individual Retirement Funds set by the relevant governing bodies.
- g) Deletion of subsection 9A which provides for the tax treatment funds held in a Home Ownership Savings Plan when it loses its registration status.

Implication:

This amendment seeks to align with the changes under the Tax Laws (Amendment) Act 2024 which introduced an exemption from tax for withdrawal of pension benefits from registered pension funds, provident funds, individual retirement funds, public pension schemes or the National Social Security Fund under the following circumstances:

- Persons who have met the retirement age as provided for under their schemes' regulations,
- Have been members of a fund for at least 20 years; or
- The withdrawal prior to attaining retirement age is due to ill health.

Further, the deletions relating to the tax treatment of funds relating to Home Ownership Savings Plan is a clean up since the tax incentive relating to this was scrapped.

Effective date 1 July 2025



Pay As You Earn

Alignment of employer objection requirement under the ITA

Amendment: The Act amends the ITA which provides that the standard objection process under the ITA as outlined under Section 51 of the Tax Procedures Act, equally applies to objections raised under Section 37 which relates to penalties / decisions made by the Commissioner in respect to PAYE.

Implication:

The amendment seeks to align the standard objection process for PAYE to the provision of Section 51 of the Tax Procedures Act.

Effective date 1 July 2025

Refined categorization of exempt retirement benefits under paragraph 53 of the First Schedule

Amendment: The Act amends the First Schedule to the ITA by deleting the words payment of gratuity or other allowances paid under a public pension scheme and replace this with the following:

- (a) Payment of gratuity;
- (aa) Other allowances paid under a public pension scheme.

Implication: The amendment seeks to distinguish gratuity from other allowances paid under a public pension scheme to avoid ambiguity. With this amendment, gratuity paid, regardless of source will be exempted from income tax if one meets the retirement age as prescribed by the scheme.

Effective date 1 July 2025



Value Added Tax

Value Added Tax

Redefining Tax Invoices: Mandatory Use of e-TIMS

Provision: The Act introduces the definition of a “Tax Invoice” in the Value Added Tax Act (VAT Act) to include invoices generated via e-TIMS in-line with Section 23A of the Tax Procedures Act (TPA).

Additionally, the Act deletes the word ‘taxable’ in Section 42(1) of the VAT Act to align with the e-TIMS requirements whereby all invoices irrespective of their tax status are required to be issued electronically through e-TIMS.

Implication: The definition is in line with the implementation of the Electronic Tax Invoice Management System (E-TIMS), where the expectation is that a tax invoice for VAT purposes should be transmitted electronically through E-TIMS except for the expressly exempted items such as payment of emoluments.

The deletion of the word taxable is to clarify that a tax invoice is a requirement for all transactions and aligns to the provisions under TPA.

Effective Date: 1 July 2025



Value Added Tax

Place of supply of services.

Provision : Section 8(2) of the VAT Act provides for the conditions that crystallise the supply of services in Kenya. The Act amends Section 8 of the VAT Act through the inclusion of the word “and” at the end of the opening sentence under Section 8(2) of the Act.

The Act also deletes Section 8(2)(c) and Section (8)(3)(g) by deleting broadcast television and substituting it with internet, radio or television broadcasting services.

Implication: The introduction of the word “and” clarifies the specific conditions that qualify for the deeming of a supply of services made in Kenya, provided the recipient is in Kenya, irrespective of their registration status. By including unregistered persons, this reflects the increasing trend on consumption of digital services by non-registered persons that is subject to VAT on the non-resident suppliers of such services in Kenya.

The substitution of the words broadcast television with internet, radio and television broadcasting services reflects a modernization of law to be in response to the evolving media consumption habits. It seeks to broaden the tax base to include streaming services that were unambiguously untaxed.

