

# Analysis of Finance Bill 2026 (Bill) Proposals and Their Implications for Trade and Taxation

May 2026



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# About Grant Thornton

We're a network of independent assurance, tax and advisory firms, made up of 80,000+ people in over 156 markets. And we're here to help dynamic organisations unlock their potential for growth.

For more than 100 years, we have helped dynamic organisations realise their strategic ambitions. Whether you're looking to finance growth, manage risk and regulation, optimise your operations or realise stakeholder value, we can help you.



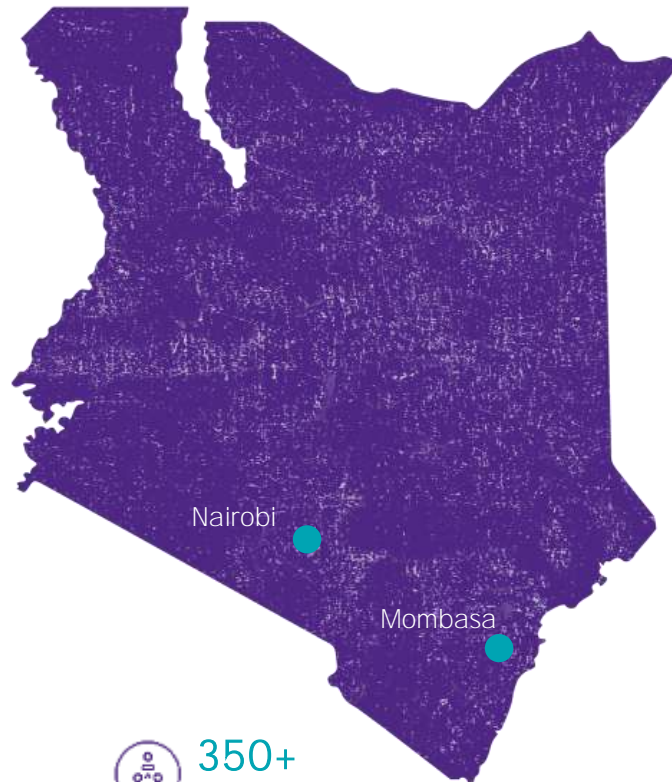
A purple rounded rectangle containing four key statistics with corresponding icons:


- \$ 8.5bn in revenue** (Icon: Money being handed over)
- 80,000+ people** (Icon: Group of people)
- 700+ offices** (Icon: Globe)
- 156 countries** (Icon: Location pin)

**We've got scale, combined with local market understanding.**


**That means we're everywhere you are, as well as where you want to be.**

# Kenya



 **20+**  
Partners and  
Directors

 **350+**  
Employees

 **Office locations**  
Nairobi; Mombasa

 **ICPAK**  
Licensed firm

We can provide services to clients in all jurisdictions in which they operate and you can expect the resources, skills and experience of a large, global firm, but with the accessibility and attention of a much smaller firm.

Grant Thornton Kenya is a leading business adviser providing audit, tax and advisory services. With 350+ staff, 20 Partners and Directors, we apply strong technical guidance and breadth of experience to ensure that clients receive a truly different experience.

We have over 40 years' experience in the Kenyan business community. Many new entrants to the Kenyan and Africa emerging markets choose us as their preferred partners in helping them to unlock their potential for growth.

We set ourselves high standards in delivering value to clients, in a timely manner. In our latest client satisfaction survey, our clients said they appreciated our friendly and personalized attention to them and the prompt, professional and reliable advise and support they receive from us.

