



Finance Bill, 2026

KPMG Analysis

Kenya

14 May 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 Bill, 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 proposed changes is the introduction of 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. Further, the Bill proposes to introduce withholding tax on interchange fees, a proposal 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 Bill expounds on the scope of the tax exemption on gratuity contributions by introducing new eligibility conditions. A critical missing provision is the promise made by the government to expand the tax bands to reduce the tax budget for lower income earners.

On VAT, the Bill has proposed to 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 Bill further proposes to revise the timelines for filing income tax returns for both individuals and companies by changing the filing deadline from six months to four months after the end of the year of income. Additionally, the deadline for nil returns will be one month after the end of the year of income.

A significant change under the Tax Procedures Act is the proposal to extend 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 following sections, we present our detailed analysis of the proposed changes.

Income Tax- Corporation Tax



Income Tax- Corporate Income Tax

Amendments to the definition of 'immovable property'

Proposed amendment: The Bill proposes to amend 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: The proposal seeks to expand 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) can be assessed as separately.

Proposed effective date: 1 July 2026



Income Tax- Withholding Tax

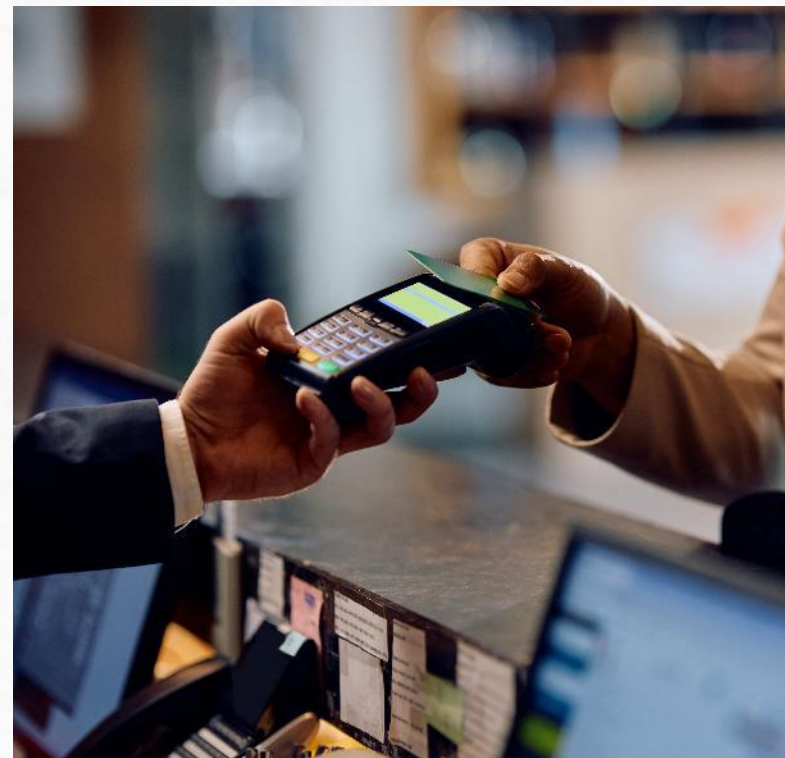
Expansion of definition of Management or Professional fees

Proposed amendment: The Bill proposes to expand the definition of “management 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 Bill 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 Bill’s proposal 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.

Proposed effective date: 1 July 2026



Income Tax- Corporation Tax

Taxing Offshore Landlords: New Non-Resident Rental Tax Regime

Proposed amendment: The Bill proposes to introduce a specific tax regime for non-resident landlords earning rental income from property situated in Kenya. The proposal 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 proposed change 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 proposed change 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.

Proposed effective date: 1 July 2026



Income Tax- Corporation Tax

Introduction of Timelines for Remittance of Carriage Income Tax

Proposed amendment: The Bill proposes to introduce 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 Bill has proposed to delete 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 ship owners or charterers. Receivers of carriage income are now expected to account for the tax directly. The proposed timelines will also mean that for most sea shipments the tax will have been accounted for by the time the vessel docks in Kenya.

Proposed effective date: 1 July 2026



Income Tax- Corporation Tax

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

Proposed amendment: The Bill proposes to delete Section 11 and introduce the following new section which provides that:

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

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

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02

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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 proposal 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.

Proposed effective date: 1 July 2026

Income Tax- Corporation Tax



Drawing the line on instalment tax

Proposed amendment: The Bill proposes to replace 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.

Proposed effective date: 1 July 2026

Income Tax- Corporation Tax

Broadening of interest restriction exemption rules

Proposed amendment: The Bill proposes to amend 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 replace 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 proposed 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.

Proposed effective date: 1 July 2026



Income Tax- Corporation Tax

Insurance business – alignment of terminology with “statutory fund”

Proposed amendment: The Bill 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.

Proposed effective date: 1 July 2026

“

The Bill 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.

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Income Tax- Corporation Tax

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

Proposed amendment: The Bill proposes to repeal 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. This changes removes duplication as the provision is provided for in the Tax Procedures Act (TPA), with certain modifications.

Implication: This proposed 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.

Proposed effective date: 1 July 2026



Income Tax- Corporation Tax

Introduction of minimum deemed dividend on undistributed profits

Proposed amendment: The Bill proposes to replace the words “that part of the income” in Section 24(1) of the Income Tax Act with the words “at least sixty percent of that part of the income”.

Implication: The earlier provision lacked precision regarding the proportion of undistributed income that the Commissioner could recharacterize as dividends. The proposed amendment resolves this ambiguity by introducing a defined minimum threshold, establishing a floor of 60% of undistributed income that may be treated as a deemed dividend.

This change is likely to have a significant impact on businesses with high retained earnings, particularly where profits are not distributed despite adequate liquidity. By setting a minimum deemed-dividend threshold, the amendment reduces the scope for deferring tax through profit retention and increases the likelihood of additional tax exposure. With this development, businesses who wish to grow organically by reinvesting undistributed income will be required to produce sufficient supporting documentation to demonstrate that such retention is driven by genuine commercial needs, including business expansion, capital expenditure, debt servicing, or other legitimate operational purposes, rather than for tax avoidance.

Proposed effective date: 1 July 2026

Income Tax- Corporation Tax

Revision of Income Tax Return Filing Timelines

Proposed amendment: The proposal seeks to amend Section 52 and 52B by changing the statutory deadline for filing income tax returns from six months to four months after the end of the year of income.

