



# Tax Alert

## eTIMS and the Shift to Data-Driven Income and Expense Validation



### A. Overview

The Kenya Revenue Authority (KRA) is entering a new phase of tax administration anchored on real-time transaction data. From 1 January 2026, income tax returns will be subject to systematic validation against the KRA's electronic datasets—including Electronic Tax Invoice Management System (eTIMS) invoice records, withholding tax returns, and customs import data.

What began as a VAT-focused compliance tool has now evolved into a central control pillar of income tax enforcement. Taxpayers now risk having expenses unsupported by compliant electronic invoices administratively disallowed, subject to statutory exemptions and applicable objection and appeal mechanisms.

This development marks a structural shift from periodic, summary-based reporting to continuous transaction-level scrutiny, fundamentally changing how taxpayers must manage tax compliance risk.

### B. Evolution of eTIMS, from VAT control to integrated tax enforcement

Kenya's electronic invoicing journey reflects both regional and global trends in digital tax administration. Locally, the framework has evolved from hardware-based Electronic Tax Registers (ETRs) focused on VAT control, to the Tax Invoice Management System (TIMS), and has now advanced into the fully software-driven (eTIMS), a fully software-driven, real-time invoicing ecosystem integrated with ERP, point-of-sale and virtual invoicing platforms.



This progression mirrors the experience of early adopters such as Rwanda, where electronic invoicing data has become central to income validation, as well as global regimes including Italy's Sistema di Interscambio (SDI), Chile's electronic invoicing system and India's IRP, all of which began as indirect tax tools before expanding into income matching, risk profiling and automated audits.

Kenya's move to eTIMS-based income and expense validation from 2026 confirms that it is now firmly on the same data-driven enforcement trajectory.

### C. Legal and regulatory framework

The expansion of eTIMS into income tax validation is based on recent legislative and regulatory changes.

The Finance Act, 2023 introduced disallowing of expense deductions unless supported by eTIMS- or TIMS generated invoice(s), except where a statutory exemption applies. The Electronic Tax Invoice Regulations, 2024 extended the obligation to issue electronic tax invoices to all persons carrying on business, whether VAT-registered or not.

Collectively, these legal provisions position eTIMS not merely as an invoicing requirement, but as a determinant of taxable income.

### D. Scope – Who is affected?

The eTIMS validation framework applies to all persons carrying on business in Kenya including companies, partnerships, sole proprietors, professionals, Turnover Tax (TOT) taxpayers, and rental income earners.

It applies to both taxable and exempt supplies, with the primary focus being income recognition and expense deductibility, rather than VAT alone.

### E. Exemptions from eTIMS

Section 23A of the Tax Procedures Act and the Tax Procedures (Electronic Tax Invoice) Regulations, 2024, specifically exempts the following transactions from the electronic tax invoicing requirement:

- Emoluments and other employment income subject to PAYE under the Income Tax Act

- Importation of goods under the East African Community Customs Management Act
- Importation of services from a foreign country
- Fees charged by financial institutions including insurance companies licensed under the Insurance Act, for their core activities (insurance premiums, reinsurance commissions, pension management fees, unit trust and money market management fees).
- Transactions subject to final withholding tax, including certain dividends, interest, and prescribed non-resident payments
- Investment allowance transactions under the Second Schedule to the Income Tax Act
- Airline passenger ticketing
- Internal accounting adjustments, including journals that do not represent a supply
- Any other category of transactions formally exempted by the Commissioner in accordance with the law.

Clear identification and documentation of these exemptions will be critical during validation.

## F. Implication for taxpayers in 2026

From 2026, the KRA will algorithmically reconcile income tax returns against its data holdings.

Specifically, income reflected in eTIMS sales data or withholding tax returns but omitted from income tax returns may be treated as undeclared income.

Expenses not supported by compliant eTIMS invoices, and not exempt, risk being disallowed, regardless of whether they were genuinely incurred in revenue generation.

### Adjustment mechanics

The KRA will generally rely on:

- The higher of declared income and eTIMS/withholding data; and
- The lower of declared expenses and eTIMS purchase data.

This approach may result in automatic upward tax adjustments, penalties, and interest, and challenges in obtaining a Tax Compliance Certificate.

## G. Operational challenges for taxpayers

Taxpayers should anticipate challenges including:

- 1. Submission-time validation:** Effective 1 January 2026, iTax will validate returns at the point of submission against KRA's electronic datasets (eTIMS/TIMS, withholding tax, customs). Where income or expenses do not tie to transmitted

electronic invoices, subject to statutory exemptions, the system may prevent filing, creating exposure to late-filing penalties and extensive reconciliation efforts.

- 2. Supplier non-compliance,** particularly among MSMEs, small scale farmers, informal vendors, and some public sector entities. It is interesting to note that government services have not been included in the list of exemptions to mean that the government is required to issue eTIMS compliant invoices for all government services including court fees, licensing fee etc incurred by taxpayers.
- 3. Accruals and timing differences between** accounting records and eTIMS data.
- 4. System and data integration gaps** between ERP / POS, or accounting systems and eTIMS can lead to missing, duplicated, or inconsistent transaction data.
- 5. Limited operational awareness, where non-finance teams inadvertently create compliance gaps** such as missing buyer PINs, incorrect HS codes, or inaccurate descriptions which may render otherwise genuine invoices invalid for tax purposes.

## H. Preparing for 2026

To get ahead of the validation regime, taxpayers should consider taking the following actions:

Conduct early and regular reconciliations between accounting records and eTIMS data for sales, purchases, withholding tax, and imports to identify gaps, timing differences, and data inconsistencies.

- Embed eTIMS compliance into procurement, contracting and payment processes, and ensure that both finance and non-finance teams understand when eTIMS invoicing is mandatory.
- Closely track accruals, reversals and credit notes, with clear audit trails.
- Confirm full eTIMS coverage across all income streams, including exempt and non-VAT supplies.
- Strengthen supplier onboarding and compliance reviews.
- Clearly map and document statutory eTIMS exemptions to support their treatment during validation.

Taxpayers should now focus on continuous reconciliation and compliance monitoring to minimize audit risk under the live validation regime. Embedding eTIMS compliance into procurement and accounting processes remains critical for 2026 and beyond.

## I. Our commentary – looking ahead

The move to eTIMS-based income and expense validation represents a fundamental shift in Kenya's tax compliance landscape. By anchoring tax outcomes to electronic transaction data, KRA is transitioning towards continuous, automated enforcement, with reduced tolerance for post filing explanations.

For taxpayers, risk is no longer confined to computational errors, but now extends to process discipline, data integrity, supplier behaviour and system design.

Taxpayers that align early will not only reduce exposure but also gain greater certainty and audit readiness.

KPMG is happy to assist with readiness assessments, reconciliations and system integration reviews.

If you have any questions, do not hesitate to reach out to us on **taxandregulatory@kpmg.co.ke** or contact **sandeepmain@kpmg.co.ke**

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