*“Clients choose us because we care deeply about them and create a relationship as their growth partners. We are part of their growth story.” Dipesh Shah, CEO, Grant Thornton Kenya*

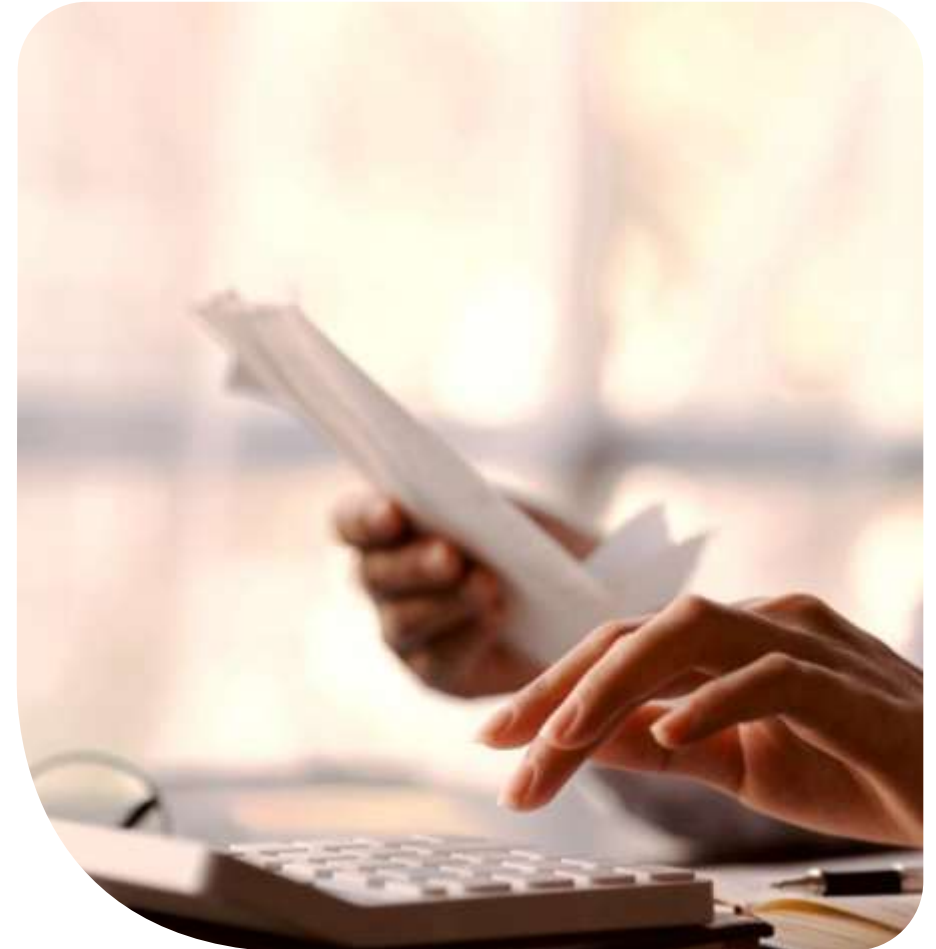
# Executive summary

# Executive summary

The Finance Bill of 2026 Focuses on broadening the tax base, enhancing compliance, and accelerating digitisation with an intention to meet a Sh4.79 trillion budget.

## Key Proposals in the Finance Bill 2026

1. Giving KRA the powers to use pre populated data to determine your tax position.
2. Reducing filing period of returns for Both individuals and Corporates from 6 months to 4 months – this is practiced in Niger, Nigeria, Rwanda and Mozambique who all file within 4 months.
3. Nil returns to be filed within one month of the taxpayer year end- For individuals with no income all nil returns must be filed by 31 January.
4. KRA can use various forms of sources to determine a taxpayer lever of income – legitimizing Shuru and not recognizing tax planning.
5. Increase of number of years a taxpayer need before filing of bad debt refund from 2 years to 3 years.
6. Section 42 clarifies that any person who makes a supply of goods or services must issue tax invoice.
7. KRA are using latest case laws they have lost to entrench their arguments in tax laws, by expanding the definition of Royalties and Management fees.