Effective date: 1 July 2025



Value Added Tax

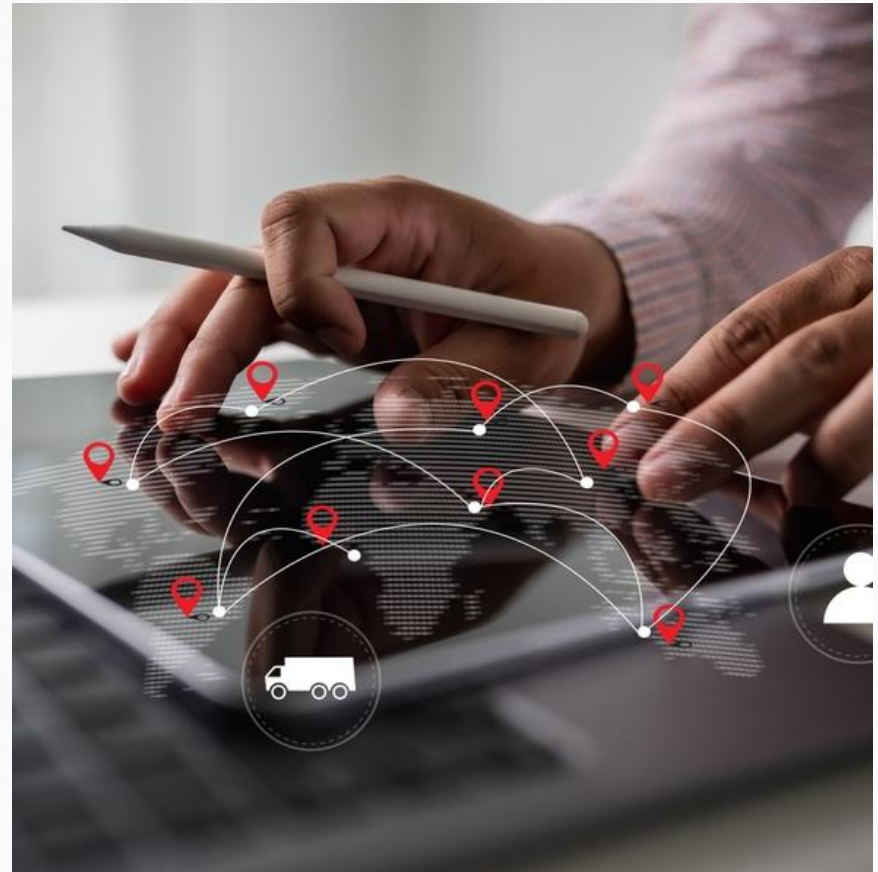
Refund of excess credits arising from the zero-rating of supplies on 1st July 2023

The Finance Act 2023 reclassified several products to zero-rated status. This left the suppliers of such products with input credits which they could not sufficiently offset against output VAT.

The Act has now given persons affected by that zero-rating a 6-month window (from 1st July 2025) to apply for a refund of the excess credits.

Implication: This amendment provides a reprieve to taxpayers whose products were reclassified from taxable at the rate of 16% to 0% as it allows them a six-month window from 1 July 2025 to apply for a refund.

Effective date: 1 July 2025



Value Added Tax

Claim of excess input VAT reduced to 12 months

Provision : The Act amends Section 17(5)(d) of the VAT Act to allow taxpayers to lodge a claim for refund of excess tax within 12 months from the date the tax become due and payable.

Implication: The objective of the amendment is to align the VAT provision relating to applying for refunds with the provision of the TPA for any other tax other than income tax, which has a five-year window for application.

Currently, the VAT Act provides that an entity with excess input VAT arising from zero-rated supplies may apply for a refund within 24 months. Taxpayers qualifying for a VAT refund claim resulting from zero-rated supplies will be required to lodge the claims in a timely manner to avoid **losing out on refund of VAT refund claims**.

Effective Date: 1 July 2025

Refund of tax on bad debts

Amendment: The Act changes the period after which a taxpayer can apply for a refund of VAT on bad debts from three years to two years.

The Act also allows taxpayers utilize the approved refund on bad debts against other VAT liabilities upon approval by the Commissioner.

Implication: This provision reduces the timelines for application for refund of VAT on bad debts from 3 to 2 years and taxpayer will be able to offset the approved refund claims on past and future VAT liabilities. The implementation of a mechanism to refund the output VAT resulting from bad debts by way of offset against other VAT liabilities will be advantageous to the taxpayers as the taxpayer will be able to manage their cashflow.

Effective Date: 1 July 2025

Refund of tax claimed on bad debts recovery

Provision : The Act amends the VAT Act by deleting the requirement for the taxpayer to refund the Commissioner any tax refunded by the Commissioner in cases of recovery of bad debts by the taxpayer within 60 days of the recovery.

Implication: This provision aims to clean up the provisions of the law with respect to refunding the Commissioner the output VAT recovered from clients as the VAT Act provides for such recoveries should be remitted to the Commissioner within 30 days. Failure to refund the Commissioner such taxes shall attract interest at a rate of 2% per month in accordance with Section 31(2) and (3) of the VAT Act.

Effective Date: 1 July 2025

Value Added Tax

Tax Avoidance Schemes

Provision : The Act charges tax at the applicable rate where a person imports or purchases goods or services which are exempt or zero-rated under VAT preferential treatment, and the person subsequently disposes of, or uses, the goods or services supplied in a manner inconsistent with the purpose for which the goods or services were exempted or zero rated.

The applicable rate of tax shall be at the time of disposal or inconsistent use.

Implication : This is aimed at preventing potential tax leakages arising from change of use of goods or services purchased with VAT preferential treatment.

Effective Date: 1 July 2025

The image shows a VAT return form and a detailed monthly sales ledger. The VAT return form is divided into sections for Current Month and Year to Date, with columns for Amount and % of Sales. The sales ledger is a detailed table showing monthly sales data from January to December, with columns for Amount and % of Sales. A magnifying glass is placed over the VAT return form, highlighting the Current Month and Year to Date sections.

