



Finance Act, 2026

KPMG Analysis

Kenya

1 July 2026

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Foreword

The theme of the 2026 Budget Policy Statement (BPS) is “*Accelerating Gains under the Bottom-Up Economic Transformation Agenda for Inclusive and Sustainable Growth*.” The BPS sets out the Government’s fiscal strategy, policy priorities and medium-term expenditure framework against a backdrop of global uncertainty. To sustainably finance its growth ambitions, the Government has approved establishment of a National Infrastructure Fund and a Sovereign Wealth Fund to mobilize domestic resources, monetize public assets and attract private capital.

In 2025, the global economy demonstrated resilience, with growth estimated at 3.3 percent. This performance was on the back of easing trade tensions, improved financial conditions, and robust consumer and business spending. Going into 2026, the global outlook will be constrained by elevated policy uncertainty, ongoing geopolitical tensions, and potential for renewed trade fragmentation.

Locally, economic growth momentum was sustained in 2025 at an average of 4.6%, a marginal decline from 4.7% in 2024. The growth in GDP was supported by a robust agricultural sector, recovery in industry and continued dynamism in services. The economic growth is expected to continue in 2026 although the impact of ongoing geopolitical tensions is starting to cause strain.

The Finance Act, 2026 has focused on changes that widen the tax base and enhance compliance to meet the expected tax revenue of **KES 3.533 trillion**, made up of ordinary revenues of **KES 2.901 trillion** and appropriations-in-aid of **KES 632 billion**.

Among the changes is the introduction of a proviso allowing institutions registered under the Banking Act, Microfinance Act and the Central Bank of

Kenya Act to deduct bad debts including the principal, interest and any other amount related to the debt in accordance with the guidelines prescribed by the Commissioner. Further the Act introduces a new taxation framework for rental income of non-resident persons who accrue or derive income from the use or occupation of property situated in Kenya. The Act also introduces withholding tax on interchange fees, a change that is a reaction to recent court decisions where the government failed in its attempt to tax interchange fees under the current legal provisions.

For personal income taxes, the Act expounds on the scope of the tax exemption on gratuity contributions by introducing new eligibility conditions.

On VAT, the Act bring to charge digital and platform based financial services. There are also several changes to the VAT Act Schedules. Notable is the proposed standard rating of supply of electric motorcycles, electric buses and electric bicycles.

The Act further revises the timelines for filing income tax returns for both individuals and companies by changing the filing deadline from six months to four months following the end of their year of income for individuals and not later than the last day of the sixth month following the end of the accounting period for companies.

A significant change under the Tax Procedures Act is the extension of the tax amnesty on interest, penalties and fines relating to tax liabilities to 31 December 2025, provided that the principal tax is settled on or before 31 December 2026.

In the ensuing sections, we present our detailed analysis of the changes.



Income Tax- Corporation Tax



▲ 124,825 + 347.74
+ 0.31%

▲ 29,140.36 + 604.26
+ 2.14%

19,580



Income Tax- Corporate Income Tax

Amendments to the definition of ‘immovable property’

Amendment: The Act amends the definition of ‘immovable property’ under Section 2 by deleting the word “and” appearing immediately after the words immovable property at the end of item (a) and substituting therefor the word “or”.

Implication: This change expands the definition of immovable property. The use of the word “or” means that each item listed under Section 2 of the Income Tax Act can independently qualify as immovable property. In contrast, the current use of “and” implies that the listed items (land and mining rights) are linked.

Effective date: 1 July 2026





Income Tax- Withholding Tax

Expansion of definition of Management or Professional fees

Amendment: The Act has expanded the definition of “management or professional fee ” under Section 2 of the Income Tax Act to include interchange fees and merchant service fees arising from transactions that use card as a means of payment.

Implication: By broadening these definitions, the Act significantly widens the base of payments subject to withholding tax as management/professional fees particularly in the digital, fintech, banking and payments ecosystems.

In light of the Supreme Court’s decision in *Commissioner of Domestic Taxes v Absa Bank Kenya PLC*, which held that interchange fees do not constitute management or professional fees for purposes of withholding tax, the expanded definition represents a material legislative shift. By expressly expanding the definition of “management fee” to include interchange fees and merchant service fees arising from card-based payment transactions, the government appears to be reacting to the ruling to specifically provide for the taxation of these fees.

Effective date: 1 July 2026





Income Tax- Corporation Tax

Introduction of timelines for remittance of carriage Income Tax

Amendment: The Act introduces a requirement for tax on carriage income derived in Kenya to be paid within five days of the earlier of receipt of payment or when the ship leaves the port of lading. Following this change, the Act has deleted the withholding tax requirement for carriage income.

Implication: Deleting Section 35(1)(u) removes the existing withholding tax framework on gains from carriage income earned by non-resident ship owners charterers or air transport operators. Receivers of carriage income are now expected to account for the tax directly. This simplifies the tax regime ensuring that only one person accounts for the tax as opposed to the previous regime where the customers of the shipping line were expected to account for the tax under the withholding tax regime.

Effective date: 1 July 2026



Income Tax- Corporation Tax

No more pass-through: Trust income deemed at trustee level

Amendment: The Act has replaced Section 11 with a new Section which provides that:

Any Income chargeable to tax received by a person in the capacity of a trustee, executor or administrator shall be deemed to be income of that trustee, executor or administrator.

01

Where tax has been paid by the trustee, executor or administrator, the beneficiary of the income shall not be liable for further tax on that income.

02

03

Tax on dividend or interest income included in the income of a trustee, executor or administrator shall be final and not subject to further tax.

Implication: The amendment clarifies the tax treatment of trust income by placing the tax liability on trustees, executors, or administrators, while preventing double taxation by exempting beneficiaries and excluding qualifying dividend and interest income from further taxation.

Effective date: 1 July 2026



Income Tax- Corporation Tax



Drawing the line on instalment tax

Amendment: The Act has replaced paragraph (a) of Section 12 of the Income Tax Act to remove references to Section 12D, which was repealed by the Finance Act, 2025. Under the new provision, a person will be exempt from paying instalment tax where, to the best of their judgement and belief, they expect to have no income chargeable to tax for the year of income other than emoluments (PAYE income).

Implication: The amendment updates and simplifies the instalment tax exemption framework by aligning it with the current structure of the Income Tax Act, without reliance on the repealed Section 12D.

Effective date: 1 July 2026



Income Tax- Corporation Tax

Deductibility of bad debts by financial institutions

Amendment: The Act has introduced a proviso to Section 15(2) of the Income Tax Act allowing institutions registered under the Banking Act, Microfinance Act and the Central Bank of Kenya to deduct bad debts including the principal, interest and any other amount related to the debt in accordance with the guidelines prescribed by the Commissioner.

Implication: The amendment now explicitly states that the principal, interest and any other amount relating to a bad debt is deductible as a business cost. This is in response to a Tax Appeal Judgement that sought to disallow the principal component of a bad debt.

Effective date: 1 July 2026



Income Tax- Corporation Tax

Carrying forward of tax losses

Amendment: The Act has introduced a proviso to Section 15(4) of the Income Tax Act. Under this proviso, where a person is determined to have invested at least KES 10 billion before 1 July 2025 and the investment resulted in a tax loss, that loss will be deemed to have been incurred in 2025. The loss may then be carried forward and utilized until it is fully offset.

Implication: The amendment allows for the carrying forward of losses until they are extinguished once it is proven that an investment of at least 10 billion shillings was made before 1st July 2025.

Effective date: 1 July 2026



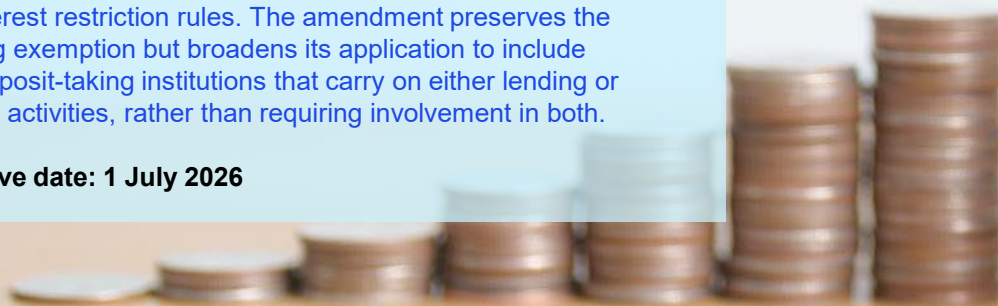
Income Tax- Corporation Tax

Broadening of interest restriction exemption rules

Amendment: The act has amended the phrase “**lending and leasing business**” which appears after the words “involved in” under Section 16 (2)(j)(iii)(E) of the Income Tax Act and replaced it with the phrase “**lending or leasing; or both**”.

Implication: Previously, only non-deposit-taking institutions engaged in both lending and leasing qualified for exemption from the interest restriction rules. The amendment preserves the existing exemption but broadens its application to include non-deposit-taking institutions that carry on either lending or leasing activities, rather than requiring involvement in both.

Effective date: 1 July 2026





Income Tax- Corporation Tax

Insurance business – alignment of terminology with “statutory fund”

Amendment: The act amends Section 19 of the Income Tax Act to replace references to “life insurance fund” with “statutory fund”, aligning the ITA terminology with that used in the Insurance Act and sector regulation.

Implication: This is primarily a harmonisation and clarification measure for the insurance sector, ensuring that the income tax law references the correct regulatory construct for life assurance business. While not expected to have a material tax-cost impact on its own, it should reduce interpretation uncertainty when applying tax rules to life business within the statutory fund* framework.

*Statutory fund (under Section 45 of the Insurance Act): is a dedicated fund established and maintained by an insurer for each class of long-term insurance business (such as life insurance) they conduct.

Effective date: 1 July 2026



The Act amends Section 19 of the Income Tax Act to replace references to the “life insurance fund” with “statutory fund”, aligning the ITA terminology with that is used in the Insurance Act and sector regulation.





Income Tax- Corporation Tax

Repeal of Section 23 of the Income Tax Act on tax avoidance

Amendment: The Act has repealed Section 23 of the Income Tax Act, which currently allows the Commissioner to adjust a taxpayer's liability where a transaction is considered to have been primarily undertaken to avoid or reduce tax. The change removes duplication as the provision is provided for in the Tax Procedures Act (TPA), with certain modifications.

Implication: The amendment is aimed at eliminating overlap, given that comparable anti-avoidance measures are already addressed under the TPA. In particular, it is consistent with the proposed introduction of section 18A to the TPA, which brings together and broadens the Commissioner's authority to counter tax avoidance arrangements across all tax statutes within a single, harmonised framework.

Effective date: 1 July 2026



Income Tax- Corporation Tax

Revision of Income Tax Return timeline upon request by the Commissioner

Amendment: The Act amends Section 52(1) by changing the deadline to furnish the Commissioner, with a person's income tax returns from thirty days(30) days to four months after the end of the year of income upon the commissioner making a request in writing.

Implication: This is expected to enhance tax compliance and administrative efficiency for the revenue authority by aligning the timelines already provided in the Tax Procedures Act in respect of prepopulated assessments.