Implication: This is expected to enhance tax compliance and administrative efficiency for the revenue authority. If enacted, the shorter deadline gives taxpayers less time to prepare and file returns, increasing pressure to keep records up to date and potentially raising compliance costs. Some taxpayers may face a higher risk of late filing penalties if they do not adjust quickly to the new timeline.

Proposed effective date: 1 January 2027

Returns with Nil amount of tax payable due within a month

Proposed amendment: The proposal seeks to amend Section 52B to require that where a self assessment return by an individual or a company relates to a nil amount of tax payable, the return will be due for submission within one month after the end of the relevant year of income.

Implication: The proposed amendment requires individuals and companies with no tax payable to submit their self-assessment returns within one month after the end of the year of income. This earlier deadline 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 taxpayers to finalize accounts and documentation immediately after year-end, where no tax is due and especially in instances where a company is in a tax loss position.

Proposed effective date: 1 January 2027

Income Tax- Corporation Tax

Exemption of Benefits Arising Due to Death

Proposed amendment: The proposal seeks to amend 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 will exempt benefits arising due to death from income tax, thereby reducing the tax burden on beneficiaries and providing financial relief to grieving families.

Proposed effective date: 1 January 2027

Amendment to Exempt Property Transfers to Registered REITs from Capital Gains Tax

Proposed amendment: The proposal seeks to amend 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: If enacted, 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 is likely to encourage property owners and developers to participate in REITs, supporting growth and liquidity in the real estate investment market.

Proposed effective date: 1 January 2027

Income Tax- Corporation Tax

Clarification on Annual Claim of Capital Deduction in Equal Instalments

Proposed amendment: The proposal 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 seeks to clarify 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.

Proposed effective date 1 July 2026

Expansion of Capital Gains Tax on Indirect Transfers by Non-Residents

Proposed amendment: The proposal 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 proposal broadens Kenya's capital gains tax scope 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 the ownership or group membership of Kenyan companies or property, it brings offshore share sales and group restructurings that effectively transfer Kenyan businesses or property within the Kenyan tax net, thereby limiting opportunities for non-residents to avoid Kenyan tax through foreign holding structures.

Proposed effective date 1 July 2026

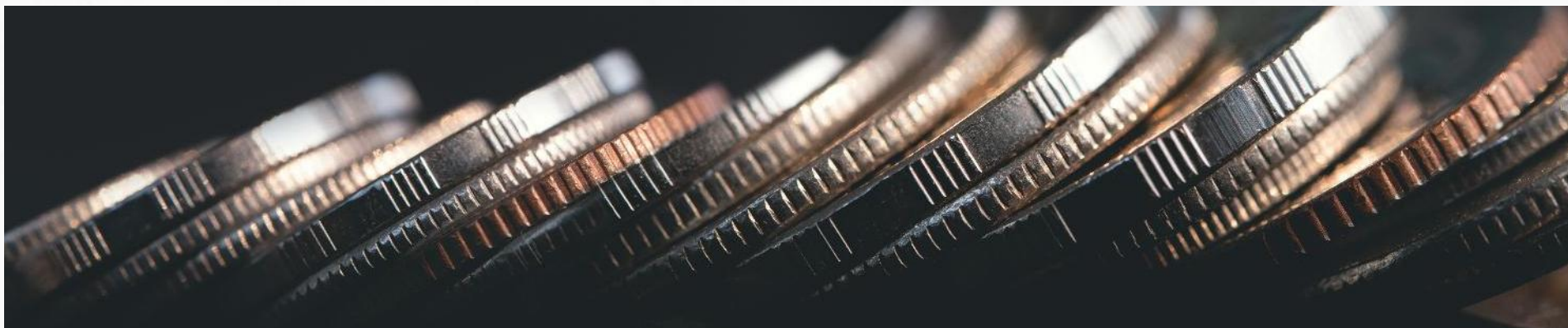
Income Tax- Corporation Tax

A new deal for non-resident extractive players

Proposed amendment: The proposal 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 proposal 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.

Proposed effective date 1st July 2026



Income Tax- Withholding Tax

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

Proposed amendment: The Bill proposes to delete the current definition of “royalty” and substitute 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;

(b) the distribution of software where regular payments are made for the use of the software through the distributor.

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

If enacted, 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.