Current Month		Year to Date	
Amount	% of Sales	Amount	% of Sales
1,250,000	45	2,720,000	34
180,000	60	800,000	48
1,070,000	1	1,920,000	1

Current Month		Year to Date	
Amount	% of Sales	Amount	% of Sales
540,000	1	45,000	0
123,000	0	250,000	0
200,000	0	295,000	0
38,000	0	200,000	0
20,000	0	95,000	0
1,050,000	1	1,825,000	1

Current Month		Year to Date	
Amount	% of Sales	Amount	% of Sales
122,000	0	32,000	0
112,000	0	22,000	0
335,000	0	37,000	0
10,000	1	1,000	0

Month	January	February	March	April	May	June	July	August	September	October	November	December	Annual
Amount	75,000	80,000	85,000	90,000	95,000	100,000	105,000	110,000	115,000	120,000	125,000	130,000	1,185,000
% of Sales	45	48	50	52	54	56	58	60	62	64	66	68	34

Exempt – Standard rated

The Act has amended the following items by moving them from exempt to standard rated:

Item	Finance Act 2025 amendment	Current rate
Discs, tapes, solid-state non-volatile storage devices, “smartcards” and other media for the recording of sound or of other phenomena, whether or not recorded of tariff heading 85.23, including matrices and masters for the production of discs, but excluding products of Chapter 37 upon approval by the Cabinet Secretary responsible for matters relating to health. <i>Any exemption approved before this amendment comes into force shall continue to apply until the 30th June 2026.</i>	Standard rated	Exempt
Taxable goods, excluding motor vehicles, imported or purchased for direct and exclusive use in geothermal, oil or mining prospecting or exploration by a company granted a prospecting or exploration license in accordance with the Energy Act (Cap. 314), production sharing contracts in accordance with the Petroleum Act (Cap. 308) or a mining license in accordance with the Mining Act (Cap. 306) upon recommendation by the Cabinet Secretary responsible for matters relating to energy, the Cabinet Secretary responsible for matters relating to petroleum, or the Cabinet Secretary responsible for matters relating to mining, as the case may be. <i>Any exemption approved before this amendment comes into force shall continue to apply until the 30th June 2026.</i>	Standard rated	Exempt
Taxable goods of Chapter 5407 and Chapter 6309 imported as raw materials for manufacture of textile products in Kenya upon recommendation of the Cabinet Secretary responsible for investments, trade and industry.	Standard rated	Exempt
Fuels, lubricants and vehicle tyres imported or purchased for direct and exclusive use in the implementation of official aid funded projects	Standard rated	Exempt

Effective date for all changes in VAT rates is 01 July 2025

Standard rate – Exempt

The Act amends the following items by moving them from standard rated to exempt:

Item	Finance Act 2025 amendment	Current rate
Mosquito repellent	Exempt	Standard rated
Inputs, machinery and raw materials used in the manufacture of mosquito repellent on recommendation by the Cabinet Secretary responsible for matters relating to health.	Exempt	Standard rated
The supply of locally consumed teas.	Exempt	Standard rated
Tariff 3006.93.00 - Placebos and blinded (or double blinded) clinical trial kits for a recognised clinical trial, put up in measured doses	Exempt	Standard rated
Taxable services for direct and exclusive use of the Defence Forces Welfare Services	Exempt	Standard rated
Taxable services supplied to manufacturers of mosquito repellents upon recommendation by the Cabinet Secretary responsible for matters relating to health.	Exempt	Standard rated
Accommodation, restaurant, beauty salon and laundry services provided by the Defence Forces Welfare Services	Exempt	Standard rated

Effective date for all changes in VAT rates is 01 July 2025

Standard rated – Zero-rated

Item	Finance Act 2025 amendment	Current Provision
Tea and coffee packaging materials upon recommendation by the Cabinet Secretary for matters relating to agriculture	Zero-rated	Standard rated

Effective date: 01 July 2025

Excise Duty

Excise Duty

Change in definition of digital lenders

Amendment: The Act amended the definition of ‘digital lender’ to include a person extending credit through an electronic medium but does not include a bank licensed under the Banking Act, a Sacco society registered under the Co-operative Societies Act or a microfinance institution licensed under the Microfinance Act.

Implication: Currently, there are several applications that have not been approved by the CBK due to its rigorous process. With this amendment, the levying of Excise Duty on fees earned by digital lenders will not be dependent on these entities being licensed by the CBK.

Effective date : 1 July 2025

Introduction of digital marketplace and its definition

The Act introduces the definition for digital marketplace as an online platform which enables users to sell goods or provide services to other users.