Effective date: 1 January 2027

Revision of Income Tax Return filing timelines

Amendment: The Act has amended Section 52B to require that a self assessment return by an individual or a company will be due for submission by the fourth month and sixth month respectively after the end of the relevant year of income.

Implication: The amendment requires individuals and companies to submit their self-assessment returns within the fourth and sixth month after the end of the year of income. This earlier deadline for individuals helps the tax authority confirm non-liability sooner and strengthens oversight by keeping compliance records up to date. However, it places an additional burden on individuals to finalize accounts and documentation immediately after year-end.

Effective date: 1 January 2027



Income Tax- Corporation Tax

Exemption of benefits arising due to death

Amendment: The Act amends Part I of the First Schedule to the Income Tax Act by including benefits arising due to death among the exempt incomes under paragraph 53.

Implication: The amendment exempts benefits arising due to death from income tax, thereby reducing the tax burden on beneficiaries and providing financial relief to grieving families.

Effective date: 1 July 2026

Amendment to exempt property transfers to Registered REITs from Capital Gains Tax

Amendment: The Act amends Part I of the First Schedule to the Income Tax Act by introducing an exemption from tax to any capital gains arising from the transfer of property to a Real Estate Investment (REIT) registered by the Commissioner under Section 20(1).

Implication: The exemption will remove capital gains tax on property transfers to registered REITs, reducing the tax cost of restructuring or injecting assets into REIT vehicles. This will encourage property owners and developers to participate in REITs, supporting growth and liquidity in the real estate investment market.

Effective date: 1 July 2026



Income Tax- Corporation Tax

Clarification on annual claim of capital deduction in equal instalments

Amendment: The Act seeks to amend the Second Schedule to the Income Tax Act by clarifying that the 10% investment deduction rate applicable under item (a)(viii) shall be claimed annually in equal instalments.

Implication: The amendment clarifies that the 10% deduction will be claimed annually in equal instalments, thereby providing certainty regarding both the timing and method of claiming the allowance for tax purposes.

Effective date 1 July 2026

Expansion of capital gains tax on indirect transfers by non-residents

Amendment: The Act amends paragraph 2 of the Eighth Schedule by correcting an internal cross-reference in subparagraph (c) (so that it now refers to subparagraph (b) instead of subparagraph (a) and, more substantively, by introducing a new subparagraph (d) to tax gains derived by non-residents from the disposal of shares where those shares derive their value from Kenya, or where the disposal results in a change in group membership of a Kenyan resident company or a change in ownership, title, or interest in property located in Kenya.

Implication: The amendment seeks to capture indirect transfers of Kenyan assets by non-residents by taxing gains from the disposal of shares that either derive their value from Kenya or result in changes to ownership or group membership of Kenyan property. It brings offshore share sales that effectively transfer Kenyan businesses or property within the Kenyan tax net, thereby limiting tax planning through use of foreign holding structures. Unlike other provisions that have thresholds and guidance on the tax computation, this change is largely vague

Effective date 1 July 2026



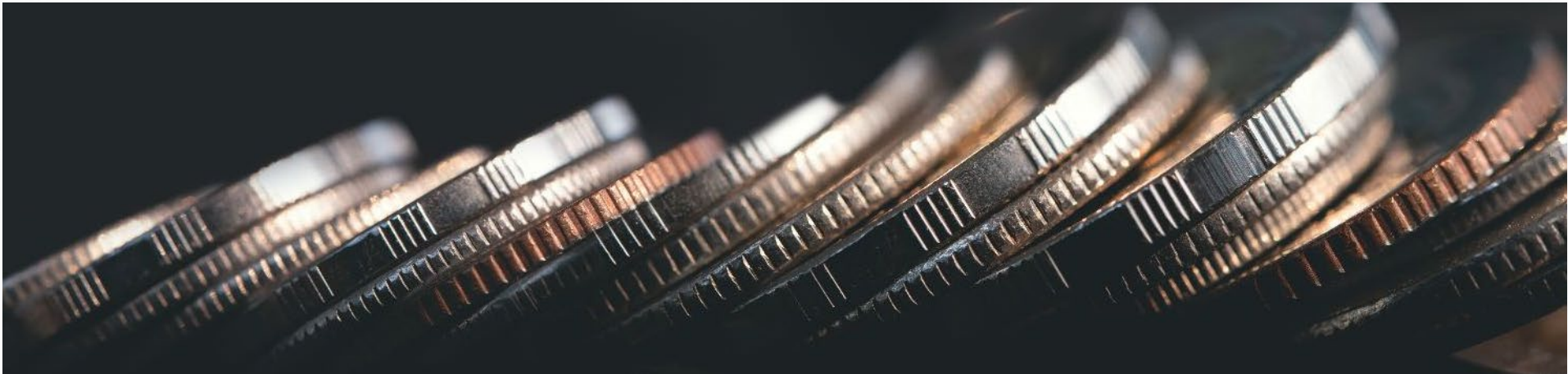
Income Tax- Corporation Tax

A new deal for non-resident extractive players

Amendment: The Act revises the tax regime for non-residents operating in the extractive or petroleum sector under the Ninth Schedule. It introduces a specific 15% tax rate on repatriated income for non-resident licensees under section 7B and a corresponding 15% rate on repatriated income for non-resident contractors under the same section, thereby clarifying and standardizing the taxation of profit remittances out of Kenya. In addition, it reduces the income tax rate for non-resident companies in paragraph 7(3)(b) from 37.5% to 30%.

Implication: The amendment reduces the income tax rate for certain non-resident companies from 37.5% to 30% and introduces a clear 15% tax rate on repatriated income for both non-resident licensees and contractors under section 7B. This lowers the overall tax burden for affected non-resident investor and clarifies the tax cost of profit remittances. This approach also aligns more closely with the resident corporate rate and potentially enhancing Kenya's competitiveness and attractiveness to foreign investors in the sector.

Effective date 1 January 2027





Income Tax- Corporation Tax

Taxing Offshore Landlords: New Non-Resident Rental Tax Regime

Amendment: The Act has introduced a specific tax regime for non-resident landlords earning rental income from property situated in Kenya. The amendment imposes a final withholding tax on gross rental income as follows:

- 30% on rent, premium, or similar payments for immovable property.
- 15% where the rent relates to property other than immovable property.

Further, the amendment will require non-resident landlords to register and account for the tax through a simplified registration framework, submit a return, and remit the tax by the twentieth day of the following month.

Implication: The non-resident will have an increased compliance burden unless they appoint a resident agent to handle their withholding and filings obligations, in which case, they are exempt from the simplified registration framework.

Effective date: 1 July 2026





Income Tax- Corporation Tax

Construction of residential units: Repeal of preferential tax rate of 15%

Amendment: The Act has deleted paragraph 2(i) of the Third Schedule in entirety, the provision charged corporation tax at the rate of 15% if the company had built at least 150 residential units annually upon approval by the Cabinet Secretary.

Implication: Contractors will no longer enjoy the preferential corporation tax rate of 15% that they were previously entitled to if they built 150 residential units annually. Rather they will be charged corporation tax at 30%. The provision was meant to incentivize contractors to build more residential units, the repealing of this provision will result in reduced profitability for contractors and increased cost for home-buyers.

Effective date: 1 July 2026





Income Tax- Withholding Tax

Deleting current definition of “royalty” and expanding the new definition

Amendment: The Act has deleted the current definition of “royalty” and substituted it with a new definition to mean a payment made as 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
- 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

Implication: The expanded definition of “royalty” brings a wider range of digital and payment-related fees into the tax net, subjecting them to withholding tax where they were previously non-taxable.

The definition also makes it clear that payments made to a distributor for use of software are not royalty subject to WHT in line with the decision of the Seven Seas Case.

This may increase the cost of payments made to both resident and non-resident service providers, particularly in cross-border arrangements involving digital platforms, payment networks, and software distribution.

The change may also impose additional withholding and compliance obligations on payers and could lead to higher costs being passed on to customers, while increasing the risk of disputes and double taxation if treaty relief or sourcing rules are unclear.

Effective date: 1 July 2026

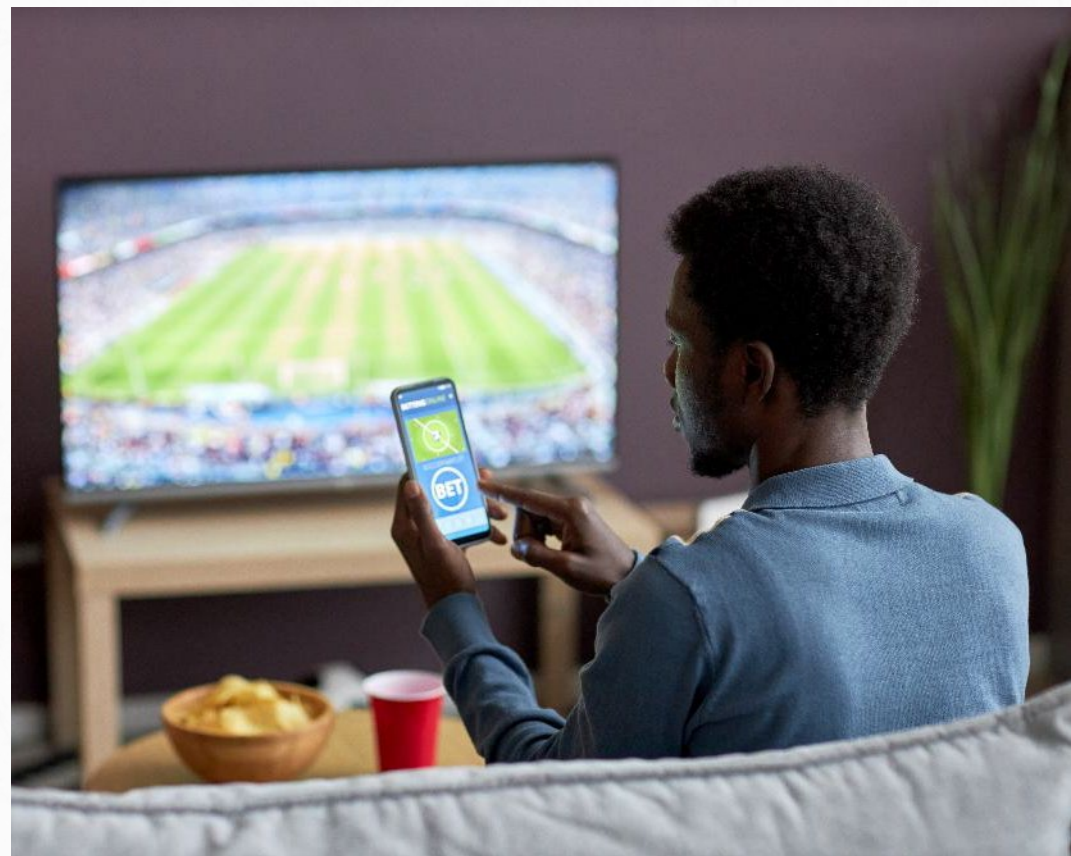
Income Tax- Withholding Tax

Amendment of the definition of Withdrawals

Amendment: The Act has deleted the definition of “withdrawals” and substituted it with a new definition which defines “withdrawals” to mean any amount of money, cash equivalent, or money’s worth paid or disbursed to the account of a player, by a person licensed under the Gambling Control Act, 2025.