Proposed effective date: 1 July 2026

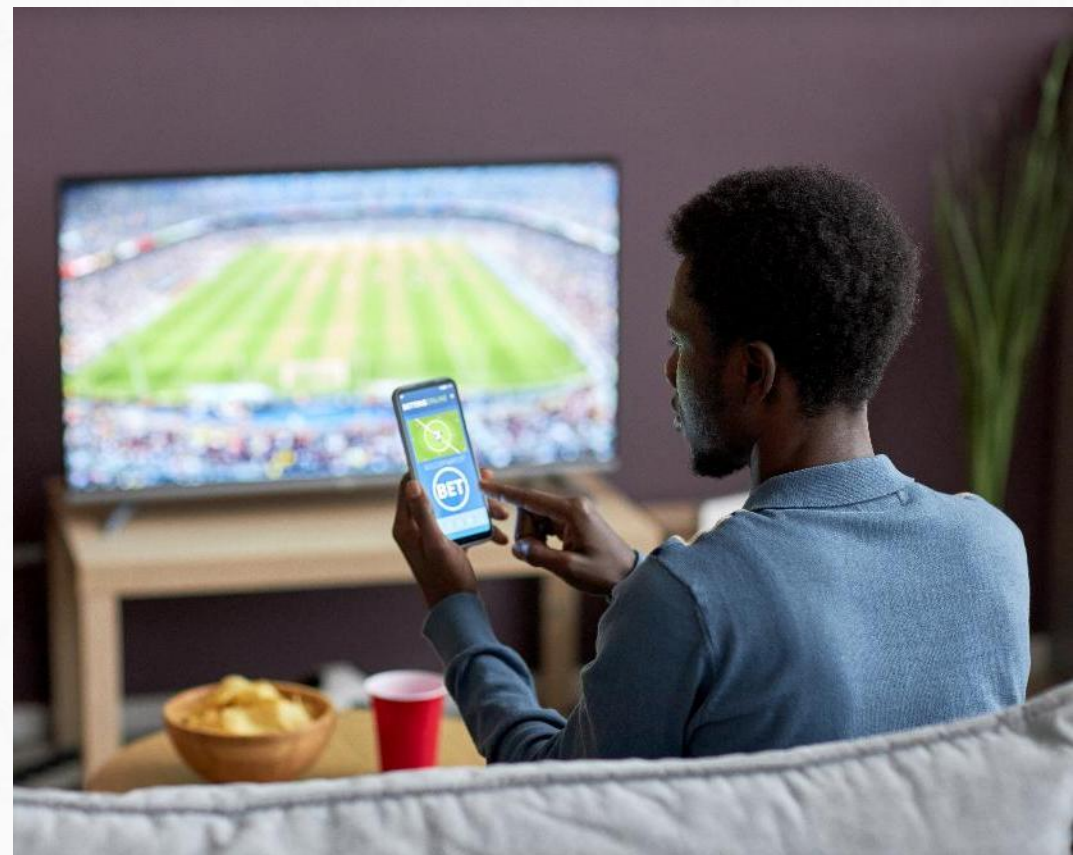
Income Tax- Withholding Tax

Amendment of the definition of Withdrawals

Proposed amendment: The Bill proposes to delete the definition of “withdrawals” and substitute 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.

Proposed effective date: 1 July 2026



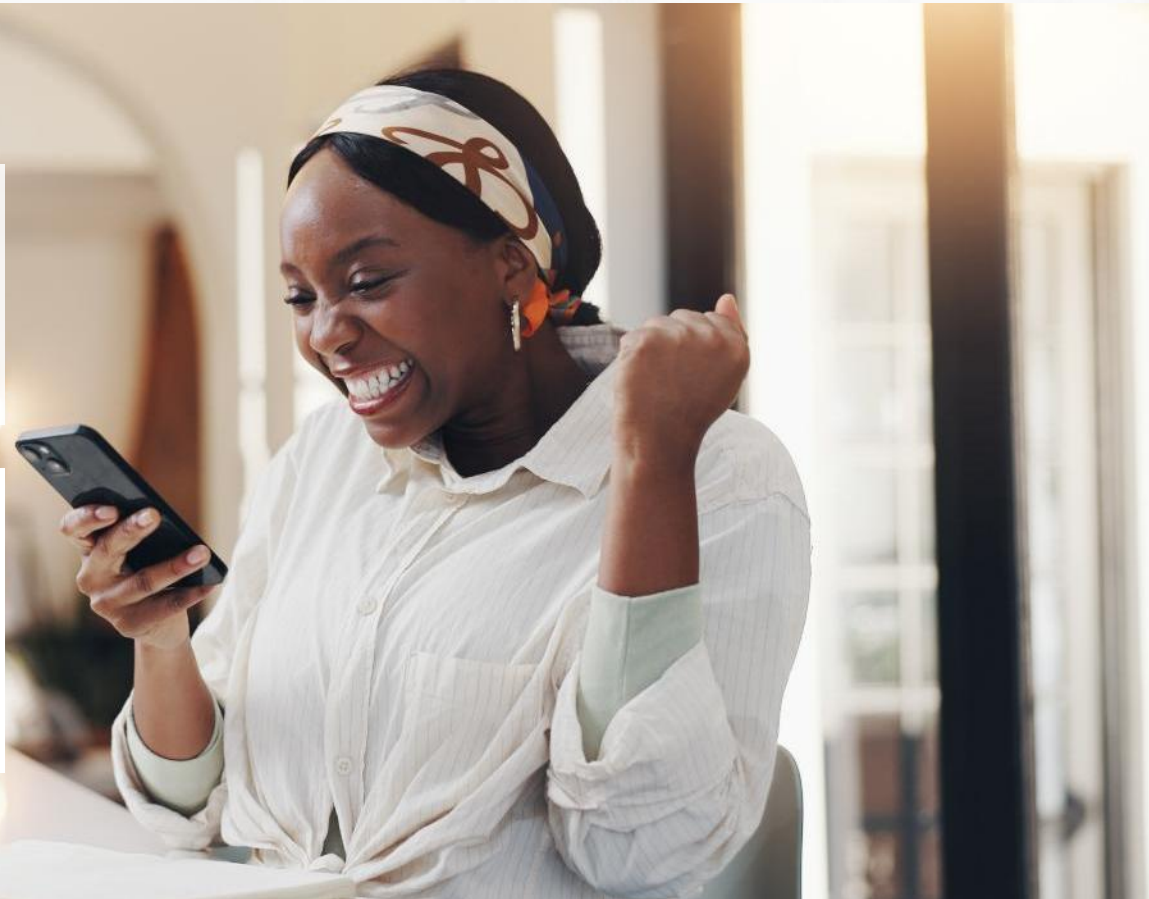
Income Tax- Withholding Tax

Amendment of the definition of Winnings

Proposed amendment: The Bill proposes to introduce 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, excluding the amount staked or wagered.

Implication: The introduction of this definition clarifies that only the net gain from gambling activities is considered “winnings” for tax purposes, excluding the original stake. This ensures fairer taxation by focusing on the actual economic benefit while reducing ambiguity and disputes.