# Executive summary

8. Despite KRA collecting 17B from rental income they feel their a capacity to collect around 100B and one way of increasing the collection is by proposing to change the rate of MRI back to 10%.
9. Benefits arising due to death is not taxable.
10. Benefit arising from capital gains relating to transfer of property to REITS registered by the commissioner is not taxable.
11. KRA is trying to recommend the repeal of Sec42(14)(e) to regain the power to issue Agency notices and there has been many attempts to do so in previous finance bills.
12. Excise duty still remains an open viable area for government to increase taxes.
13. The aspect of moving items or services from been zero rated to exempt in the VAT regime does not help in reducing prices but increase same, from Government perspective this is used to manage VAT refunds.
14. Tax amnesty programme as proposed is a good move as it will help to clean up taxpayers ledgers.
15. Commissioner given power to give direct waiver of penalty and interest of up to Kshs 2 million.

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The taxpayers will be given an opportunity to give their submission in person and in writing and we as GT will be there to represent our interested parties, kindly feel free to give your feedback on email to enable us compile the same by 15 May 2026.



# Income Tax

# Income Tax

Issue	Proposal	Implication
Amendment to the definition of <b>“Immovable Property”</b>	The Finance Bill 2026 amends Section 2(1) to the Income Tax Act in the definition of “immovable property”, by deleting the word “and” appearing immediately after the words “ immovable property” the end of item (a), and substituting therefor the word “or”;	This means the items listed in the definition will be interpreted as alternatives rather than cumulative requirements, thereby broadening the scope of what may qualify as immovable property for tax purposes. This eliminates potential ambiguity about whether both provisions must exist simultaneously for the definition to apply.
Expansion of the Definition of <b>“Management or Professional fee”</b>	The Bill, proposes to amend the definition of “management or professional fee” under the Income Tax Act by adding the words “ and includes interchange fees and merchant service fees arising from transactions that use a card as a means of payment” immediately after the word “calculated”.	This amendment expands the definition of management or professional fees to expressly include interchange fees and merchant service fees arising from card payment transactions. As a result, these fees may fall within the scope of management or professional fees for tax purposes, potentially subjecting them to withholding tax obligations and related compliance requirements.

# Income Tax

Issue	Proposal	Implication
Replacement of the definition of royalty	<p>The Bill proposes to amend the Income Tax Act by deleting the current definition of “royalty” and substituting it with a new definition.</p> <p>Under the proposed definition, “royalty” will mean a payment made as consideration for the use of or the right to use:</p> <ul style="list-style-type: none"><li>• Copyright of a literary, artistic or scientific work.</li><li>• Software, whether proprietary or off-the-shelf, including payments in the form of license, development, training, maintenance or support fees.</li><li>• Cinematograph films, including films or tapes used for radio or television broadcasting.</li><li>• Patents, trademarks, designs, models, plans, formulas or processes.</li><li>• Industrial, commercial or scientific equipment.</li><li>• Information concerning industrial, commercial or scientific experience, including gains derived from the sale or exchange of any right or property giving rise to that royalty.</li><li>• Proprietary digital platforms and payment systems, including payment networks, payment-card schemes, payment processing systems, switching systems, clearing systems or settlement systems, including access, participation or usage rights in such system through a card, whether the payment is periodic or transaction-based and regardless of whether it is described as a service fee, transaction fee, network fee, assessment fee, processing fee or similar charge.</li><li>• Distribution of software where regular payments are made for the use of the software through a distributor.</li></ul>	<p>This amendment significantly expands the scope of payments that will be treated as royalties. In particular, it brings within the royalty definition:</p> <ul style="list-style-type: none"><li>• Payments related to digital platforms and payment systems, including card networks and processing systems.</li><li>• Software distribution arrangements where distributors make regular payments for the use of the software.</li></ul> <p>As a result, a wider range of payments may be classified as royalties for tax purposes, potentially subjecting them to withholding tax and additional compliance obligations. By drastically expanding the definition of royalty the government intends to ensure future payments made by Kenyan banks to global entities like Visa and Mastercard are subject to Withholding Tax. This is as a result of recent case ruling by supreme court between a Barclays Bank of Kenya and KRA.</p> <p>With the expanded definition withholding tax is now applicable on royalty payments</p>