Implication: In recent years, there has been a significant rise in economic activities via digital platforms, including online betting, gaming, advertising, and various financial services offered by both residents and non-residents. This amendment aims to broaden the tax base by ensuring that all economic activities carried out through digital marketplaces are subject to taxation. By doing so, it seeks to enhance revenue mobilization, promote fairness in the tax system, and align with global trends in digital economy taxation.

Effective date : 1 July 2025

Harmonization of goods classification with EAC Common External Tariff

Amendment: The Act has amended Section 2 of the Act to provide that goods subject to excise duty shall be classified in accordance with the East African Community Common External Tariff.

Implication: This alignment enhances legal clarity, facilitates smoother cross-border trade, reduces classification disputes, and reinforces regional integration. It also places a compliance obligation on traders to adhere to EAC standards, promoting consistency and efficiency in tax procedures.

Effective date : 1 July 2025

Broadening the definition of digital platform

The Act replaces the term “through a digital platform” with the phrase “over the internet, an electronic network, or through a digital marketplace,” thereby broadening the scope of the definition.

Implication: The expanded definition will expand the remit of those players in the digital economy space that are subject to tax by including those that provide digital services over the internet and electronically, in addition to those who already provide such services through the digital platform.

This will in turn increase tax revenue through expansion of the tax base with respect to eligible players in the digital economy space. As such, these providers will be required to register and comply with excise duty on qualifying services. However, this may translate into increased costs of the digital services as this tax may likely be transferred to the final consumer.

Effective date : 1 July 2025

Excise Duty

Definition of non-residents

Amendment: The Act has introduced the definition of a non-resident person to mean a person outside Kenya.

Implication: The definition broadens the tax base by bringing into the tax scope entities or individuals providing services over the internet, electronically, or through a digital marketplace, thereby making such services subject to excise duty.

Effective date : 1 July 2025

Taxation of cross-border digital services

The Act seeks to expand the definition of place of supply of services to include supplies made by a non-resident person to a person consuming those services in Kenya through the internet, electronic network or a digital marketplace.

Implication: This change broadens the tax base by requiring foreign digital service providers to remit Excise duty to the government. While it this change levels the playing field for local providers and boosts government revenue, it may also lead to higher costs for consumers and increased compliance burdens for non-residents, with potential enforcement challenges for KRA.

.Effective date : 1 July 2025

A 14-day timeline to consider Excise Duty license application

Amendment: The Act introduces a 14-day timeline within which the Commissioner must grant or refuse an application for an Excise license, following the submission of all required documents.

Implication: This amendment introduces time certainty with respect to the licensing process. This reduces bureaucratic delays, benefiting businesses applying for excise licenses. It will also foster accountability on the Commissioner with respect to timely issuance of decisions with respect to the applications for excise duty licenses, leading to improved efficiencies and ease of doing business in excisable sectors.

Effective date : 1 July 2025

Excise Duty

Micro-distillers and compliance requirements

Amendment: The Act has defined a micro distiller as a producer of alcoholic spirits through fermentation and distillation, using a still (boiler) with a capacity of not more than 1,800 litres and an annual output limited to 100,000 litres.

The Act also exempts licensed micro distillers from mandatory requirements such as automation, continuous piping, and the use of mass flow meters. Instead, their production will be monitored using excise stamps or alternative methods prescribed by the Commissioner through a Gazette notice.

Implication: This implies that only producers operating within the specified equipment capacity and production limits will be recognized as micro distillers. This change provides a supportive regulatory framework for small-scale spirit producers by lowering compliance costs and equipment requirements, while still maintaining oversight through simplified monitoring mechanisms.

Effective date : 1 July 2025

Ethanol and methanol dealings now require to a license

Amendment: The Act now requires the importation, distribution, or handling of ethanol and methanol in Kenya to be subject to licensing or approval by the Commissioner.

Implication: The new provisions extend regulatory control over methanol and ethanol, ensuring these substances are only managed by licensed or registered entities. This helps prevent misuse, tax evasion, and potential health or safety risks associated with unregulated handling of these chemicals.

Effective date : 1 July 2025

Excise Duty on Virtual Asset Transaction Fees

Amendment: Excise duty on fees charged on virtual assets transactions by virtual asset providers at a rate of 10%.

Implication: This helps formalize and regulate the sector by integrating it into mainstream tax systems. It also expands the tax base to cover the growing virtual asset economy.

Effective date : 1 July 2025

Excise Duty

Reduction of excise duty rates of various betting activities

Amendment: The Act reduces excise duty rates from the current 15% to 5% on the following services;

- Betting-on amount deposited into a customer's betting wallet
- Gaming-on the amount deposited into a customer's gaming wallet
- Prize competition-on amount paid to participate in a prize competition and
- Lotteries(excluding charitable lotteries)- on amount paid to buy a lottery ticket

Implication: Reduction of excise duty rates on gaming and betting is a plus for punters in the betting and gaming sector and may be viewed as an incentive for players in this sector to attract incentives. However, the reduction in the rate may also bring into context issues around responsible gambling and betting.