Proposed effective date: 1 July 2026



Income Tax- Withholding Tax

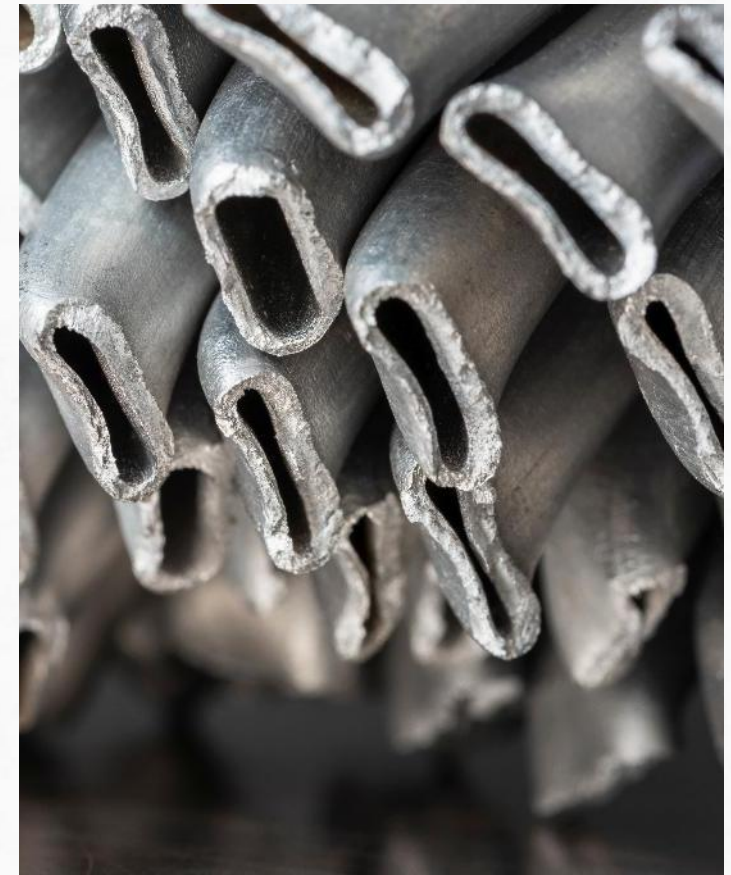
Expansion of Withholding Tax Scope to Scrap Metal Sales and Gambling Winnings

Proposed amendment: The Bill proposes to amend 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.

Proposed effective date: 1 July 2027



Income Tax- Withholding Tax

Introduction of withholding tax obligation on national airline carrier

Proposed amendment: The Bill proposes to delete Section 35(1)(a)(iii) of the Income Tax Act. Section 35 currently exempts from withholding tax payments made by the national carrier to non-resident service providers for specialised technical, maintenance, compliance, training, or digital systems support services, where such services are unavailable locally or the provider is certified or accredited by an international regulatory, standard-setting, or licensing authority.

Implication: This proposal may increase the cost of procuring essential foreign expertise, particularly where such services are not available locally, and may raise operational expenses for the national carrier.

Proposed effective date: 1 July 2026



Income Tax- Withholding Tax

Exemption from withholding tax on payments made to ship and aircraft carriers

Proposed amendment: The Bill proposes to delete 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.

Proposed effective date: 1 July 2026



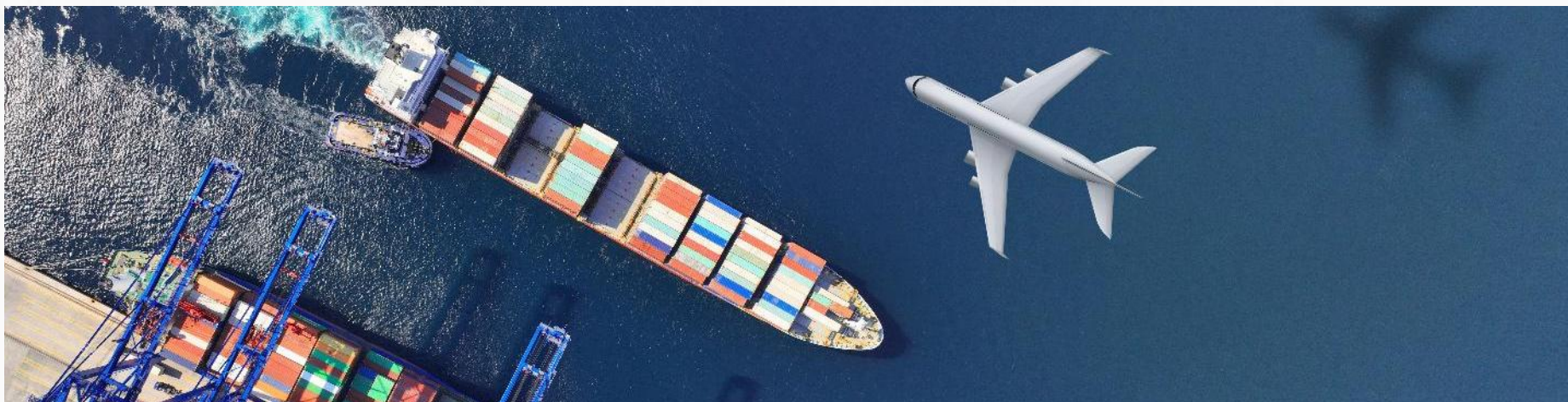
Income Tax- Withholding Tax

Exemption from withholding tax on payments made to ship and aircraft carriers

Proposed amendment: The Bill proposes to remove 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 would 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.

Proposed effective date: 1 July 2026



Income Tax- Transfer Pricing



Income Tax-Transfer Pricing

Clarification of Country-by-Country Reporting Obligation

Proposed amendments under the Finance Bill

Clause 12 of the Finance Bill proposes technical drafting amendments to 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 proposed 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, while the proposed 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)

Proposed effective date: 1 July 2026

Income Tax- Transfer Pricing



Definition of a Country-by-Country Report

Clause 13(a) of the Finance Bill 2026 proposes to expand 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.

Proposed effective date: 1 July 2026

Income Tax-Transfer Pricing

New definition of Ultimate Parent Entity (UPE)

Clause 13 (c) of the Finance Bill 2026 proposes to amend 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 bill proposes to delete this definition and replace 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 proposed amendment attempts to provide greater certainty in identifying the entity responsible for filing the country-by-country report within a multinational enterprise group.

Proposed effective date: 1 July 2026

Income Tax- Pay As You Earn

Income Tax-PAYE

Tightening of existing exemptions for employer paid gratuities

Proposed amendment: The Bill 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 proposed 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

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

Implication: The proposal 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, the proposal 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 proposal 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.

Proposed effective date: 1 July 2026

Income Tax-PAYE

Deduction for Central Bank of Kenya (CBK) backed employee housing loans

Proposed amendment: The Bill proposes to introduce a **new paragraph (af)** under **Section 15(2)** of the Income Tax Act, providing for a deduction of interest, up to **KES 360,000 per year**, on loans obtained from the **Central Bank of Kenya** for the purpose of financing the construction, purchase or improvement of a house occupied by an employee.

Implication: Under the current Income Tax Act, only loans from qualifying institutions listed under the Banking Act (Cap. 488) are eligible for interest deduction. The proposed provision expands the scope to allow interest on mortgage loans from the CBK, which is not governed by the Banking Act, to qualify for an income tax deduction.