# Income Tax

Issue	Proposal	Implication
Amendment to the definition of <b>“Withdrawals”</b>	<p>The Bill proposes to amend the Income Tax Act by deleting the definition of “withdrawals” and substituting it with a new definition as follows:</p> <p>“withdrawals” means 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.</p>	<p>This amendment clarifies that withdrawals include any money, cash equivalent (tangible award), or value paid to a player’s account by a licensed gambling operator.</p> <p>As a result, payouts made by gambling operators to players will clearly fall within the definition of withdrawals for tax purposes, ensuring consistent tax treatment of gambling winnings and related transactions.</p>
Insertion of the definition of <b>“Winnings”</b>	<p>The Bill proposes to amend the Income Tax Act by inserting a new definition of “winnings” in its proper alphabetical sequence as follows:</p> <p>“winnings” means a pay-out, by a person licensed under the Gambling Control Act, 2025, from a lottery or prize competition under the Gambling Control Act, 2025, but does not include the amount staked or wagered.</p>	<p>This amendment introduces a clear definition of winnings for tax purposes. It clarifies that winnings refer only to the payout received by a player and exclude the amount originally staked or wagered, thereby distinguishing the taxable gain from the initial stake.</p>

# Income Tax

Issue	Proposal	Implication
Tax treatment of contributions to gratuity	<p>The Bill proposes to amend Section 5(4) to the Income Tax Act as follows:</p> <ul style="list-style-type: none"><li>a) in the proviso to paragraph (g), by adding the following new paragraph immediately after paragraph (b) — (c) the gratuity was for a contract of service for a continuous period of at least three years;</li><li>b) by inserting the following new paragraph (ga) immediately after paragraph (g) - any contribution to a gratuity in respect of employment or services rendered: Provided that:<ul style="list-style-type: none"><li>• the gratuity was for a contract of service for a continuous period of at least three years;</li><li>• the total contributions does not exceed thirty-one per cent of the basic salary of the employee; and</li><li>• this paragraph shall not apply to any person who is eligible for deductions under section 22A of the Income Tax Act.</li></ul></li></ul>	<p>This amendment introduces a minimum service period of three continuous years as a condition to enjoy the relevant gratuity treatment. Employees on one-year or two-year contracts will take a significant financial hit especially for those with short-term contracts particularly in NGOs, construction, fixed-term project sector.</p> <p>Their gratuity will be consolidated with their employment income and subjected to tax.</p>
Imposition of non-resident rental income tax.	<p>The Bill proposes to insert a new Section 6B to the Income Tax Act, immediately after section 6A, which introduces a final withholding tax called "non-resident rental income tax" on rental income derived by non-resident persons from the use or occupation of property situated in Kenya. The tax is payable at the rate specified in the Third Schedule. Non-resident persons must register under a simplified framework prescribed by the Commissioner and file a return and pay the tax by the 20th of the month following the end of the month in which rent is paid. However, the registration and return obligation does not apply where a resident person receives the rent on behalf of the non-resident and is already subject to tax deduction under section 35(3)(j).</p>	<p>The implications of the proposal are as follows:</p> <ul style="list-style-type: none"><li>a) non-resident landlords must now register and file monthly returns unless tax is deducted at source by a resident agent or tenant;</li><li>b) the tax is final; and no expenses are allowed</li><li>c) the simplified registration framework is intended to improve compliance and revenue collection from non-resident property owners.</li></ul>