Implication: The amendment broadens the definition of “withdrawals” beyond amounts taken from a betting or gaming wallet to include any money, cash equivalent, or money’s worth paid or disbursed to a player’s account by a licensed gambling operator. This expands the tax base by capturing all forms of gambling payouts, not just wallet withdrawals, to enhance tax collection and compliance in the gambling sector.

Effective date: 1 July 2026



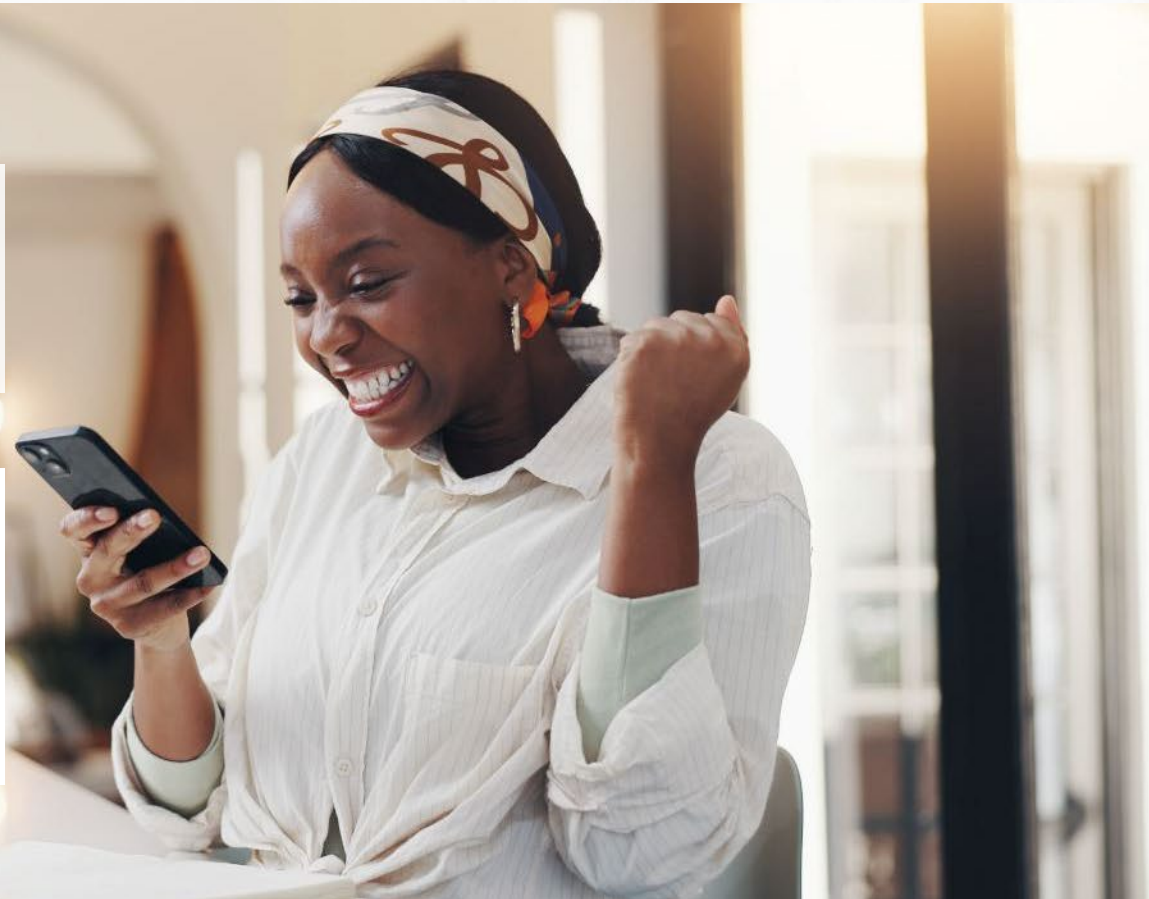
Income Tax- Withholding Tax

Amendment of the definition of Winnings

Amendment: The Act introduces a new definition of “winnings” to mean a pay-out by a person licensed under the Gambling Control Act, 2025, from a lottery or prize competition.

Implication: The introduction of this definition clarifies that only the gain from gambling activities from a person licensed under the Gambling Control Act is considered for tax purposes. The lack of clarity as to what winnings comprise of may create ambiguity and disputes as the definition does not clarify whether the original stake has been excluded.

Effective date: 1 July 2026





Income Tax- Withholding Tax

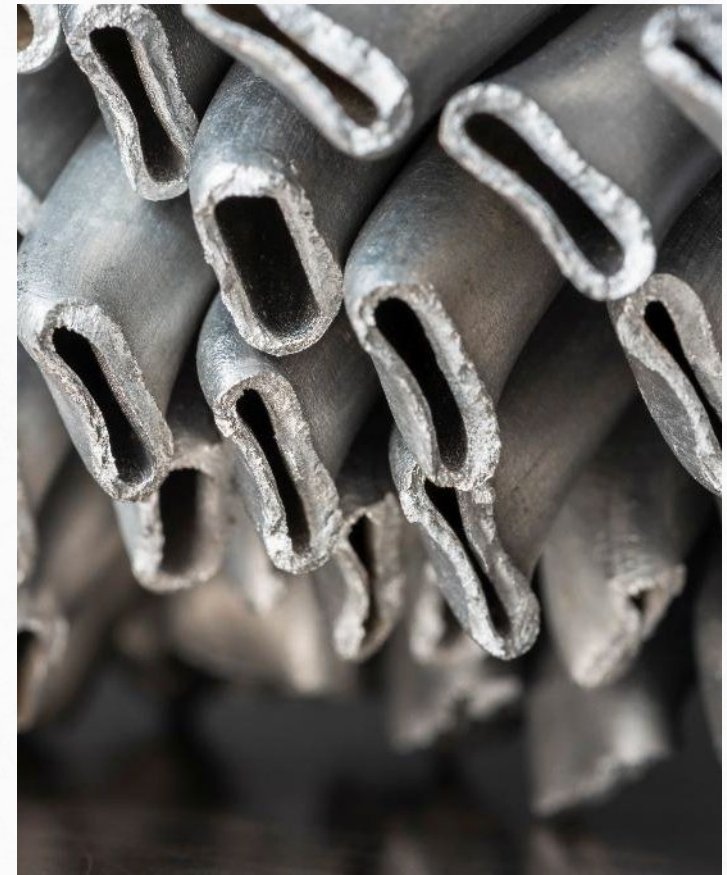
Expansion of Withholding Tax scope to scrap metal sales and gambling winnings

Amendment: The Act amends Sections 10 and 35, as well as the Third Schedule to the Income Tax Act, to include income from the sale of scrap metal and winnings within the scope of withholding tax. Specifically, withholding tax will apply at a rate of 1.5% on the gross amount for scrap metal transactions and 20% on winnings, applicable to both residents and non-residents.

Implication: The amendment broadens the withholding tax regime to include scrap metal transactions and gambling winnings, strengthening revenue collection at source. It seeks to fully enforce the provision introduced under the Tax Laws Amendment Act, 2024 by anchoring it under Section 10 of the Income Tax Act, thereby creating a clear legal obligation for purchasers to deduct and remit tax. While a similar proposal appeared in the Finance Act, 2025 and was subsequently dropped, its reintroduction signals the government's renewed intent to bring the scrap metal sector within the withholding tax framework.

Applying a 1.5% tax on the gross proceeds from scrap metal sales may improve compliance in a largely informal sector, though it could impact cash flows for traders operating on thin margins since the tax applies on gross amounts rather than profits. The 20% WHT on winnings is significant and will interact with the existing betting tax and excise duty burden, increasing the effective tax cost on gamblers and possibly on operators' pricing strategies.

Effective date: 1 July 2026





Income Tax- Withholding Tax

Introduction of withholding tax obligation on national airline carrier

Amendment: The Act introduces **Section 35(1A)** to the Income Tax Act, providing that withholding tax shall not apply to payments made by the national carrier to non-resident persons in respect of:

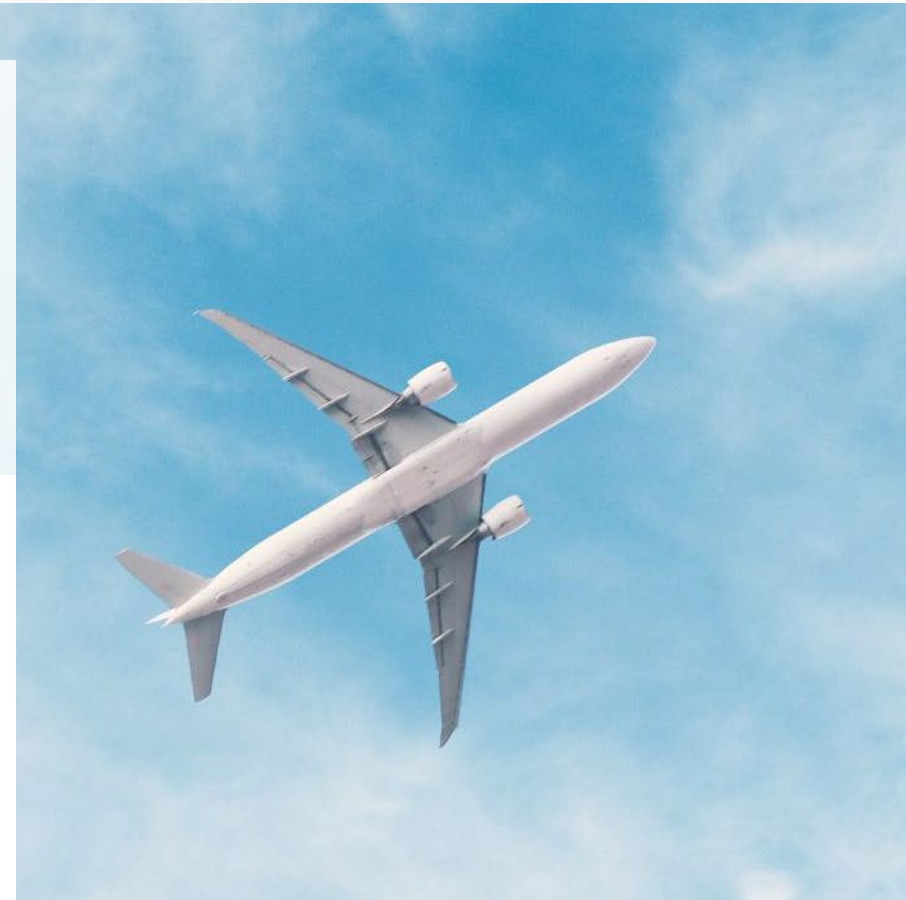
- global distribution systems; and
- specified digital services paid through a card, including proprietary digital platforms, payment networks, payment-card schemes, payment processing systems, switching systems, clearing systems and settlement systems.

The exemption is limited to these specified services and does not extend to payments for general services procured from non-resident providers.

Implication: The amendment provides certainty on the withholding tax treatment of payments made by the national carrier for essential aviation distribution and payment infrastructure. By exempting these specified payments from withholding tax, the Act reduces the tax cost and compliance burden associated with procuring global distribution and card-based digital payment services from non-resident providers.