Proposed effective date: 1 July 2026



Value Added Tax



Value Added Tax

Clarification on VAT Treatment of Hire Purchase Transactions

Proposed provision: The Bill proposes to clarify and limit what constitutes “financial charges payable in relation to the supply of credit” by restricting this treatment to a supply of goods made by a person licensed to carry on hire purchase business under a hire purchase agreement registered in accordance with the Hire Purchase Act

Implication: The proposed 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 licensed entities, under the Hire Purchase Act, will benefit from the exclusion of the credit element from the taxable value.

As a result, informal or unregulated financing arrangements that mimic hire purchase structures may no longer qualify for exclusion of credit element of the transaction from VAT.

Proposed Effective Date: 01 July 2026

Treatment of unsold taxable supplies which subsequently becomes exempt

Proposed provision : The bill proposes to introduce 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 is intended to introduce 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.

Proposed Effective Date: 01 July 2026

Value Added Tax

Alignment of the VAT Act to TPA

Proposed provision: The Bill seeks delete the definition of *assessment*, *information technology* and *tax computerized system* in the VAT Act

Further, the Bill also seeks delete the definition of tax avoidance under the VAT Act.

Implication: The proposed deletions of the definition of assessment to align 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 proposed introduction of Section 18A to the TPA, which broadens the Commissioner’s powers to counter tax avoidance scheme across all tax laws.

Proposed Effective Date: 01 July 2026



Value Added Tax

Refund of tax on bad debts

Proposed provision: The Bill proposes to change the period after which a taxpayer can apply for a refund of VAT on bad debts from two years to three years.

Implication: This proposal increases the timelines for application for refund of VAT on bad debts from 2 to 3 years. This is a reversal of the provisions for 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 get a refund.

Expansion for requirement for Tax Invoice

Proposed provision : The Bill proposes to amend the VAT Act to expand the requirement for provision of a tax invoice to every person involved in supply of good and services. Previously, the VAT Act only required a registered person to furnish a tax invoice at the time point of supply of good or service.

Implication: This proposal seeks to align the Value Added Tax Act with the Tax Procedures Act and the Tax Procedures (Electronic Tax Invoice) Regulations, 2024, which establish the requirement for all persons to issue electronic tax invoices for every supply of goods and services.

The amendment provides clarity on the obligation to issue tax invoices, including by suppliers who are not registered for VAT, thereby ensuring consistency in invoicing requirements under the electronic tax invoice management framework.

Proposed Effective Date: 01 July 2026

Commissions by digital payment service providers is standard rated

Proposed provision: The Bill proposes to amend the VAT Act by subjecting to VAT money transfer, 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 proposal appears to be a response by National Treasury is seeking 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.

Under the proposed approach, payment service providers (PSPs) would face clearer VAT obligations and a reduced likelihood of disputes with the Kenya Revenue Authority (KRA). However, the changes are also expected to increase compliance costs and could ultimately lead to higher prices for consumers.

The move may also be viewed as a reaction to the recent High Court ruling in favour of a payment service provider, where the court held that commissions earned by the PSP were exempt from VAT.

Proposed Effective Date: 01 July 2026

Value Added Tax

Definition of tour operators and in house supplies

Proposed provision: The Bill proposes updates to 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 bill proposes to define “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 proposal 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

Proposed Effective Date: 01 July 2026

Exemption of supply of services to PPP infrastructure projects

Proposed provision: The Bill proposes to exempt supply of services for the direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework, upon approval by the Cabinet Secretary on the recommendation of the Cabinet Secretary for the Ministry responsible for the implementation of the project

Implication: This proposal is aimed at lowering costs of infrastructure projects carried out under PPP arrangements and may lead to improved returns. The proposal may also lead to increased interest and potentially more projects by various investors.

This can be seen as a strategic pivot by the national treasury to attract investors under the PPP arrangements, in line with the government’s concerted position to move from the traditional debt financing of projects, in attempts to ease the pressure on the Kenya public debt.

Proposed Effective Date: 01 July 2026

Value Added Tax

Increase in VAT-Free Allowance Threshold for Returning Passengers

Proposed provision: The Bill Proposes to Increase the VAT-Free Allowance Threshold for Returning Passengers from USD 300 to USD 2,000

Implication: The proposal is expected to 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.

Proposed Effective Date: 01 July 2026



Zero-rated – Exempt

The Bill has proposed to amend the following items by moving them from zero-rated to exempt:

Item	Finance Bill 2026 proposed amendment	Current 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
Transportation of sugarcane from farms to milling factories.	Exempt	Zero rated
The supply of locally assembled and manufactured mobile phones	Exempt	Zero rated
The supply of motorcycles of tariff heading 8711.60.00 (Motor vehicle with electric motor for propulsion).	Exempt	Zero rated
The supply of electric bicycles.	Exempt	Zero rated
The supply of solar and lithium-ion batteries.	Exempt	Zero rated
The supply of electric buses of tariff heading 87.02 (Motor vehicles for the transport of ten or more persons, including the driver.)	Exempt	Zero rated
Inputs or raw materials locally purchased or imported for the manufacture of animal feeds upon recommendation by the Cabinet Secretary for the time being responsible for agriculture.	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
The supply of electric buses of tariff heading 87.02.	Exempt	Zero rated

Exempt – Standard rated

The Bill has proposed to amend the following items by moving them from exempt to standard rated:

Item	Finance Bill 2026 proposed amendment	Current rate
spacecraft	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
Goods imported or purchased locally for the direct and exclusive use in the construction of houses under an affordable housing scheme.	Standard rated	Exempt
The supply of denatured ethanol of tariff number 2207.20.00.	Standard rated	Exempt
Direction-finding compasses, instruments and appliances for aircraft.	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

Implication: The proposal seek to remove VAT exemptions and applies the normal VAT rate to several previously exempt sectors.

The likely implications are: Increases costs for aviation, tourism, housing, and donor-funded projects. This will likely lead to higher prices for consumers and investors and may also slow investment and affordable housing development.

Proposed Effective Date: 01 July 2026

Standard rated-Exempt

Item	Finance Bill 2026 proposed amendment	Current Provision
Dialyzers of tariff number 8421.29.00.	Exempt	Standard rated
Scrap metal.	Exempt	Standard rated
The supply of imported or locally purchased telephones for cellular networks and other wireless networks.	Exempt	Standard rated
Worn clothing and other worn articles of tariff heading 6309, other than upon importation. .	Exempt	Standard rated
The supply of goods for the direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework.	Exempt	Standard rated

Implication:

The proposal seek to exempt previous 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.