# Income Tax

Issue	Proposal	Implication
Tax on shipping and air transport	The Bill proposes to amend Section 9 of the Income Tax Act by inserting a new subsection (1A) immediately after subsection (1), which provides that the tax charged under subsection (1) shall be payable within five days after the payment is received or the ship leaves the port of lading, whichever is earlier.	The implications of the proposal are as follows:  a) tighter payment deadline for shipping operators; b) tax becomes due earlier if payment is received before departure; and c) Alignment of the due dates similar to withholding tax.
Inclusion of other sources of income	The Bill proposes to amend Section 10 (1) of the Income Tax Act by adding new paragraphs (n) and (o) immediately after paragraph (m), to include:  (n) sale of scrap metal; and  (o) winnings.	The implications of the proposal are as follows:  a) income from scrap metal sales becomes chargeable to tax at 1.5% of gross value b) winnings (presumably from betting, lotteries, or games) become chargeable to tax at 20%.
Amendment to trust income provisions	The Bill proposes to repeal Section 11 of the Income Tax Act and replace it with a new section providing that - a) Any income chargeable to tax and received by a person in the capacity of a trustee, executor, or administrator shall be deemed to be that person's income; b) dividend or interest included under subsection (1) shall not be subject to further tax; and c) where tax has been paid by the trustee, executor, or administrator, the beneficiary shall not be liable to pay tax on that income.	The implications of the proposal are as follows: a) trustees, executors, and administrators become the taxable persons on trust income; b) no double taxation on dividends and interest since such income is charged to tax through the trustee, executor and administrator; and c) beneficiaries are exempt from tax on income already taxed at trust level.

# Income Tax

Issue	Proposal	Implication
Amendment to resident individual income conditions	The Bill proposes to amend Section 12(1) of the Income Tax Act by deleting paragraph (a) and substituting a new paragraph providing that a resident individual may qualify under that provision if to the best of his judgement and belief he will have no income chargeable to tax for that year of income other than emoluments.	This implies that every individual will have to pay instalment tax if they have chargeable income irrespective of the amount projected.
Introduction of tax on income from importation of worn clothing and other worn articles	The Bill proposes to insert a new section 12H immediately after section 12G of the Income Tax Act, which provides that: a) a tax shall be payable on income derived from importation of worn clothing, worn footwear, and other worn articles under tariff heading 6309; b) taxable profit shall be deemed to be 5% of the customs value of the imported goods; and c) the tax shall be due upon importation and prior to release of goods, and shall be a final tax.	The implications of the proposal are as follows: a) Introduction of a specific tax regime for second-hand clothing and footwear importers; b) Simplifies taxation of this sector and increases compliance as well as makes it easier for KRA to tax as part of custom clearance. c) no further tax is due on that income as it is final.
Amendment to lending and leasing business definition	The Bill proposes to amend section 16(2)(j)(iii)(E) of the Income Tax Act by deleting the words "lending and leasing business" appearing after the words "involved in" and substituting therefor the words "lending or leasing business, or both".	The previous provision denied the exemption to entities that were not engaged in both lending and leasing businesses. However, one needs to engage in either of the two.

# Income Tax

Issue	Proposal	Implication
Amendment section 18F	<p>The Bill proposes to amend section 18F of the Income Tax Act as follows:</p> <ul style="list-style-type: none"> <li>a) in the definition of “a country-by-country report”, by deleting the expression “section 18D(1)” appearing after the words “filed under” and substituting therefor the expression “section 18D(1) and (1A)”;</li> <li>b) in the definition of “excluded multinational enterprise group”, by deleting the expression “section 18D(1)” appearing after the words “specified in” and substituting therefor the expression “section 18D(1B)”;</li> <li>c) by deleting the definition of “ultimate parent entity” and substituting therefor the following new definition:               <p>“ultimate parent entity” means a constituent entity of a multinational enterprise group where—</p> <ul style="list-style-type: none"> <li>a) the constituent entity owns directly or indirectly a sufficient interest in one or more other constituent entities of the multinational enterprise group;</li> <li>b) the constituent entity is required to prepare consolidated statements under financial 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</li> <li>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.</li> </ul> </li> </ul>	<p>This a clean up of the provisions to align with Section 18D.</p> <p>The new definition of ultimate parent entity is aligned to the OECD BEPS Action 13 and therefore aligning Kenya practices to international standards.</p>
Deletion of provision regarding of tax avoidance	The Bill has repealed section 23 of the Income Tax Act and re-introduced the same under Tax Procedures Act.	This broadens the applicability of anti-tax avoidance scheme provisions to other tax heads including Income Tax, VAT, Excise duty and the Miscellaneous Fees and Levies.