However, the exemption is narrowly drafted and should not be interpreted as a general exemption for all cross-border service payments made by the national carrier. Payments for other services will continue to be subject to the ordinary withholding tax rules where applicable.

Effective date: 1 July 2026



Income Tax- Withholding Tax

Exemption from Withholding Tax on payments made to ship and aft carriers

Amendment: The Act deletes Section 35(1)(u) of the Income Tax Act which currently provides for withholding tax on gains from carriage income by ship owner or charterer.

Implication: The removal of the withholding tax obligation will immediately reduce the tax compliance burden to non-resident carriers operating in Kenya. While this may make Kenya a more attractive hub for international shipping and aviation operators, it would potentially result in loss of revenue for the government. The income will now be paid directly by the ship owners or charterer within 5 days of receiving payment or departure from the port of lading. However, the practicality of collecting this tax is unclear.

Effective date: 1 July 2026



Income Tax- Withholding Tax

Dividends to EAC citizens to be taxed at 15%

Amendment: The Act has deleted the proviso to subparagraph 3(d) under Head B of the Third Schedule to the Income Tax Act, which currently stipulates that dividends payable to citizens of East African Community Partner States are subject to a reduced withholding tax rate of five per cent of the gross amount.

Implication: The deletion of the 5% preferential dividend withholding tax rate for EAC citizens will subject such income to the standard 15% non-resident rate. This increases the tax burden on intra-EAC investment and may undermine regional integration objectives by removing a key fiscal incentive, potentially making Kenya less attractive to EAC investors.

Effective date: 1 July 2026



Income Tax- Transfer Pricing



Income Tax- Transfer Pricing

Clarification of Country-by-Country Reporting Obligation

Clause 12 of the Act has amended subsections (1), (2), and (5) of Section 18D to align the statutory references with the applicable Country-by-Country (“CbC”) reporting obligations. The amendments primarily seek to ensure that the relevant provisions correctly reference the applicable 12-month filing deadline and reporting requirements, while clarifying that these obligations apply equally to both Ultimate Parent Entities (“UPEs”) and constituent entities subject to CbC reporting requirements.

Implication: The amendment is largely a clean-up intended to separate the Master File and Local File obligations from the Country-by-Country Reporting (“CbCR”) provisions.

However, the wording of Section 18B(3) may still create interpretational uncertainty. In particular, Section 18D(3) provides that:

“An ultimate parent entity or a constituent entity of a multinational enterprise group shall file a master file and a local file to the Commissioner in such manner as the Commissioner may specify.”

Unlike the CbCR provision, which clearly state that the filing obligation only applies to multinational groups with consolidated turnover of at least KES 95 billion, the provision dealing with the Master File and Local File does not expressly include a similar turnover threshold. As currently drafted, this could be interpreted to mean that all multinational enterprise groups in Kenya, are required to file a Master File and Local File, regardless of their group turnover.

Accordingly, the amendment appears intended to streamline the drafting of Section 18D, further amendment may be necessary to clarify that the Master File and Local File filing obligations only apply to multinational enterprise groups meeting the KES 95 billion consolidated turnover threshold provided under Section 18D(1B)

Effective date: 1 July 2026



Income Tax- Transfer Pricing



Definition of a Country-by-Country Report

Clause 13(a) of the Finance act 2026 expands the definition of a Country-by-Country (“CbC”) report to recognise that, in certain circumstances, the filing obligation may arise not only at the level of the Ultimate Parent Entity (“UPE”), but also at the level of a constituent entity within a multinational group. The amendment aligns the definition with the broader scope of entities that may be required to file a CbC report.

Implication: This is an alignment with global framework for Country-by-Country Reporting as it clarifies that a country-by-country report, is that which is filed by both an Ultimate Parent Entity and a Constituent Entity.

Effective date: 1 July 2026



Income Tax- Transfer Pricing

New definition of Ultimate Parent Entity (UPE)

Clause 13 (c) of the Finance act 2026 amends Section 18 F in the definition of an “Ultimate Parent Entity”. Currently, this is defined as 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.

However, the act deletes this definition and replaces this definition with;

A constituent entity of a multinational 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;*
- 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.*

Implication:

The amendment attempts to provide greater certainty in identifying the entity responsible for filing the country-by-country report within a multinational enterprise group.

Effective date: 1 July 2026

Income Tax- Pay As You Earn





Income Tax-PAYE

Tightening of existing exemptions for employer paid gratuities

Amendment: The Act seeks to broaden the scope of the current exemption for employer paid gratuities contributed to registered pension schemes. Currently, the exemption is capped at KES 360,000 per year of service and excludes individuals eligible for deductions under Section 22A.

The amendment introduces additional conditions, namely:

- a) The gratuity in respect of employment or services rendered, when paid into a registered pension scheme, shall be tied to a contract of service for a continuous period three years.
- b) Gratuity relating to employment or services rendered shall:

01

Relate to a contract of service lasting at least three consecutive years;

02

Be subject to a cap whereby total contributions do not exceed 31% of the employee's basic salary; and

03

Shall not apply to any person eligible for deduction under Section 22A.

Implication: The amendment clarifies the tax treatment of employer paid gratuities to registered pension schemes by capping the exemption to gratuity paid on contracts of at least three years.

Further, it includes a new provisions that extends the exemption to all gratuity payments but with restrictions on the percentage, years of service and maintains the exclusion for employees who are eligible for deductions under section 22A.

The amendment seeks to tighten the framework and prevent abuse of the exemption. While this provides greater clarity and ensures alignment with long term employment contracts, it also restricts flexibility for employers who may wish to contribute higher amounts or for employees with shorter service periods.

The cap on contributions could limit retirement benefits for higher earning employees, while the exclusion of Section 22A beneficiaries ensures that individuals do not enjoy overlapping tax advantages.

Effective date: 1 July 2026



Proposed amendments not adopted in the Act

Income Tax :

The following proposals made in the Finance Bill 2026 in respect of the Income Tax Act have been deleted:

- The proposal to recharacterize undistributed income by the Commissioner as deemed dividends and bring it to tax has been deleted.
- The proposal providing for a deduction of interest, on loans obtained from the Central Bank of Kenya by its employees for the purpose of financing the construction, purchase or improvement of a house occupied.
- The proposal for filing nil return within one(1) month after the end of year of income which the return relates to has been deleted.
- The definition of royalty payments to include payments for use of software through a distributor has been deleted.
- The definition of winnings to exclude the amount staked or wagered has been deleted.



Value Added Tax





Value Added Tax

Clarification on VAT Treatment of Hire Purchase Transactions

The Act narrows the scope of financial charges excluded from the taxable value for supplies to financial charges payable in relation to supply of goods under a hire purchase agreement where the supplier is licensed in accordance with the Hire Purchase Act

Implication: The amendment narrows the scope of transactions that qualify for exclusion of financial charges from VAT by tying the treatment only to regulated hire purchase arrangements. This means that only supplies by licensed entities under the Hire Purchase Act will benefit from the exclusion of the finance charge from the taxable value.

As a result, informal or unregulated financing arrangements that mimic hire purchase structures will no longer qualify for exclusion of the finance charge imposed on the transaction from VAT.

Effective Date: 01 July 2026

New Provision not in the Bill: Clarification on VAT Treatment of Outsourcing Arrangements

The Act clarifies the VAT treatment of outsourcing arrangements specifically excluding employee related costs incurred by the supplier in the provision of outsourcing services to clients.

Implication: The amendment clarifies the treatment of employee related costs incurred in outsourcing arrangements specifically excluding salaries, wages, statutory deductions and other related costs.

This effectively resolves a long-standing dispute between taxpayers and the Kenya Revenue Authority regarding whether employee costs passed on to clients in outsourcing arrangements should form part of the taxable value of the service or qualify as disbursements excludable from VAT.

This is a welcome move as it provides legislative certainty for outsourcing arrangements where employee costs were previously subjected to VAT rather than as disbursements being costs passed on to the clients.

Effective Date: 01 July 2026



Value Added Tax

Alignment of the VAT Act to TPA

The Act deletes the definition of *assessment*, *information technology* and *tax computerized system* in the VAT Act

Further, the Act also deletes the definition of tax avoidance under the VAT Act.

Implication: The deletion of the definition of assessment aligns the VAT Act to the definition already provided under the Tax Procedure Act.

Further the deletion of the terms “*information technology and tax computerized system*” is aimed at harmonizing the definitions provided under the Tax Procedures (Electronic Tax Invoice) Regulations, 2024 especially in light of the implementation of the Electronic Tax Invoice Management System (e-TIMS).

The deletion of this provision in the VAT Act is aimed at eliminating duplication, considering that the anti-avoidance provisions are already comprehensively addressed under the Tax Procedures. This also aligns with the introduction of Section 18A to the TPA, which broadens the Commissioner’s powers to counter tax avoidance scheme across all tax laws.

Effective Date: 01 July 2026





Value Added Tax

Treatment of unsold taxable supplies which subsequently becomes exempt

The Act introduces section 17(A) to the VAT Act providing that where a registered person's taxable supplies become exempt, and input tax had previously been claimed on such supplies, the taxpayer shall be required to account for the input tax attributable to any unsold stock in the tax period in which the supplies become exempt.

The adjustment of input tax be computed using the same method that was applied when the input tax was originally deducted and any excess input tax to be paid to the commissioner.

Implication: The amendment introduces a claw back of input tax where goods on which VAT was previously claimed becomes exempt. The objective is to close any potential revenue leakage to the Kenya Revenue Authority by preventing taxpayers from retaining input tax benefits on supplies that ultimately fall outside the VAT net, even where they were previously treated as taxable supplies.

In practical terms, businesses will need to identify any unsold stock at the point of transition of status of unsold goods from taxable to exempt and account for the input tax previously claimed.

Effective Date: 01 July 2026

New Provision not in the Bill: Exempt supplies to National Security Organs eligible for deductibility of Input VAT

The Act introduces amendments to section 17 of the VAT Act providing that registered persons shall be entitled to deduct input tax incurred in respect of supplies made to the Kenya Defence Forces, Defence Forces Welfare Services, the National Intelligence Service and the National Police Service.

Further, excess input VAT incurred in making these supplies to the specified security agencies will be eligible for refund.

Implication:

The supply of goods to the National Security Organs is exempted from VAT under the VAT Act. As a general rule, exempt supplies do not qualify for deduction of input VAT as they do not constitute taxable supplies.

In light of this amendment, a targeted exception is introduced to the non-deductibility rule for input tax attributable to supplies made to these security agencies. Input VAT incurred in making these supplies may be deducted where the supplies are supported by such documentation as the Commissioner may prescribe and the deductions are limited to input tax directly attributable to those supplies.

While the amendment achieves the intended policy outcome of relieving suppliers to security agencies of an unrecoverable VAT cost, it does so by imposing input tax recovery rights onto supplies that remain exempt. A reclassification of these supplies as zero-rated supplies under the Second Schedule would have been the more appropriate approach as this amendment produces the economic effect of zero-rating without the accompanying legislative clarity.