Proposed Effective Date: 01 July 2026

Excise Duty



Excise Duty

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

The Bill proposes to introduce 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 proposed 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.

Proposed effective date : 1 July 2026

Excise duty liability and excise duty point for telephones and wireless networks to begin upon activation

Proposed provision: The Bill proposes 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.

Implication: This proposal will potentially shift the excise duty point on mobile phones from importation or manufacture to the time of activation on a network, which is expected to improve cash flow for importers and manufacturers by deferring the tax point to actual use. The change aligns taxation with consumer usage rather than inventory holdings, reducing tax pressure on unsold stock. However, it will require stronger tracking and reporting systems between telecom operators, businesses, and the KRA to monitor the activations and ensure compliance.

Proposed effective date for the Liability is 1 July 2026 while payment and 25% rate is effective 1 January 2027

Introduction of regulations by the Cabinet Secretary on the timing of tax liability for telephones and wireless networks

Proposed provision: Introduction of regulations by the Cabinet Secretary on the timing of tax liability for telephones and wireless networks

Implication: The proposal gives the Cabinet Secretary legal authority to develop and issue detailed regulations to implement the activation-based regime.

Proposed effective date : 1 July 2026

Change in excisable value for betting/gambling transactions

Proposed provision: The Bill proposes to change 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 could therefore provide greater certainty on the taxable amount, reduce disputes over non-betting deposits, and align the excise duty more closely with actual betting transactions.

Proposed effective date : 1 January 2027

Excise Duty

Definition of amount deposited

Proposed provision: The Bill proposes to define 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.

Proposed effective date : 1 January 2027

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

Proposed provision: The Bill proposes to define 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.

Proposed effective date : 1 January 2027

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

Proposed provision: The Bill proposes to expand 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 .

Proposed effective date : 1 January 2027

Exemption to National Intelligent Service

Proposed provision: The Bill proposes 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.

Proposed effective date : 1 January 2027

Excise Duty

Increase of scope on excise duty on various products

Comments	Description	Proposed excise duty rate	Current excise duty rate
Proposal	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
Proposal	Locally produced articles of plastic of tariff heading 3923.30.00 and 3923.90.00 whether imported or locally produced	10%	Non excisable
Proposal	Locally manufactured Gummed paper and paperboard of tariff number 4811.49.00	25% of excisable value or KES 200 per kg whichever is higher	Non excisable
Proposal	Locally manufactured Printed self-adhesive paper of tariff number 4811.41.90	25% of excisable value or KES 200 per kg whichever is higher	Non excisable
Proposal	locally processed sugar confectionery of tariff heading 17.04	KES 85.82 per kg	Non excisable

Implication on increase of scope on excise duty on various products

The government has broadened the scope of activities and goods subject to excise duty in a deliberate effort to expand the tax base to boost domestic revenue collection.

Proposed effective date : 1 January, 2027

Excise Duty

Increase of Excise Duty rate on various products

Comments	Description	Proposed excise duty rate	Current excise duty rate
Proposal	Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	KES 18,000 per kg	KES 16,260.29 per kg
Proposal	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
Proposal	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
Proposal	Beer, cider, perry, mead, opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages manufactured by licensed small independent	KES. 22.50 per centiliter of pure alcohol	KES 10 per centiliter of pure alcohol
Proposal	Telephones for cellular networks	25% of the excisable value.	10% of the excisable value.

Implication on increase of excise duty on various products

The government is increasing revenue collection by raising excise duty on products such as cigars, high-sugar beverages, beer, imported sinks, and mobile phones. These measures broaden the tax base by targeting high-consumption and growing market. At the same time, the proposals seek to influence consumer behavior, promote public health objectives, and encourage local manufacturing and economic sustainability.

Proposed effective date : 1 January, 2027

Excise Duty

Removal of excise duty on products

Comments	Description	Proposed excise duty rate	Current excise duty rate
Proposal	Bottled or similarly packaged waters	Non excisable	KES. 6.41 per litre

Implication on removal of excise duty on various products.

If enacted as currently drafted, manufacturers and importers of bottled water would no longer be required to account for excise duty on these products, potentially lowering production costs and easing compliance obligations within the sector.

Introduction of Excise duty on the following items

Item	Proposed excise duty rate
Antique, vintage and classic vehicles	50% of the excisable value
Coal	5% of excisable value
Horse racing	5% of the amount deposited for gaming

Implication on introduction of Excise duty on new items as above.

The government is increasing revenue collection by expanding the excise tax base to cover luxury vehicles, coal, wireless network devices, and horse racing activities. These measures target previously untaxed or lightly taxed sectors, enabling the government to generate additional revenue from high-value goods, energy consumption, technology products, and betting activities.

Excise Duty

Goods from EAC subject to excise duty

Proposed items	Applicable tariff	Excise duty rate
Imported furniture	9403	30% of Excisable value
Imported printed gummed or self-adhesive paper	4811.41.90 or 4811.49.00	25% of excisable value or KES. 200 per kg, whichever is higher
Imported plates of plastic	3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90	25% or KES. 200 per kg, whichever is higher
Imported paper or paper board, labels of all kinds	4821.10.00 and 4821.90.00	25% or KES 200 per kg, whichever is higher
Imported printing ink	3215.11.00 and 3215.19.00	15% of Excisable value
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
Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls	3919.90.90	25% or KES 200 per kg whichever is higher
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	3920.10.90	25% or KES 200 per kg whichever is higher