# Income Tax

Issue	Proposal	Implication
Amendment to avoidance of tax liability by non-distribution of dividends	The Bill proposes to amend section 24(1) of the Income Tax Act by deleting the words "that part of the income" appearing after the words "he may direct that", and substituting therefor the words "at least sixty per cent of that part of the income."	The implications of the proposal are as follows: <ul style="list-style-type: none"><li>a) introduces a minimum threshold of 60% for distribution of that part of the income;</li><li>b) replaces the previous discretionary direction with a fixed requirement.</li><li>c) However business cannot accumulate profits and not declare dividend to its shareholders at a discretion but now have to comply with the 60% rule where applicable</li></ul>
Amendment of section 52 to the Income Tax Act	The Bill proposes to amend section 52 of the Income Tax Act as follows - <ul style="list-style-type: none"><li>a) in subsection (1), delete the words "within a reasonable time, not being less than thirty days from the date of service of the notice" and substitute therefor "by the last day of the fourth month following the end of the person's year of income"; and</li><li>b) insert a new subsection (1A) immediately after subsection (1), requiring that where the tax return relates to a nil amount of tax payable, the person shall submit the return within one month following the end of the year of income.</li></ul>	The implications of the proposal are as follows: <ul style="list-style-type: none"><li>a) This means that accounts must be prepared and audited within 4 months of a taxpayer year end and this will create administrative burden to both the taxpayer and the statutory auditor and this might not be practical.</li><li>b) introduces a shorter one-month deadline for nil returns, which reduces administrative backlogs and incentivizes early filing of non-tax-generating returns; This will mean no more filling of nil tax returns in June for Individuals but in January</li></ul>

# Income Tax

Issue	Proposal	Implication
Amendment to Electronic Tax Return Filing Deadlines	The Bill proposes to amend section 52B of the Income Tax Act as follows - a) in subsection (1)— i. in paragraph (i), delete the words "including a self-assessment of his tax from all sources of income, not later than the last day of the sixth month following the end of his year of income" and substitute therefor "by the last day of the fourth month following the end of the person's year of income";	The implications of the proposal are as follows: a) removes the self-assessment language from the deadline provision, meaning KRA's prepopulated data will be used to file returns.
Amendment to first schedule (exempt income)	The Bill proposes to amend the first schedule as follows: a) in paragraph 53, add a new paragraph (d) to the proviso immediately after paragraph (c) for benefits arising due to death; and b) insert a new paragraph 76 immediately after paragraph 75, exempting any capital gains relating to the transfer of property to a real estate investment trust registered by the Commissioner under section 20(1).	The implications of the proposal are as follows: a) death benefits are now exempt from tax under paragraph 53; b) capital gains on transfers to registered REITs are exempt from tax. This encourages investment in real estate investment trusts.
Amendment to third schedule with respect to rates of tax	The Bill proposes to amend Head B of the Third Schedule to the Income Tax Act as follows: in paragraph 10, delete "seven- point five percent" and substitute "ten percent".	This is an attempt to meet Revenue targets which has not been growing in this sector of residential property, The proposal to restore the rate of 10% under MRI nullifies the reduction given under Finance Act of 2023.