Effective Date: 01 July 2026



Value Added Tax

Refund of tax on bad debts

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

Implication: This increases the timeline for application for refund of VAT on bad debts from 2 to 3 years. Additionally, this is a reversal of the provisions introduced by the Finance Act, 2025 which had reduced the refund period from three years to two years.

Taxpayers will now have to wait for one additional year before they can apply for refund of VAT on bad debts. This will have cashflow implications, since they had already accounted for the VAT but have to wait an additional year to seek a refund.

Effective Date: 01 July 2026

Requirement for tax invoice to issue on taxable supplies only

The Act amends the VAT Act to expand the requirement for tax invoices to issue only in respect of taxable supply of goods and services.

Implication: This amendment seeks to ensure that electronic tax invoices issue only in respect of taxable supply of goods and services.

Effective Date: 01 July 2026

New Provision not in the Bill: Various cash handling services are now standard rated

The Act amends the VAT Act by subjecting to VAT services of carriage of cash restocking of cash machines, sorting or counting money.

Implication: The amendment impacts providers of logistics and cash-in-transit services as the supply of these cash handling services will be vatiable.

Effective Date: 01 July 2026

Fees and commissions charged by digital payment service providers are standard rated

The Act amends the VAT Act by subjecting to VAT payment processing, settlement, merchant acquiring, gateway services or aggregation supplied over a software or platform for a fee or commission by a payment service provider.

Implication: The amendment appears to be a response by National Treasury to eliminate uncertainty surrounding the VAT treatment of fintech and digital payment services, particularly in light of recent court decisions affirming that certain fintech payment services qualify as exempt supplies for VAT purposes.

This amendment creates certainty on VAT treatment of services by payment service providers (PSPs). While PSPs will face new VAT obligations, this amendment reduces the likelihood of disputes with the Kenya Revenue Authority (KRA).

Nevertheless, the changes are also expected to increase transaction costs and could ultimately lead to higher prices for consumers.

Effective Date: 01 July 2026



Value Added Tax

Definition of tour operators and in house supplies

The Act updates paragraph 25 of Part II of the First Schedule to define “tour operators” as *a tour or safari operator licensed as such by the competent authority responsible for regulating and overseeing the tourism sector.*

Additionally, the Act also defines “in house supplies” as *supplies made from a tour operator’s own resources; or bought from third parties but materially altered so that the supply made is substantially different to that purchased*

Implication: This is aimed at restricting the VAT exemption applicable to tour operators to only licensed and regulated operators.

The amendment is expected to provide greater clarity on the scope of entities eligible for the exemption and reduce potential abuse by businesses operating in a similar manner to tour operators without the requisite licensing.

In addition, the introduction of the definition of “in-house supplies” may assist in distinguishing qualifying tour services from mere resale or intermediary arrangements, thereby enhancing certainty in the application of the VAT exemption

Effective Date: 01 July 2026

Partial variation of the Bill: Exemption of supply of services to infrastructure projects

The Act exempts the supply of services for the direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework, **or funded by the National Infrastructure Fund** upon approval by the Cabinet Secretary on the recommendation of the Cabinet Secretary for the Ministry responsible for the implementation of the project.

Implication: This amendment is aimed at lowering costs of infrastructure projects carried out under PPP arrangements or funded by the National Infrastructure Fund. This will reduce VAT costs on infrastructure projects and may lead to increased interest by investors.

This can be seen as a strategic pivot by the National Treasury to attract investment in infrastructure projects. Additionally, this is in line with the government’s concerted position to move from the traditional debt financing of projects in attempts to ease the public debt pressure on the Kenyan public.

Effective Date: 01 July 2026

Value Added Tax

Increase in VAT-Free Allowance Threshold for Returning Passengers

The Act increases the VAT-Free Allowance Threshold for Returning Passengers from USD 300 to USD 2,000

Implication: This amendment will ease the tax burden on returning passengers by allowing them to bring in a higher value of goods without incurring VAT, thereby aligning the exemption with current economic conditions and inflationary trends. It may also enhance the travel experience by reducing incidental tax costs for travelers.

The change could create enforcement challenges for the Kenya Revenue Authority, particularly in distinguishing genuine personal baggage from goods falling within this threshold which are intended for resale.

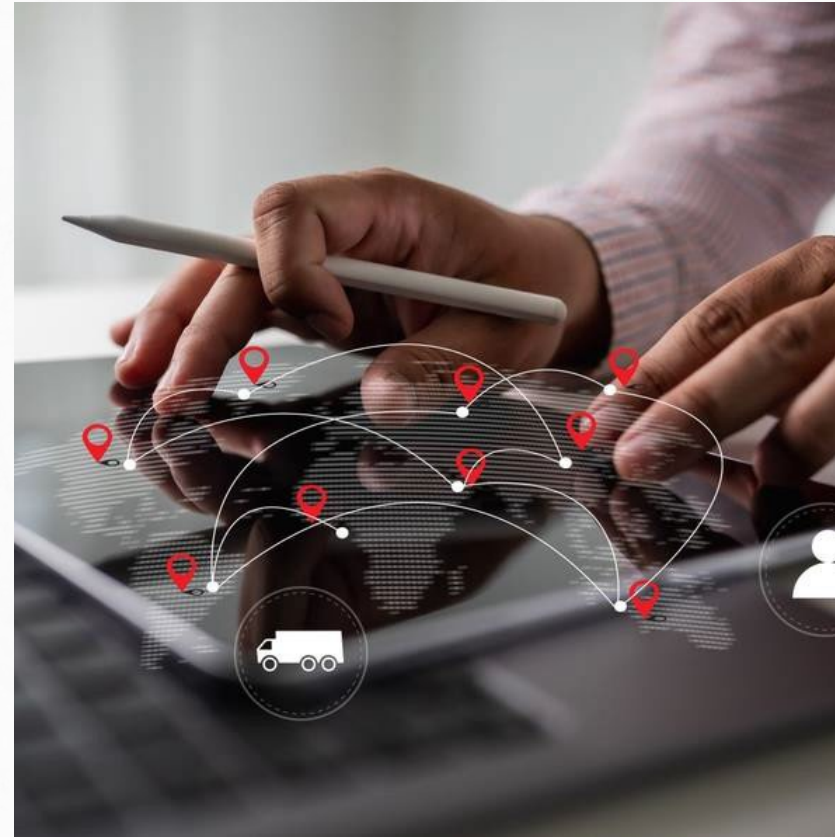
Effective Date: 01 July 2026

New Provision not in the Bill: Removal of cap on exemption of qualifying investments in capital goods

The Act reinstates the general exemption on investments in capital goods of two billion Kenya shillings and removes the capping of the exemption for investments made before 27 December 2024.

Implication: This is a welcome move as the amendment reinstates the exemption on qualifying investments without any restriction imposed by time limits.

Effective Date: 01 July 2026



Zero-rated – Exempt

The Act introduces amendments moving the following items from zero-rated to exempt:

Item	Finance Act 2026 amendment	Previous rate
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	Exempt	Zero rated
Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).	Exempt	Zero rated

Implication: These amendments reclassify various zero-rated items as exempt.

The likely implications are increased costs for suppliers unable to recover input VAT which will likely lead to higher prices for consumers as production costs will cascade to consumers.

Effective Date: 01 July 2026



Zero-rated – Standard rated

The Act introduces amendments moving the following items from zero-rated to standard rated:

Item	Finance Act 2026 amendment
Electric bicycles	Standard rated
Solar batteries excluding those of tariff heading 8507.60.00	Standard rated

Implication: These amendments reclassify various zero-rated items as standard rated.

The likely implications are increased costs for suppliers as these goods previously attracted VAT at 0% will now be subject to VAT at 16% which will likely lead to higher prices as VAT costs will cascade to consumers.

Effective Date: 01 July 2026





Exempt – Standard rated

The Act amends the First Schedule of the VAT Act by moving the following supplies from exempt to standard rated:

Item	Finance Act 2026 amendment	Previous rate
Aircraft spare parts	Standard rated	Exempt
All goods and parts thereof of chapter 88 (Aircraft, spacecraft, and parts thereof)	Standard rated	Exempt
Taxable goods and services for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon the recommendation by the Cabinet Secretary responsible for matters relating to recreational parks.	Standard rated	Exempt
Direction-finding compasses, instruments and appliances for aft.	Standard rated	Exempt
Spare parts imported or purchased for direct and exclusive use in the implementation of official aid funded projects, provided that any exemption granted for spare parts before the 30th June 2026, shall apply until the conclusion on the project.	Standard rated	Exempt
Carriage of cash restocking of cash machines, sorting or counting money	Standard rated	Exempt
Payment processing, settlement, merchant acquiring, gateway, aggregation services supplied over a software or platform for a fee or commission by a payment service provider	Standard rated	Exempt

Implication: The amendments remove VAT exemptions on various items and applies the normal VAT rate.

The likely implications are increased costs affecting sectors including aviation, finance and tourism sectors. This will likely lead to higher prices for consumers and investors.

Effective Date: 01 July 2026



Standard rated-Exempt

Item	Finance Act 2026 amendment	Previous rate
Dialyzers of tariff number 8421.29.00.	Exempt	Standard rated
Scrap metal.	Exempt	Standard rated
New Amendment not in the Bill: The supply of goods for direct and exclusive use in the implementation of infrastructure projects undertaken and funded by the National Infrastructure Fund as approved by the Cabinet Secretary responsible for the National Treasury	Exempt	Standard rated
The supply of goods and services for the direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework.	Exempt	Standard rated

Implication:

These amendments exempt previously standard rated items. While it may appear as a tax relief because the final consumer is not charged VAT, it often increases the overall cost of goods because producers cannot claim VAT on their inputs.

Effective Date: 01 July 2026

Standard rated-Exempt

Item	Finance Act 2026 amendment	Previous rate
<p>New Provision not in the Bill: Plant, machinery, equipment and spare parts imported or purchased locally for use in a project whose total investment value is not less than three billion shillings as approved by the Cabinet Secretary for National Treasury upon recommendation by Cabinet Secretary for Trade and Investment Promotion.</p>	Exempt	Standard rated
<p>New Provision not in the Bill: Taxable goods and services used in the construction of liquefied petroleum gas storage tanks and related infrastructure provided that amounts to at least five billion shillings and upon recommendation of the Cabinet Secretary responsible for matters relating to energy.</p>	Exempt	Standard rated
<p>New Provision not in the Bill: The making of any advances or the granting of credit, including the sale, disposal or realization of collateral, repossessed assets or secured property arising from the enforcement of security for loans, credit or other exempt financial services.</p>	Exempt	Standard rated

Implication:

These amendments exempt previously standard rated items. While it may appear as a tax relief because the final consumer is not charged VAT, it often increases the overall cost of goods because producers cannot claim VAT on their inputs.