Effective date : 1 July 2025

Clarification of amount wagered or staked

Amendment: The Act defines amount deposited into a customer's betting wallet to mean the amount of money transferred by a customer into the customer wallet maintained by a licensed betting and gaming operator for betting and gaming purposes.

Implication: By clearly identifying only customer originated funds as "deposits," tax authorities can determine what portion of funds is taxable at the point of deposit.

Effective date : 1 July 2025

Exemption of supply of services, imports or purchases by Defence Forces Welfare Services

Amendment: The Act exempts from Excise duty all goods imported, purchased locally, or excisable services supplied to the Defence Forces Welfare Services.

Implication: This exemption reduces the cost of providing welfare support to military personnel and may allow more resources to be directed toward essential services and wellbeing initiatives. It reflects the government's commitment to supporting national security institutions through targeted fiscal relief.

Effective date : 1 July 2025

Excise Duty

Deletions from Excise Duty Act

HS Code	Description	New excise rate	Previous excise rate
04.07	Imported eggs	Non-excisable	25%
07.03	Imported onions	Non-excisable	25%
07.01	Imported potatoes including crisps/chips	Non-excisable	25%
N/A	Coal	Non-excisable	2.5% of the custom value
07.03	Imported onions	Non-excisable	25%
07.01	Imported potatoes including crips/chips	Non-excisable	25%
N/A	Coal	Non-excisable	2.5% of the custom value
3923.30.00	Imported articles of plastic	Non-excisable	10%
3303 3304 3305 3307	Cosmetics and beauty products	None excisable	15%

Effective date for all changes in Excise Duty rates is 01 July 2025

Excise Duty

Increase in Excise Duty and alignment of description with Common External Tariff

HS Code	Description	New excise rate	Previous excise rate
7005	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 but excluding those imported by a registered processor upon the recommendation by the Cabinet Secretary responsible for matter relating to industry and those originating from East African Community Partner States that meet the East African Community Rules of Origin	35% of excisable value or KES 500 per square meter whichever is higher.	35% of custom value or KES 200 per kg
4821.10.00 4821.90.00	Imported paper or paper board, labels of all kinds whether or not printed but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KES 200 per kg, whichever is higher	25% or KES 150 per kg whichever is higher
4819.10.00 4819.20.10 4819.20.90	Imported cartons, boxes and cases of corrugated paper or paper board and imported folding cartons, boxes and case of non-corrugated paper or paper board and imported skillets, free-hinge lid packets	“25% or KES 200 per kg whichever is higher	25%

Effective date for all changes in Excise Duty rates is 01 July 2025

Excise Duty

Increase in Excise Duty and alignment of description with Common External Tariff

HS Code	Description	New excise rate	Previous excise rate
3919.90.90	Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% or KES 200 per kg whichever is higher	25% or KES 75 per kg, whichever is higher
3920.10.90	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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% or KES 200 per kg whichever is higher	25% or KES 75 per kg, whichever is higher
3920.43.90	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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% or KES 200 per kg whichever is higher	25% or KES 75 per kg, whichever is higher



Effective date for all changes in Excise Duty rates is 01 July 2025

Excise Duty

Increase in Excise Duty and alignment of description with Common External Tariff

HS Code	Description	New Excise rate	Previous excise rate
3920.62.90	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 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% or KES 200 per KG whichever is higher	25% or KES 75 per kg, whichever is higher
3921.19 .90	Imported printed cellular of other plastics of other plates, sheets, film, foil and strip, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KES 200 per KG whichever is higher	25% or KES 75 per kg, whichever is higher
4811.41.90	Imported printed gummed or self-adhesive paper, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% of excisable value or KES. 200 per kg, whichever is higher.	25% or KES. 150 per kg, whichever is higher
4811.49 .00	Imported non-self adhesive gummed paper and paperboard, excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% of excisable value or KES. 200 per kg, whichever is higher.	25% or KES. 150 per kg, whichever is higher
2207.10.00	Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages.	KES. 500 per litre	KES 10 per centiliter of pure alcohol

Effective date for all changes in Excise Duty rates is 01 July 2025



Excise Duty

Increase in Excise Duty and alignment of description with Common External Tariff

HS Code		New Excise rate	Previous excise rate
4804.11.00	Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; Unbleached but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% of excisable value or KES 50 per kg, whichever is higher.	None
4804.31.00	Imported other kraft paper or paperboard weighing 150g/m ² or less, in rolls or sheets; unbleached but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	25% of excisable value or KES 50 per kg, whichever is higher	None
4804.41.00	Imported other kraft paper or paperboard weighing more than 150g/m ² but less than 225 g/m ² , in rolls or sheets; unbleached but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% of excisable value or KES 50 per kg, whichever is higher.	None
4804.51.00	Imported other kraft paper or paperboard weighing 225 g/m ² or more others in rolls or sheets; unbleached but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% of excisable value or KES 50 per kg, whichever is higher.	None