Excise Duty

Goods from EAC subject to excise duty

Proposed items	Applicable tariff	Excise duty rate
Imported printed polymers of vinyl chloride containing by weight not less than 6% of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.43.90	3920.43.90	25% or KES 200 per kg whichever is higher
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	3920.62.90	25% or KES 200 per kg whichever is higher
Imported printed cellular of other plastics of other plates, sheets, film, foil and strip	3921.19.90	25% or KES 200 per kg whichever is higher
“Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; unbleached.	4804.11.00	25% of excisable value or KES.50 per kg, whichever is higher.
Imported other kraft paper or paperboard weighing 150g/m ² or less, in rolls or sheets; unbleached.	4804.31.00	25% of excisable value or KES 50 per kg, whichever is higher
Imported other kraft paper or paperboard weighing more than 150g/m ² but less than 225 g/m ² , in rolls or sheets; unbleached	4804.41.00	25% of excisable value or KES 50 per kg, whichever is higher
Imported other kraft paper or paperboard weighing 225 g/m ² or more others in rolls or sheets; unbleached.	4804.51.00	25% of excisable value or KES 50 per kg, whichever is higher
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,	70.03,70.04 or 70.05	35% of excisable value or KES 500 per square metre, whichever is higher

Excise Duty

Goods from EAC subject to excise duty

Proposed items	Applicable tariff	Excise duty rate
Imported safety glass	7007.19.00 and 7007.29.00	35% of excisable value or KES. 500 per squaremetre, whichever is higher
Imported Multiple-walled insulating units of glass	70.08	35% of excisable value or KES. 500 per squaremetre, whichever is higher

Implication of introduction of excise duty to good of EAC origin

The proposal appears aimed at broadening the excise duty base by bringing into charge goods originating from EAC Partner States notwithstanding their preferential customs treatment under the EAC Customs Union framework and Rules of Origin regime. While this may enhance domestic revenue mobilisation, it potentially creates tension with the broader regional integration objectives of facilitating free movement of qualifying goods within the EAC. The measure may also increase production costs and reduce the competitiveness of EAC-origin goods relative to imports from other regions.

Proposed effective date : 1 January, 2027

Tax Procedures Act





Tax Procedures Act

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

Proposed provision: The Bill proposes to update new definitions to include virtual assets and virtual asset service provider.

Implication: The proposed amendment, if enacted, shall clarify 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.

Proposed Effective Date: 01 July 2026

Virtual asset service provider documentation and information reporting

Proposed provision: The Bill proposes the introduction of 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.

Implication: The proposed amendment shall strengthen 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.

Proposed Effective Date: 01 July 2026



Tax Procedures Act

Cross-border automatic exchange of information on virtual assets

Proposed provision: The Bill proposes to empower KRA to enter into agreements with other jurisdictions for the automatic exchange of information (AEOI) relating to virtual asset transactions.

Implication: This provision if enacted will empower KRA to enter into agreements that would 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.

Proposed Effective Date: 01 July 2026

Registration and PIN re-instatement

Proposed Provision: The Bill proposes the reinstatement of deregistered taxpayers with new or historical tax obligations.

Implication: Under the proposed 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.

If enacted, 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.

Proposed Effective Date: 01 July 2026

Tax Procedures Act

Non-resident PIN exemption

Proposed provision: The Bill proposes to exempt non-resident persons from the requirement to obtain a Personal Identification Number (PIN) when opening an account with an investment bank.

Implication: This provision if enacted will simplify market entry and reduce administrative barriers for foreign investors, particularly those participating in Kenya's capital markets through investment banks.

Additionally, the proposal is expected to enhance ease of doing business and improve 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 if enacted will streamline account opening processes and facilitate increased cross-border investment inflows as it promotes foreign investment by facilitating non-resident participation in Kenya's financial markets.

Proposed Effective Date: 01 July 2026

Commissioner's powers on tax avoidance schemes

Proposed Provision: The Bill proposes to empower 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.

Implication: Under the proposed amendment a 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.

Proposed Effective Date: 01 July 2026

Tax Procedures Act

Assessments on third-party/system data

Proposed provision: The Bill proposes KRA to issue an assessment on the income of a person by relying on third party or data available in the system.

Implication: This Bill 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.

Proposed Effective Date: 01 July 2026

Reintroduction of the tax amnesty

Proposed provision: The Bill seeks to reinstate 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.

Proposed Effective Date: 01 July 2026

Principal tax for failure to deduct or withhold tax

Proposed provision: The Bill proposes to delete Section 39A(2) thus empowering KRA to collect principal tax where withholding agents fails to deduct, withhold or remit tax on a payment.

Implication: Currently, withholding agents are not required to pay the principal tax not deducted, withheld or remitted provided the recipient of the payment has paid and accounted for the full principal tax and the tax not deducted, withheld or remitted.

This means that the Commissioner may still enforce the collection of taxes required by withholding agents. This shift the administrative burden wholly to the withholding agents.

Proposed Effective Date: 01 July 2026

Tax Procedures Act

Agency notices to apply notwithstanding active appeals

Proposed provision: The Bill proposes to delete Section 42(14)(e) effectively withdrawing the protection against agency notices offered to taxpayers who have pending appeals.

Implication: Currently, Currently, the Commissioner is restricted from issuing agency notices against taxpayers who have active appeals before the Tax Appeals Tribunal, the High Court, or the Court of Appeal. The proposed amendment removes this statutory protection, meaning that a pending appeal will no longer operate as an automatic bar to enforcement through agency notices.

Taxpayers may therefore be required to proactively apply for stay orders or other interim relief to prevent enforcement while appeals are ongoing. In practice, this is likely to increase cash-flow pressure, litigation costs, and procedural complexity, particularly in large or long-running disputes.

The amendment also raises important constitutional and procedural fairness considerations under Article 47 of the Constitution and the Fair Administrative Action Act. Allowing enforcement measures to proceed while a taxpayer is actively pursuing a lawful appeal may be viewed as undermining the effectiveness of the appellate process, particularly where recovery action could render the appeal moot before determination.

From a practical perspective, the proposal signals a shift toward a more enforcement-driven tax dispute framework, requiring taxpayers to adopt earlier and more deliberate litigation protection strategies, including applications for stay of enforcement at the Tribunal or higher courts.

Proposed Effective Date: 01 July 2026

Removal of the requirement for a certificate of origin

Proposed provision: The Bill proposes to repeal Section 44A of the Tax Procedures Act which places a requirement that all goods imported to Kenya must have a certificate of origin.

Implication: Prior to the insertion of Section 44A by the Finance Act, 2025, certificates of origin were required primarily for preferential tariff treatment under trade arrangements such as EAC, COMESA and AfCTA. Deletion of Section 44A will revert to this position effectively removing the blanket requirement of certificates of origin for all imported goods. If enacted, this will likely go a long way to reduce compliance costs, administrative hurdles and procedural delays for importers.