Effective Date: 01 July 2026



Proposed amendments not adopted in the Act

Value Added Tax Act

The following proposals made in the Finance Bill 2026 have been deleted:

- **Standard rating of money transfer services:** The proposal to impose VAT at 16% on money transfer services has been deleted.
- **Requirement to issue tax invoice by unregistered persons:** The proposal requiring that tax invoices should issue by persons generally has since been deleted.
- **Removal of exemption for denatured ethanol:** The Bill proposed to remove the provision for exemption of denatured ethanol of tariff number 2207.20.00 has been deleted.
- **Exemption of inputs used in manufacture of animal feeds:** The Bill proposed to introduce an exemption on raw materials used in the manufacture of animal feeds which proposal has since been deleted.
- **Exemption of transportation of sugarcane to milling factories:** The Bill proposed to introduce an exemption on transportation of sugarcane to milling factories which proposal has been deleted.
- **Exemption of imported or locally purchased phones:** The Bill proposed to exempt the supply of mobile phones from VAT which is currently zero rated which proposal has since been deleted.
- **Exemption of supply of worn clothing and similar worn articles:** The Bill proposed to introduce an exemption on worn clothing which proposal has been deleted.
- **Exemption of motorcycles and buses:** The Bill proposed to exempt from VAT specific electric vehicles which are zero rated and which proposals have since been deleted.
- **Exemption of lithium ion batteries:** The Bill proposed to introduce an exemption on lithium ion batteries which are currently zero rated. This proposal was deleted at Parliamentary consideration stage.



Excise Duty



Excise Duty

Introduction of “Antique, vintage or “classical vehicle” and its definition

Enacted Provision: The Act introduces a definition for “Antique, vintage or “classical vehicle” as a motor vehicle whose year of first registered is at least 30 years before the date of purchase and whose value is at least KES 10 million, excluding depreciation.

Implication: The change explains what counts as an antique, vintage, or classic vehicle. This means that going forward only genuine collector vehicles will qualify under this definition. Newer or low-value old cars will therefore not be labeled as classics. This would make it easier for the government to apply the excise duty on the two categories in a more consistent manner.

Effective date: 1 July 2026

Refunds in respect of inputs used by a licensed or registered manufacturer

Enacted Provision: The Act has introduced a new paragraph (c) under section 29 (1) of the Excise Duty Act to allow refund of excise duty paid in respect of inputs used by a licensed or registered manufacturer to manufacture excisable goods where the inputs are directly attributable to the manufactured goods imported or purchased locally by the Defence Forces Welfare Services.

Implication: This will provide accessibility to refund for licensed or registered manufacturers who supply to the Defence Forces Welfare Services. However, it will require manufacturers to obtain the necessary licensing or registrations and ensure that the inputs are directly attributable to the manufactured goods.

Effective date: 1 July 2026

Change in excisable value for betting/gambling transactions

Enacted Provision: The Act has changed the excisable value on betting from the amount deposited into a customer’s betting wallet to the amount deposited for betting purposes.

Implication: This may narrow the tax base by recognizing that not every deposit into a betting/gambling wallet is necessarily used for betting/gambling activities. The amendment may provide greater certainty on the taxable amount, reduce disputes over non-betting deposits, and align the excise duty more closely with actual betting transactions.

Effective date : 1 July 2026

Definition of amount deposited

Enacted Provision: The Act has now defined amount deposited for gambling or betting purposes to be 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 licensed to offer gambling services.

Implication: This will reduce ambiguity and strengthen tax enforcement by ensuring that all forms of consideration used for gambling are captured, regardless of the payment method or transaction structure. The amendment may also limit opportunities for tax avoidance and provide greater certainty for both taxpayers and the tax authority on the determination of the excisable value.

Effective date : 1 July 2026



Excise Duty

Introduction of “Virtual assets” and “Virtual Asset Service Provider” definitions

Enacted Provision: The Act has defined the terms “virtual asset” to mean a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes and does not include representation of fiat currencies, securities and other financial assets and “virtual asset service provider”, means a company licensed under the first schedule to the Virtual Asset Service Providers Act, 2025.

Implication: The change is aimed at bringing the virtual asset industry into Kenya’s legal and tax framework by defining what counts as a virtual asset and who qualifies as a regulated service provider, thereby improving taxation, oversight, and market regulation.

Effective date : 1 July 2026

Expansion of Excise Duty scope to services offered by Virtual Asset Providers

Enacted Provision: The Act has expanded Excise Duty scope to services offered by Virtual Asset providers.

Implication: This clarifies that excise duty applies specifically to virtual asset service providers and aligns the wording with the Virtual Asset Service Providers Act .

Effective date : 1 July 2026

New Amendment not in the Bill: Exemption to National Intelligent Service

Enacted provision: The Act has introduced an excise duty exemption on all goods including materials supplies, equipment, machinery and motor vehicles for the official use by National Intelligence Service (NIS).

Implication: This measure is expected to reduce operational costs and strengthen the NIS’s capacity by lowering the cost of procurement, thereby freeing up resources for core security functions. However, it will also lead to a loss of excise revenue for the government and will necessitate robust oversight mechanisms to ensure the exemption is strictly applied to legitimate official use and to prevent any potential misuse or diversion of goods.

Effective date : 1 July 2026



Excise Duty

Increased scope on excise duty on various products

Description	New excise rate	Previous excise rate
All purchased spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90%, whether licensed or not	KES. 80 per litre	KES. 500 per litre
Imported sugar excluding by a registered pharmaceutical manufacturer and raw sugar imported for processing by a licensed sugar refinery	KES 40 per kilogram	KES 7.5 per Kilogram
Imported ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics of tariff 6907	5% of excisable value or KES 50 per kilogram whichever is higher	5% or KES 300 per square metre, whichever is higher
Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	KES 18,000 per kg	KES 16,260.29 per kg
Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and Essences	KES. 12,550 per kg	KES 11,382.48 per kg
Fruit juices (including grape must) and vegetable juice, unfermented, containing added sugar or other sweetening matter and not containing added spirit	KES. 20 per litre	KES. 14.14 per litre

Effective date : 1 July, 2026

Excise Duty

Removal of excise duty on products

HS Code	Description	New excise rate	Previous excise rate
	Bottled or similarly packaged waters	Non excisable	KES. 6.41 per litre

Implication on removal of excise duty on various products.

Manufacturers and importers of bottled water will no longer be required to account for excise duty on these products, potentially lowering production costs and easing compliance obligations within the sector.





Excise Duty

Introduction of Excise duty on the following items

Item	Tariff Code	Excise duty rate
Antique, vintage and classic vehicles		50% of the excisable value
Imported unprinted banner sheeting, flex banner and unprinted PVC sheeting	3921.12.10 and 3921.90.10	KES 200 per kilogram or 35% of the excisable value
Imported shower heads (whether or not fitted with heating elements) including fully assembled units designed for domestic or commercial use	8516.10	35% of the excisable value
New Amendments not in the Bill:		
Imported Medium Density Fibreboard	4411.12.00, 4411.13.00, 4411.14.00, 4411.92.00, 4411.93.00, 4411.94.000	30% of the excisable value
Imported particle boards	4410.11.00, 4410.19.00, 4410.90.00	30% of the excisable value
Imported Block board	4412.51.00, 4412.52.00, 4412.91.00, 4412.92.00, 4412.99.00	30% of the excisable value
Imported Plywood	4412.10.00, 4412.12.31.00, 4412.33.00, 4412.34.000, 4412.39.00	30% of the excisable value
Imported timber	4407.19.00	30% of the excisable value

Excise Duty

Introduction of Excise duty on the following items

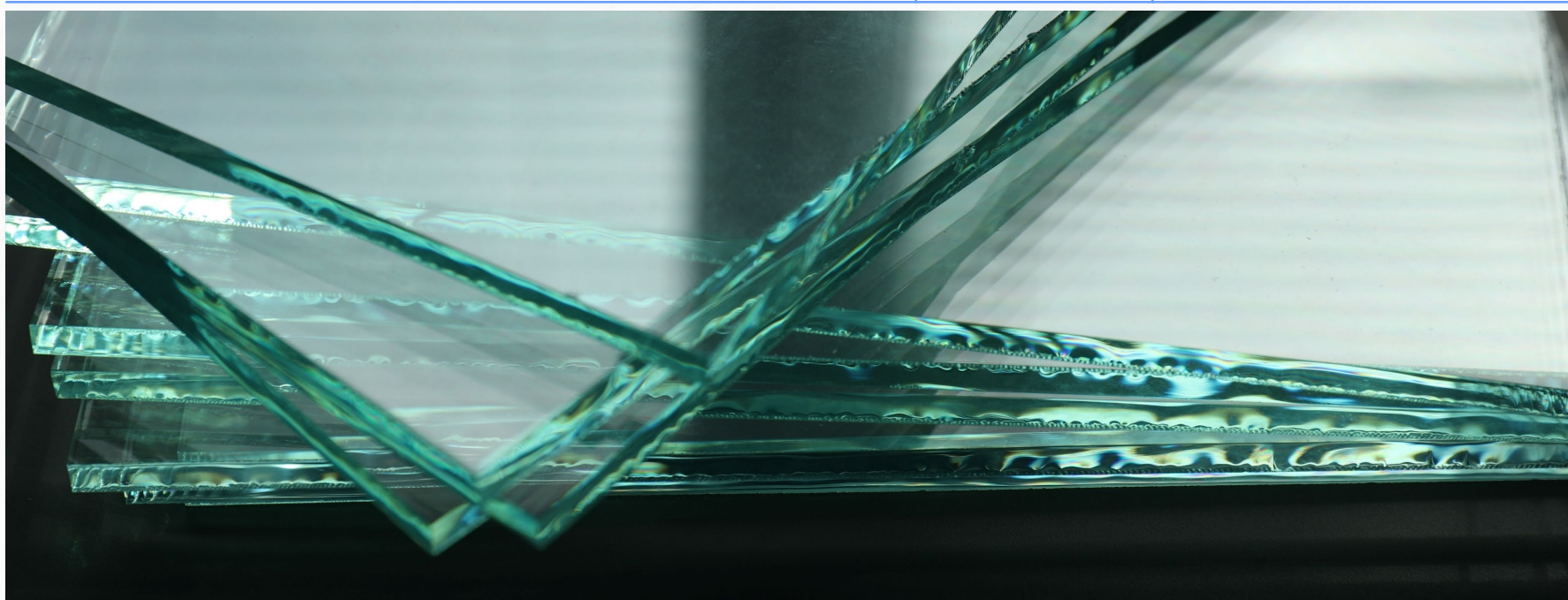


Item	Applicable tariff	Excise duty rate
Imported heating elements used exclusively in the manufacturing of shower heads	8516.10	35% of the excisable value
Oral smokeless tobacco products (Swedish-style snus) being processed tobacco intended for placement in the mouth and not intended for smoking, combustion or heating	Various	KES 2000 per kilogram
Unprinted plastic sheets	3920.43.10	10% of the excisable value
Pre - personal chip modules	8542.31.00	100% of the excisable value

Excise Duty

Goods from EAC subject to excise duty

Proposed items	Applicable tariff	Excise duty rate
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, but excluding those imported by a registered processor upon the recommendation by the Cabinet Secretary responsible for matter relating to industry.	7005	35% of excisable value or KES 500 per square meter whichever is higher





Proposed amendments not adopted in the Act

Excise Duty Act

The following proposals made in the Finance Bill 2026 have been deleted:

- **Excise duty liability and excise duty point for telephones and wireless networks to begin upon activation:** The proposal that excise duty at the rate of 25% on locally purchased or imported cellular telephones and wireless networks shall become due and payable upon activation.
- **Introduction of regulations by the Cabinet Secretary on the timing of tax liability for telephones and wireless networks:** The proposal giving the Cabinet Secretary legal authority to develop and issue detailed regulations to implement the activation-based regime.
- **Increased scope on excise duty on various products:**
 - i. Locally manufactured Gummed paper and paperboard of tariff number 4811.49.00.
 - ii. Locally manufactured Printed self-adhesive paper of tariff number 4811.41.90.
 - iii. locally processed sugar confectionery of tariff heading 17.04.
 - iv. Beer, cider, perry, mead, opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages manufactured by licensed small independent.
 - v. Telephones for cellular networks.
- **Goods from EAC subject to excise duty:**
 - i. Imported Multiple-walled insulating units of glass of tariff 70.08
 - ii. Imported safety glass of tariff number 7007.19.00 and 7007.29.00
 - iii. Imported furniture
 - iv. Imported printed gummed or self-adhesive paper
 - v. Imported plates of plastic
 - i. Imported paper or paper board, labels of all kinds
 - ii. Imported printing ink
 - iii. Imported other kraft paper or paperboard of tariff number 4804.41.00, 4804.31.00, 4804. 51.00
 - iv. Imported printed cellular of other plastics of other plates, sheets, film, foil and strip
 - v. Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls
 - vi. 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
 - vii. 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,
 - viii. Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90

Tax Procedures Act



Tax Procedures Act

New definitions for “virtual asset” and “virtual asset service provider”

Enacted provision: The Act introduces new definitions, specifically recognizing “virtual assets” and “virtual asset service providers.”