Effective date for all changes in Excise Duty rates is 01 July 2025



Excise Duty

HS Code	Description	New Excise rate	Current excise rate
70.03, 70.04	Imported glass , bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials of Tariff Heading 70.06, but excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin.	35% of excisable value or KES 500 per square metre, whichever is higher	None
7007.19.00 and 7007.29.00	Imported safety glass excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	35% of excisable value or KES 500 per square metre, whichever is higher	None
9613.10.00	Non-refillable lighters	25% of excisable value or KES 500 per kg	None
70.08	Imported Multiple-walled insulating units of glass excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin	35% of excisable value or KES. 500 per square meter, whichever is higher.	None

Effective date for all changes in Excise Duty rates is 01 July 2025



Excise Duty

HS Codes	Description	New Excise rate	Current excise rate
N/A	Imported fully built and semi-built direct air capture machines	25% of excisable value	None
76.04, 7608.20 and 7610.10	Imported aluminium profiles, fabricated doors and fabricated windows	25% of excisable value or KES 400 per kg whichever is higher.	None
Various	Imported tea whether or not flavoured	25% of excisable value	None
70.10	Imported Glass bottles (excluding imported glass bottles for packaging of pharmaceutical products) Provided that it shall not apply to glass bottles imported from any of the countries within the East African Community	35% or KES 40 per kg whichever is higher"	35%
6907	Imported ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing finishing ceramics	5% or KES 300 per square meter, whichever is higher	5% of custom value or KES 200 per square meter

Effective date for all changes in Excise Duty rates is 01 July 2025



Tax Procedures Act

Tax Procedures Act

Restriction of scope of payments excluded from issuing an electronic tax invoice

Amendment: The Act updates the transactions that do not require the issuance of electronic tax invoices. The Amendment states that an electronic tax invoice may exclude payments of emoluments, imports, interest, transactions for accounting of investment allowances, airline passenger ticketing and payments subject to withholding tax as a final tax.

Implication: The amendment aims to limit transactions that do not require the issuance of electronic tax invoices by removing the words “and similar payments” and instead include those transactions that have withholding tax as a final tax. The narrowed scope of transactions may increase the tax compliance burden for taxpayers, as they will be required to ensure that most of their transactions are supported by tax compliance issues.

Effective Date: 1 July 2025

Introduction of Definition of Certificate of Origin

Amendment: The Act amends Section 2 of the Tax Procedures Act to define a certificate of origin as an official document issued by a competent authority of the exporting country's government, certifying that the goods imported into Kenya were genuinely produced in that country.

Implication: The amendment introduces a legal requirement for any person importing goods into Kenya to present a valid certificate of origin before clearance of goods by customs. The amendment codifies and aligns with established operational best practices. Businesses must possess valid and properly issued certificate of origin failure to which KRA shall bar processing of any import entry documentation and seizure or forfeiture of the imports.

Effective Date: 1 July 2025

Why did the Commissioner amend a self-assessment return?

Amendment: The Act mandates the Commissioner to include reasons for the amended assessment in the notice of amended assessment.

Implication: The requirement for the Commissioner to provide reasons for its decisions has been a long-standing legal requirement under Section 51(10) of the Tax Procedure Act read together with Article 47 of the Constitution.

The Act seeks to explicitly require the Commissioner to give reasons for amending an assessment that has been auto-generated through the iTax system. Currently, the additional assessments issued through the iTax system do not provide reasons for the amendment and this may prejudice the taxpayer from objecting accordingly, in the absence of additional correspondence regarding such assessments.

If passed into law, this provision will provide reprieve for taxpayers who will be able to lodge objections from an informed point of view.

Effective Date: 1 July 2025

Tax Procedures Act

Relieve for a taxpayer responsible to deduct or withhold tax.

Amendment: The Act excludes the requirement for taxpayers to pay the principal tax not deducted, withheld or remitted to the Commissioner for as long as the recipient of the payment has accounted in full for the principal tax not deducted, withheld or remitted by the responsible taxpayer.

Implication: This amendment will be a relieve to taxpayers with obligations to withhold tax under any tax law with such requirements from remitting the principal tax not accounted for by them to the extent that the recipient has accounted for the tax.

However, the penalties and interest relating to the non-compliance will still apply.

Effective Date: 1 July 2025

Commissioner's notification exempted from stamp duty

Amendment: The Act introduces the word "stamp duty" immediately after the word "fee" in Section 40 (2) of the TPA to exempt KRA from paying stamp duty on notifications filed by the Commissioner with the Registrar of Lands in relation to property of a taxpayer who defaulted in payment of tax.