Proposed Effective Date: 01 July 2026

Removal of import VAT references from the Tax Procedures Act

Proposed provision: The Bill proposes to amend Section 47(1) of the Tax Procedures Act by deleting the words “and value added tax payable on imports”

Implication: This amendment is part of the miscellaneous cleanups to remove duplicative provisions and align the TPA with current administrative practice. Import VAT is now fully administered under Customs/VAT regime.

Proposed Effective Date: 01 July 2026

Tax Procedures Act

Digitalization of return filing

Proposed provision: The Bill proposes to empower the Commissioner to generate pre-populated returns based on information available to KRA and allow the taxpayer to rely on such pre-populated returns to submit or lodge their returns.

Implication: The proposed amendment is an attempt to formalise KRA's recent shift to pre-populated returns, already experienced in VAT and PAYE. For taxpayers, it may ease filing process and reduce time and cost involved. It will also minimize errors arising from manual data entry.

While the amendment allows the taxpayer to rely on the pre-populated returns, it does not place the legal responsibility to KRA. If enacted, taxpayers will therefore be obligated to review pre-populated returns carefully, correct any inaccuracies and ensure that all relevant deductions and adjustments are included.

Proposed Effective Date: 01 July 2026

Regulations on the procedure for submission of prepopulated tax returns

Proposed provision: The Bill proposes to empower 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 proposed 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.

Proposed Effective Date: 01 July 2026

Tax Procedures Act

Time for lodging objections and Appeals

Proposed provision: The Bill proposes to include Saturdays, Sundays and Public Holidays in computation of statutory time for lodging objections and appeals.

Implication: The proposed amendment reverses the position introduced under the Tax Laws (Amendment) Act, 2024, which excluded Saturdays, Sundays and public holidays from the computation of time for lodging objections and appeals where the final day fell on a non-working day.

By compressing the period available to taxpayers to prepare and file objections and appeals, the risk of inadvertent non-compliance, particularly in complex disputes requiring extensive documentation, internal approvals or professional review may be heightened.

Proposed Effective Date: 01 July 2026

Malfunction of an electronic tax system

Proposed provision: The Bill proposes to amend Section 89 (5A) to recognize malfunction of an electronic tax system as an independent ground for waiver of penalties and interest.

Implication: The proposed amendment if enacted 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.

Proposed Effective Date: 01 July 2026

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

Proposed provision: The Bill proposes to insert 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 proposed 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 proposal 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.

Proposed Effective Date: 01 July 2026



Tax Procedures Act

Exhaustive grounds for non-compliance with electronic tax systems

Proposed provision: The Bill proposes to introduce 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.

Proposed Effective Date: 01 July 2026

Non-compliance with electronic tax payment obligations

Proposed provision: The Bill proposes to introduce penalties and interest equal to the higher of twice the 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 proposed 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.

Proposed Effective Date: 01 July 2026

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

Proposed provision: The Bill proposes to delete Section 89 (5A) by recognizing duplication of penalty and interest as an independent ground for waiver of penalty and interest.

Implication: This proposal reflects intended 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.

Proposed Effective Date: 01 July 2026



Miscellaneous Fees & Levies Act





Miscellaneous Fees & Levies Act (MFLA)

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

Proposed provision: The Bill proposes to limit the IDF collected and allocated to a Fund under the PFMA from 20% to 10%. Additionally, the 10% allocation is limited to payments of Kenya's contributions to the African Union and any other international organisation to which Kenya has a financial obligation. Money in the Fund will no longer be allocated for revenue enforcement initiatives as initially provided in the MFLA.

Implication: The reduction of IDF revenue earmarked for purposes of Kenya's financial contributions to the African Union and its financial obligations to international organisations will likely result in redirection of the revenue to the Consolidated Fund for general appropriation to meet budget needs.

Additionally, the elimination of the allocation of IDF revenue towards revenue enforcement initiatives will likely impact the Kenya Revenue Authority (KRA) and other revenue collection agencies. This may lead to budget constraints undermining the operational capacity for KRA and other agencies.

Proposed Effective Date: 01 July 2026

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

Proposed provision: The Bill proposes to expand 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 proposal 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.

Proposed Effective Date: 01 July 2026

Miscellaneous Fees & Levies Act (MFLA)

Restricted exemptions on aircraft, spacecraft, and parts thereof

Proposed provision: The Bill proposes to restrict the IDF and RDL exemptions currently granted to all goods and parts thereof of Chapter 88.

Implication: The proposed amendment to the Act seeks to narrow the IDF and RDL exemptions to the effect that aircraft 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 aircraft of an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg and other aircraft 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.

Proposed Effective Date: 01 July 2026

Exemption on imported phones from Railway Development Levy (RDL) and Import Declaration Fee (IDF)

Proposed provision: The Bill proposes to introduce an exemption from RDL and IDF for imported telephones for cellular networks and other wireless networks.

Implication: Currently, the importation of phones into Kenya attracts Import Declaration Fee (IDF) at 2.5% and Railway Development Levy (RDL) at 2%.

The proposal to introduce an exemption for mobile phones will reduce the additional 4.5% tax costs currently borne by importers of telephones and passed on to consumers

However, the Bill also proposes to change the rate of excise duty charged on imported phones from 10% to 25%. The 15% increase in excise duty outweighs the relief provided by the IDF and RDL exemption. Additionally, other taxes such as VAT and customs duty remain applicable on importation of mobile phones.

While the IDF and RDL exemption on mobile phones signals a policy move to improve affordability and digital inclusion, the increase in excise duty undermines this move.

Proposed Effective Date: 01 January 2027

Stamp Duty Act

Stamp Duty Act

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

Proposed provision: The Bill proposes to exempt 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 proposal 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 proposal 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.

Proposed Effective Date: 01 July 2026



Road Maintenance Levy Fund Act

Road Maintenance Levy Act

Proposed reduction of the Road Annuity Fund allocation from the Road Maintenance Levy

Proposed provision: The Bill proposes to reduce 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.

Proposed Effective Date: 01 July 2026



Contacts



Peter Kinuthia

Partner
Tax and Regulatory Services
KPMG East Africa



Clive Akora

Partner
Tax and Regulatory Services
KPMG East Africa



Sandeep Main

Partner
Tax and Regulatory Services
KPMG East Africa



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