Implication: The amendment clarifies that transactions involving digital assets fall within the scope of tax administration. This removes ambiguity regarding the tax treatment of activities such as trading in cryptocurrencies, receiving payments in virtual assets Token-based or blockchain-related transactions

Additionally, entities classified as Virtual Asset Service Providers (e.g., exchanges, brokers, wallet providers) are now explicitly recognized within the tax framework, resulting in increased likelihood of KRA registration and compliance obligations, potential requirements for transaction reporting, record-keeping, and disclosure and greater regulatory scrutiny similar to traditional financial intermediaries .

Taxpayers operating in or exposed to virtual asset markets should take proactive steps to ensure full compliance and readiness for heightened regulatory oversight.

Effective Date: 01 July 2026

Virtual asset service provider documentation and information reporting

Enacted provision: The Act introduces mandatory annual information return filing requirements for virtual asset service providers (VASPs) in respect of users identified as reportable persons or with reportable controlling persons. The obligation applies to VASPs that facilitate exchange transactions or operate trading platforms, whether as intermediaries or counterparties. Information shall be restricted to that which is necessary and relevant, and its collection, retention, and disclosure shall be carried out in accordance with the Data Protection Act.

Implication: The amendment strengthens the Kenya Revenue Authority’s ability to track virtual asset transactions and enforce tax compliance at both intermediary and user levels, signaling a move toward systematic monitoring of the digital asset economy.

The proposal imposes significant compliance and enforcement measures, including penalties of KES 100,000 per omission, and, in cases of false statements, criminal sanctions including fines and/or imprisonment of up to three years. Notably, relief is provided where a VASP demonstrates that it made reasonable efforts to obtain required information from users. Failure to file an information return (including a “nil” return) will also attract penalties

This proposal presents a material shift toward enhanced tax transparency and reporting in the virtual asset ecosystem, aligning Kenya with emerging global reporting standards for digital assets.

Effective Date: 01 July 2026



Tax Procedures Act

Cross-border automatic exchange of information on virtual assets

Enacted provision: The Act empowers KRA to enter into agreements with other jurisdictions for the automatic exchange of information (AEOI) relating to virtual asset transactions. The exchange of information shall be governed by the Data Protection Act and limited to what is necessary and relevant.

Implication: This provision empowers KRA to enter into agreements that will facilitate the cross-border exchange of data including information returns filed by virtual asset service providers (VASPs), due diligence and record-keeping obligations, details of reportable users and controlling persons, nil return filings, and arrangements designed to circumvent reporting requirements.

Additionally, the inclusion of avoidance arrangements signals a clear intention to capture aggressive structuring aimed at evading transparency obligations.

In our view this amendment represents a step toward aligning Kenya with global tax transparency initiatives in the digital asset space, similar to the OECD's Crypto-Asset Reporting Framework (CARF). Again, taxpayers utilizing virtual assets across jurisdictions should anticipate heightened data sharing, reduced anonymity, and increased audit risk, particularly where structures or arrangements appear designed to avoid reporting.

Effective Date: 01 July 2026

Registration and PIN re-instatement

Enacted Provision: The Act provides for the reinstatement of deregistered taxpayers with new or historical tax obligations.

Implication: Under the amendment, a person whose tax registration (PIN) has been deregistered but subsequently becomes liable to tax will be required to apply to the Commissioner for reinstatement. Upon satisfaction that the individual or entity is liable for tax, the Commissioner will reinstate the registration and reissue the same PIN previously held prior to deregistration, rather than issuing a new one.

The amendment will go along way towards tightening taxpayer lifecycle management and strengthening tax system integrity.

By preserving the same PIN upon reinstatement, KRA is looking at enhanced transparency, traceability, and enforcement continuity, effectively preventing fragmentation of taxpayer records.

Taxpayers should be mindful that deregistration will no longer operate as a clean break from prior tax obligations. Instead, any re-entry into the tax net will reactivate historical linkages, reinforcing the importance of maintaining full compliance before deregistration and planning carefully for any future re-engagement in taxable activities.

Effective Date: 01 July 2026



Tax Procedures Act

Non-resident PIN exemption

Enacted provision: The Act exempts non-resident persons from the requirement to obtain a Personal Identification Number (PIN) when opening an account with an investment bank or financial institutions.

Implication: This provision simplifies market entry and reduces administrative barriers for foreign investors, particularly those participating in Kenya's capital markets through investment banks.

Additionally, the amendment enhances ease of doing business and improves Kenya's attractiveness as an investment destination, by removing a key onboarding requirement that has historically delayed or discouraged non-resident participation.

In our view this amendment streamlines account opening processes and facilitates increased cross-border investment inflows as it promotes foreign investment by facilitating non-resident participation in Kenya's financial markets.

Effective Date: 01 July 2026

Commissioner's powers on tax avoidance schemes

Enacted Provision: The Act empowers the Commissioner to disregard or recharacterize any arrangement, transaction, or scheme where it is determined that a taxpayer has entered into a tax avoidance scheme, a tax benefit has been obtained, and the main purpose or one of the main purposes of the scheme is to obtain that benefit, allowing the Commissioner to reassess the taxpayer's liability as if the scheme had not been undertaken. The Commissioner shall provide written reasons for a determination within thirty days, and a taxpayer may apply for a private ruling on complex transactions.

Implication: Under the amendment, taxpayers can no longer rely solely on technical compliance with the law if arrangements lack commercial substance or are primarily tax-driven. The breadth of the definitions and the extensive data sources available to the Commissioner significantly increase the likelihood of aggressive tax planning structures being challenged and unwound.

This may particularly impact cross-border arrangements, financing structures, intercompany transactions, and timing strategies that produce tax advantages.

The provision introduces greater discretion for the Commissioner, which, while strengthening enforcement, may also lead to increased interpretational uncertainty and potential disputes, particularly in complex commercial arrangements. Taxpayers will need to adopt a more cautious and substance driven approach to tax planning, ensuring that transactions are supported by clear commercial rationale, robust documentation, and defensible economic substance.

Effective Date: 01 July 2026



Tax Procedures Act

Assessments on third-party/system data

Enacted provision: The Act empowers KRA to issue an assessment on the income of a person by relying on third party or data available in the system. The Commissioner may request information from a taxpayer at least thirty days before issuing an assessment, and the taxpayer may object to the assessment under section 51 of the Act.

Implication: This amendment proposes to expand and reinforce the powers of the KRA in issuing tax assessments by enabling reliance on a broader and more integrated pool of data. It effectively formalizes existing administrative practices under platforms such as eTIMS and iTax, as well as other data-gathering mechanisms.

The scope of these data sources extends beyond traditional channels, including banks, employers, and digital tax systems, to encompass a wide range of interconnected information streams thereby enhancing the Authority's capacity for data-driven compliance and enforcement. This move is aimed to curb mismatch of incomes declared against the available information.

Effective Date: 01 July 2026

Reintroduction of the tax amnesty

Enacted provision: The Act reinstates a tax amnesty on interest, penalties and fines relating to tax liabilities, provided that the principal tax was settled on or before 31 December 2025. In cases where the principal tax remains unpaid, the amnesty will be granted once and only on the condition that all outstanding principal taxes are fully settled by 31 December 2026.

Implication: The tax amnesty program applies on penalties, interest, and fines due on unpaid taxes. It will, however, not apply in the case of a shortfall penalty where the KRA alleges fraud on a taxpayer that knowingly failed to pay tax.

Companies looking to take advantage of the tax amnesty should proactively engage a tax advisor to review their tax position with a view of taking advantage of the amnesty by 31 December 2026.

Effective Date: 01 July 2026



Tax Procedures Act

Digitalization of return filing

Enacted provision: The Act empowers the Commissioner to generate pre-populated returns based on information available to KRA and allow the taxpayer to rely on such pre-populate returns to submit or lodge their returns. The Commissioner shall issue and notify taxpayers of pre-populated returns by the end of January each year. Taxpayers must confirm or amend such returns within two months of issuance.

Implication: The introduction of pre-populated returns is intended to simplify tax compliance and improve the accuracy of returns by leveraging information already available to the Commissioner. However, the interaction between the requirement to confirm or amend a pre-populated return within two months of its issuance and the new statutory income tax return filing deadline of 30 April creates uncertainty.

While the filing deadline under the Income Tax Act remains the applicable legal deadline, taxpayers may in practice be required to review and validate pre-populated returns earlier. Further guidance from the KRA will be necessary to clarify how these timelines will operate where they differ and the consequences of failing to act on a pre-populated return within the prescribed two-month period.

Effective Date: 01 July 2026

Regulations on the procedure for submission of prepopulated tax returns

Enacted provision: The Act empowers the Cabinet Secretary to make Regulations on the procedure for submission or lodging of returns based on prepopulated tax returns generated by the Commissioner.

Implication: The amendment reinforces KRA's efforts to adopt a semi-automated or assisted tax compliance model, where returns are generated using third-party data including employers, banks, and digital platforms.

Through Regulations issued by the Cabinet Secretary, taxpayers will be provided with clear guidance on the procedures for reviewing, confirming, or amending returns that have already been generated on the iTax portal. The Regulations are also expected to expressly outline the consequences and penalties applicable in cases of non-compliance.

Introduction of Regulations by the Cabinet Secretary on prepopulated tax returns are a welcome move as they will provide clarity verification timelines, the handling of inaccuracies, and the applicable appeal processes thus enhancing procedural transparency.

Effective Date: 01 July 2026



Tax Procedures Act

Malfunction of an electronic tax system

Enacted provision: The Act amends Section 89 (5A) to recognize malfunction of an electronic tax system as an independent ground for waiver of penalties and interest.