Implication: The section enables KRA to recover unpaid taxes seamlessly without incurring stamp duty charges in registration of the notification with the Registrar. It makes it easier for KRA to recover unpaid taxes without further administrative burdens such as clearing with the Lands Registry beforehand.

Effective Date: 1 July 2025

Stamp duty exemption on transfer of property registered as security for unpaid taxes

Amendment: The Act exempts property transferred following default by a taxpayer in payment of tax after receipt of notification of registration of security on property by KRA.

Implication: This amendment seeks to simplify enforcement and recovery by removing a tax barrier in the recovery process.

Purchasers of property sold in tax recovery efforts shall have less tax burden while purchasing the property thus ease the process of settling tax debts through property transfer without incurring additional stamp duty costs.

Effective Date: 1 July 2025

Tax Procedures Act

Not-so-fast for non-resident persons with tax debts in Kenya.

Amendment: The Act proposes to empower KRA to collect taxes from non-resident persons through persons that owe these non-residents.

Implication: By inserting "or a non-resident person who is subject to tax in Kenya" throughout the subsections, the Commissioner's power has been extended to require payment from persons that owe non-resident taxpayers.

This means that the Commissioner may still enforce the collection of taxes owed by these non-residents' taxpayers through engaging persons in Kenya who may owe these non-resident taxpayers.

Effective Date: 1 July 2025



Tax Procedures Act

Conviction set aside for defaulting Value Added Tax Withholding Tax (VAT WHT) agents.

Amendment: The Act removes the additional 10% penalty upon conviction on the amount to be withheld due to failure by the VAT withholding agent to withhold or remit by the 5th day of the subsequent month.

Implication: Taxpayers who are appointed as withholding VAT agents are liable for a penalty of 10% where a person does not withhold and remit withholding VAT and an additional 10% penalty of the principal tax involved upon conviction.

By removing the conviction aspect, this will reduce the administrative burden for KRA as conviction would require a pronouncement by a court of law, which is a separate procedure.

Effective Date: 1 July 2025

Revocation of appointment of digital service tax agent

Amendment: The Act revokes the Commissioner's power to appointment digital service tax agents.

Implication: The current provision of law was designed to operate under a withholding mechanism where appointed withholding agents were required to remit DST under the withholding mechanism.

From 2 January 2021, these non-resident entities have been accounting for Digital Services Tax (DST), and now Significant Economic Presence Tax (SEPT) under the self-assessment regime, making the requirement to appoint DST agents redundant.

Effective Date: 1 July 2025

Exclusion of input VAT from being offset through overpaid tax

Amendment: The Act amends Section 47(1) (a)(i) by deleting the words "and input VAT" to remove input VAT from categories of tax to be offset through overpaid tax.

Implication: The proposed deletion is a clean up since input VAT is a tax credit that is used to offset against output VAT.

As currently worded, overpaid taxes could be offset against input VAT, which is not practical since both input VAT and the overpaid taxes are credits available for utilization against VAT and other taxes, respectively.

Effective date: 1 July 2025



Tax Procedures Act

Increase in timeframe for review of an application for overpaid tax from 90 days to 120 days

Amendment: The Act increases the timeframe for determination of an overpayment of tax application by KRA from 90 days to 120 days.

Implication: The amendment would see taxpayers experience delayed resolution of their overpayment claims, potentially affecting their cash flow and financial planning.

Effective Date: 1 July 2025

Increase in timeframe for review of an overpayment claim subjected to audit from 120 days to 180 days

Amendment: The Act amends Section 47(4A) by increasing the timeframe to review an application for refund of overpaid taxes subject to an audit by the Commissioner from 120 days to 180 days.

Implication: The proposed amendment would see taxpayers facing extended delays before their overpayment claims are resolved, which can negatively impact their cash flow and financial planning.

Effective Date: 1 July 2025

Computation of time for issuance of a decision on a late objection

Amendment: The Act inserts a new Section 51(7B) to clarify that an objection decision by the Commissioner shall be issued within 60 days from the day the late objection was lodged, provided that the Commissioner has allowed the application for the late objection.

Implication: The 60-day period for the Commissioner to issue an objection decision starts running from the actual date the objection is lodged, not from the original deadline. By defining the computation of time for late objections, this minimizes confusion and disputes between taxpayers and the Commissioner regarding deadlines for issuing a decision on a late objection application.

Effective Date: 1 July 2025



Tax Procedures Act

Alignment with the Tax Laws (Amendment) Act 2024 on grounds for refusal of a private ruling

Amendment: The Act deletes Section 66(1)(a)(iii) that states that a Commissioner may refuse an application for a private ruling if a ruling published under Section 69 that is in existence.

Implication: This is a clean up since Section 69 of the TPA was repealed by the Tax Law (Amendment) Act, 2020 which provided for the publication of private rulings in two daily newspapers with a national circulation which were viewed as binding on the Commissioner.

Effective Date: 1 July 2025

Tax Procedures Act

Failure to file a tax return subject to a penalty

Amendment: The Act amends Section 83(1) by inserting the words, "fails to submit a tax return or" immediately after the word, "person who" to make failure to file a tax return a ground levying of a penalty by the Commissioner.

Implication: The amendment shall ensure that taxpayers who do not file returns entirely face the same penalties as those who file late returns.

This proposed amendment seeks to enhance tax compliance by ensuring that those taxpayers who do not file returns at all are subjected to penalties.

Effective Date: 1 July 2025



Waiver of tax penalty and interest by the Cabinet Secretary

Amendment: The Act empowers the Cabinet Secretary upon recommendation by the Commissioner to waive tax penalties and interest on the following grounds:

- an error generated by an electronic tax system;
- a delay in the updating of an electronic tax system;
- a duplication of a penalty or interest due to a malfunction of an electronic tax system; or
- the incorrect registration of the tax obligations of a taxpayer.

Implication: The amendment is a welcome move as it will allow the Commissioner to recommend for waiver of penalties and interest arising from errors or malfunctions relating to an electronic tax system such as iTax or the electronic tax management system and the erroneous registration of a tax obligation.

Already, the KRA issued a public notice committing to the waiver of penalties arising from the late filing of tax returns occasioned by the malfunctioning of iTax.

It is important to highlight that penalties that arise from other instances of non-compliance such as late payment of tax will not be eligible for a waiver application.

Effective Date: 1 July 2025

Miscellaneous Fees & Levies Act



Miscellaneous Fees & Levies Act (MFLA)

Wider application of Tax Procedures Act (TPA) provisions

Amendment: The Act expands the framework for application of the TPA's provisions to fees and levies administered under the MFLA. Currently, the MFLA only provides for application of Section 47 of the TPA in relation to procedures for refunds of the various fees and levies it governs.

Implication: The amendment to the MFLA provides for application of Section 47 of the TPA regarding excess tax refunds with respect to levies and fees.

With this amendment, the provisions of the entire TPA will be applied for purposes of administering any issues pertaining the fees and levies charged under the MFLA such as penalties, interest, objections and refunds of these fees and levies.

Effective Date: 1 July 2025

Miscellaneous Fees & Levies Act (MFLA)

New - Exemption from Import Declaration Fee (IDF) and Railway Development Levy (RDL) on inputs, raw materials and machinery used in the manufacture of mosquito repellents

Provision: The Act exempts the imposition of IDF and RDL on Inputs, raw materials and machinery used in the manufacture of mosquito repellents upon recommendation by the Cabinet Secretary responsible for matters relating to health.

Implication: The amendment will reduce the cost of production of mosquito repellents. This aligns with the health agenda of the government promoting Universal Health by making health related products affordable in addition to assisting in the fight against malaria in the country.

Effective Date: 1 July 2025



Miscellaneous Fees & Levies Act (MFLA)

New items subject to export and investment promotion levy

Tariff No.	Tariff Description	Export and investment promotion levy rate
69.07	Ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics.	3%
69.10	Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures.	3%
72.06	Iron and non-alloy steel in ingots or other primary forms (excluding iron of heading 72.03).	17.5%
72.07	Semi-finished products of iron or non-alloy steel.	17.5%
72.13	Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel.	17.5%
72.14	Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling.	17.5%
72.24	Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel.	17.5%

Stamp Duty Act



Stamp Duty Act

Exemption for Transfer of property during internal reorganization

The Act exempts stamp duty payment on property transferred by a company to its shareholders as part of internal reorganisation. To qualify for the stamp duty exemption, the following conditions must be met:

- a) The property should be transferred to shareholders in proportion to their existing shareholding; and
- b) If the property consists of shares, the shares must be in a subsidiary of the transferring company.

Implication: Currently, stamp duty applies primarily to property transfers, legal instruments and financial agreements specified under the Stamp Duty Act (SDA) unless explicitly exempted under Section 117 of SDA.

Additionally, exemption can be extended to transactions that the Cabinet Secretary responsible for matters relating to land will approve. The main condition touching on the exemption extended by the Cabinet Secretary needs to serve a public interest as held recently by the High Court in **Okoiti –versus- Cabinet Secretary, National Treasury & 5 others [2025] KEHC 4444 (KLR)**.

The provision shall incentivize companies that are undergoing internal restructuring by easing the tax burden pegged on these transactions. Additionally, the requirement that transfers be proportional to existing shareholding ensures that there will be no tax leakages that may result from a transfer of shareholding beyond the allocation due to those shareholders.

Effective date: 1 July 2025





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