Implication: The amendment will provide some level of protection to taxpayers against penalties and interest that arise from malfunctioning of iTax, iCMS, eRITS eTIMS or any other electronic tax compliance systems outside their control.

By recognising the malfunction of an electronic tax system as a legitimate ground for the waiver of penalties and interest, the amendment strengthens procedural fairness and aligns penalty administration with the realities of electronic tax systems, ensuring that taxpayers are not financially disadvantaged by technological failures beyond their control.

Effective Date: 01 July 2026

Penalties and interest due to system-generated errors eligible for waiver

Enacted provision: The Act inserts Section 89 (5B) allowing the Commissioner to waive penalty and interest not exceeding KES 2M imposed on liability due to system generated errors.

Implication: This amendment recognises that taxpayers should not be penalised for non-compliance attributable to failures or errors within KRA's electronic systems.

However, the introduction of a KES 2 million cap on such waivers may limit relief for taxpayers who incur penalties and interest exceeding that threshold due to systemic platform failures, particularly in large or high-volume transactions.

The amendment may also create interpretational uncertainty, given that Section 89(5A)(a) of the Tax Procedures Act already recognises errors generated by an electronic tax system as an independent ground for waiver of penalties and interest, without prescribing a monetary limitation. The amendment, therefore, raises questions on how the two provisions would operate concurrently in practice.

Effective Date: 01 July 2026



Tax Procedures Act

Exhaustive grounds for non-compliance with electronic tax systems

Enacted provision: The Act introduces three specific grounds for the Commissioner's consideration when assessing a taxpayer's non-compliance with electronic tax payment obligations under Section 75 of the Act:

- Existence of circumstances beyond the taxpayer's reasonable control;
- Absence of wilful neglect or deliberate default on the part of the taxpayer; and;
- Evidence that the taxpayer took reasonable steps to comply with the relevant requirement as soon as practicable.

Implication: The proposed Amendment provides clarity and predictability in KRA's decision-making on non-compliance with electronic tax payment requirements of Section 75 of the Act.

By prescribing specific grounds for consideration of a taxpayer's non-compliance, taxpayers are better able to understand the circumstances under which non-compliance with electronic tax payment requirements may be excused.

Effective Date: 01 July 2026

Non-compliance with electronic tax payment obligations

Enacted provision: The Act introduces penalties and interest equal to five percent of the tax amount due, KES 100,000, or KES 10,000 for individual taxpayers due to non-compliance with electronic tax payment obligations under Section 75 of the Act.

Implication: The amendment is likely to increase compliance risk, particularly for small businesses and individuals who may face technical, capacity or system-related challenges.

Inadvertent delays or procedural lapses in electronic payments could result in disproportionately high penalties, potentially straining cash flows and increasing the cost of compliance.

Effective Date: 01 July 2026

Waiver of penalty or interest due to duplication of interest or penalty

Enacted provision: The Act deletes Section 89 (5A) by recognizing duplication of penalty and interest as an independent ground for waiver of penalty and interest.

Implication: This amendment reflects fairness and proportionality in tax administration by recognizing that taxpayers should not be unduly penalised for computational or systemic errors that result in duplicated charges rather than genuine non-compliance.

Effective Date: 01 July 2026



Tax Procedures Act

New Amendment not in the Bill: Retention of export declarations or equivalent customs documents from the country of export

Enacted provision: The Act introduces a requirement for importers to retain export declarations or equivalent customs documents as proof of lawful exportation, empowering the Commissioner to reject claims, determine tax liability, and impose penalties where such documentation is not produced.

Implication: The amendment requires importers to obtain and retain export declarations or equivalent customs documents from the country of export as proof of lawful exportation. These documents must contain prescribed details and be kept for five years, to be produced upon request.

If an importer fails to provide them, the Commissioner may reject claims, determine value and tax liability based on available information, and impose penalties.

The Commissioner may waive the requirement where such documents are not issued, and the Cabinet Secretary may make regulations to guide implementation.

Effective Date: 01 September 2026

New Amendment not in the Bill: Recovery of unpaid fees, levies or charges

Enacted provision: The Act empowers the Commissioner to recover unpaid fees, levies or charges under any law as if they were unpaid taxes, thereby extending tax collection powers to non-tax revenues.

Implication: The amendment expands the Commissioner's powers in collection of taxes. Previously, the focus was only on tax that was not deducted or withheld.

With the amendment, the Commissioner can now recover unpaid fees, levies, or charges under any other law as if they were unpaid taxes. In effect, it strengthens enforcement by applying the same collection and recovery mechanisms used for taxes to other statutory charges, ensuring broader compliance and reducing gaps in revenue recovery.

Effective Date: 01 July 2026



Proposed amendments not adopted in the Act

Tax Procedures Act

The following proposals made in the Finance Bill 2026 have been deleted:

- **Removal of the requirement for a certificate of origin:** The Bill proposed to remove the requirement that all goods imported into Kenya must be accompanied by a certificate of origin, which proposal has since been deleted.
- **Issuance of agency notices notwithstanding active appeals:** The proposal to empower the Commissioner to issue agency notices notwithstanding active appeal has been deleted.
- **Removal of import VAT references from the Tax Procedures Act:** The proposal to delete the words “and value added tax payable on imports” from Section 47(1) has been deleted.
- **Time for lodging objections and Appeals:** The proposal to include Saturdays, Sundays and Public Holidays in computation of statutory time for lodging objections and appeals has been deleted.





Miscellaneous Fees & Levies Act





Miscellaneous Fees & Levies Act (MFLA)

Broadening application of the EAC Customs Management Act (EACCMA) to all fees and levies

Enacted provision: The Act expands the application of the EACCMA in relation to the determination of value of imported goods, assessment, collection and enforcement of the payment of duty to apply to all fees and levies under Part III of the Act.

Implication: This amendment widens the scope of application of EACCMA to cover all fees and levies under the Act, which will now include anti-adulteration levy, investment promotion levy, and processing fees on duty-free motor vehicles.

The Act currently provides for Import Declaration Fee, Railway Development Levy and export levy as being subject to the EAC Customs Management Act framework in respect of the assessment, collection and enforcement of the payment of the said fee or levy.

This is a clean-up provision that harmonizes Kenya's domestic tax law regime and the regional customs law framework.

Effective Date: 01 July 2026

Restricted exemptions on aircraft, spacecraft, and parts thereof

Enacted provision: The Act restricts the IDF and RDL exemptions currently granted to all goods and parts thereof of Chapter 88.

Implication: The amendment to the Act seeks to narrow the IDF and RDL exemptions to the effect that aft and spacecraft parts, components, and accessories will remain exempt. However, complete goods in Chapter 88 are removed from the exemption, unless they fall under the two specified headings, 8802.30.00 and 8802.40.00 which cover aeroplanes and other aft of an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg and other aft of an unladen weight exceeding 15,000 kg respectively.

This narrowing of the exemptions may negatively impact players in the aviation sector especially in respect of light and large commercial aircraft falling outside the scope of exemption covered in the classification under HS Code 8802.30.00 and 8802.40.00.

Effective Date: 01 July 2026



Miscellaneous Fees & Levies Act (MFLA)

New Amendment not in the Bill: Exemption on goods used in constructing liquefied petroleum gas (LPG) storage tanks and related infrastructure from Railway Development Levy (RDL) and Import Declaration Fee (IDF)

Enacted provision: The Act introduces an exemption from RDL and IDF for goods used in constructing liquefied petroleum gas (LPG) storage tanks and related infrastructure.

Implication: Currently, the importation of goods used in constructing LPG storage tanks and related infrastructure into Kenya attracts Import Declaration Fee (IDF) at 2.5% and Railway Development Levy (RDL) at 2%.

The proposal to exempt goods used in constructing liquefied petroleum gas (LPG) storage tanks and related infrastructure would reduce the 4.5% tax cost from RDL and IDF currently borne by importers. However, the exemption is limited to projects with a minimum investment of KSh 5 billion and must be recommended by the Cabinet Secretary for Energy and Petroleum.

By easing the tax burden, the measure would encourage large-scale investments in LPG infrastructure. Expanded LPG storage capacity could improve supply reliability, stabilize prices, and support Kenya's energy transition goals by promoting cleaner fuels.

The exemption signals government commitment to energy security and affordability, aligning with broader policy objectives of increasing access to LPG and reducing reliance on biomass fuels.

Effective Date: 01 July 2026

Proposed amendments not adopted in the Act

Miscellaneous Fees and Levies Act

The following proposals made in the Finance Bill 2026 have been deleted:

- **Reduction in allocation of Import Declaration Fee (IDF) allocated to a Fund under the Public Finance Management Act and removal of revenue earmarked for revenue enforcement initiatives:** The proposed amendment to reduce IDF revenue earmarked for Kenya's financial contributions to the African Union and other international obligations, and to eliminate allocations towards revenue enforcement initiatives has been deleted.
- **Exemption on imported phones from Railway Development Levy (RDL) and Import Declaration Fee (IDF):** The proposal to introduce an exemption from RDL and IDF for imported telephones for cellular networks and other wireless networks has been deleted.





Affordable Housing Act



Affordable Housing Act

Increased allocation to KRA

Enacted provision: The Act has amended the Affordable Housing Act to provide for allocation of up to two (2%) per cent of monies collected to the Kenya Revenue Authority.

Implication: Previously, the allocation was limited to 0.5%. This new provision allows the KRA to seek a higher allocation out of the Affordable Housing Fund as may be approved by the Cabinet Secretary for the time being responsible for the National Treasury on the recommendation of the Cabinet Secretary.

KRA will be incentivized to ensure that the levy is collected.

Effective Date: 01 July 2026





Stamp Duty Act





Stamp Duty Act

Exemption for transfer of property to real estate investment s (REITs)

Enacted provision: The Act introduces an exemption to stamp duty payment on property transferred by a person to an authorized real estate investment Trust.

Implication: Currently, payment of stamp duty is exempt on transfers from one REITs to another and on the transfer of beneficial interest in property in exchange for units in the REIT.

The amendment addresses a gap in the existing exemption framework by introducing a new exemption that aims to ensure that transfer of property into the REIT is exempted regardless of whether the transfer conveys any interest in the REIT to the transferor.

The impact of this amendment is that it will cover a broader range of transactions including the transfer of property to a REIT through direct sales and capital injections by promoters and developers.

The harmonization of stamp duty treatment of all forms of property transfer into REITs creates a conducive environment for investment in REITs and the participation of property owners and developers in the REIT market.

Effective Date: 01 July 2026





Road Maintenance Levy Fund Act



Road Maintenance Levy Act

Reduction of the Road Annuity Fund allocation from the Road Maintenance Levy

Enacted provision: The Act reduces the levy amount paid into the Road Annuity Fund from KES 3 to KES 1.50 per litre.

Implication: Currently, KES 3 per litre of petroleum fuel sold is paid into the Road Annuity Fund which finances the construction of roads and similar projects approved by the National Assembly.

The reduction in funding allocated to the construction of roads under the Road Annuity Fund may potentially increase reliance on alternative financing measures including road tolls, concessional loans and government-issued debt instruments to bridge the gap.

Effective Date: 01 July 2026



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