# Income Tax

Issue	Proposal	Implication
Amendment to the Eighth Schedule of the Income Tax Act	<p>The Bill proposes to amend the Eighth Schedule to the Income Tax Act as follows :</p> <ul style="list-style-type: none"><li>a) in subparagraph (c), by deleting the expression “subparagraph (a)” appearing immediately after the words “to which” and substituting therefor “subparagraph (b)”;</li><li>b) by adding the following new subparagraph immediately after subparagraph (c)— (d) gains derived from the alienation of shares by a non-resident person where the shares derive their value from Kenya or the alienation results in a change of the group membership of a company resident in Kenya or of ownership of, title in, or interest in property located in Kenya.</li></ul>	<p>The implications of the proposal are as follows:</p> <ul style="list-style-type: none"><li>a) Substitution of subparagraph (b) fixes an erroneous cross-reference within the section.</li><li>b) This potentially subjects gain on indirect transfer of shares by non-resident persons to Kenyan capital gain tax where such shares derive their value from Kenya.</li></ul>
Amendment in Tax Rates for Certain Industries	<p>The Bill proposes to amend the Ninth Schedule to the Income Tax Act as follows:</p> <ul style="list-style-type: none"><li>a) provide that the non-resident tax rates for repatriated income by a licensee/contractor under section 7B shall be fifteen per cent;</li><li>b) in paragraph 7—<ul style="list-style-type: none"><li>i. in subparagraph (3)(b), delete “thirty-seven and a half percent” and substitute “thirty percent”.</li></ul></li></ul>	<p>The implications of the proposal are as follows:</p> <ul style="list-style-type: none"><li>a) 15% non-resident tax rate for repatriated (deemed dividend) income is now entrenched to the Act.</li><li>b) reduces the non-resident company tax rate from 37.5% to 30% in paragraph 7(3)(b) (This is a clean up).</li></ul>

# Value Added Tax

# Value Added Tax

Issue	Proposal	Implication
Limitation of VAT financial charge exclusion to licensed and registered hire purchase agreements	The Bill proposes to replace paragraph (a) with new wording that changes "under a hire purchase agreement" to "from a person licensed to carry on hire purchase business under a hire purchase agreement registered in accordance with the Hire Purchase Act".	<p>This is a cleanup to bring clarity and the implications of the proposal are that the exclusion of financial charges from VAT consideration remains, but is now restricted to hire purchase agreements that are:</p> <ul style="list-style-type: none"><li>(i) made by a licensed hire purchase business, and</li><li>(ii) Registered under the Hire Purchase Act. Previously, the exclusion applied to all hire purchase agreements regardless of licensing or registration status.</li></ul>
Adjustment of input tax after supplies become exempt	<p>The Bill proposes to insert a new section 17A immediately after section 17 of the Value Added Tax Act, requiring that—</p> <ul style="list-style-type: none"><li>a) where taxable supplies become exempt and a registered person had deducted input tax on those supplies but the supplies remain unsold, the person shall account for the input tax relating to the unsold supplies in the tax return of the period when the supply became exempt;</li><li>b) the person shall use the same method used when the input tax was originally deducted; and</li><li>c) where the adjustment results in excess input tax, the person shall pay the resulting tax to the Commissioner.</li></ul>	<p>Registered persons must repay input tax previously claimed on unsold stock when their taxable supplies become exempt, preventing a tax benefit on goods that will no longer generate taxable output.</p> <p>It is however not clear whether the disallowed input can be allowable for corporate income tax.</p> <p>Administratively this will be a burden and contentious.</p>

# Value Added Tax

Issue	Proposal	Implication
Extension of VAT refund timeframe	The Bill proposes to amend section 31(1) of the Value Added Tax Act by deleting the words "two years" appearing in paragraph (a) and substituting therefor the words "three years".	The implications of the proposal are that the period for which a registered person may claim a VAT refund on bad debts is extended from two years to three years, extending the time after which a taxpayer can apply for refunds of tax on bad debts. This reverses the amendment brought by the Finance Act 2025 to reduce the period from three years to two years.
Restriction on issuance of VAT invoices	The Bill proposes to amend section 42 of the Value Added Tax Act as follows— a) in subsection (1), delete the word "registered person" and substitute therefor "person"; and b) delete subsection (2) and substitute a new subsection providing that an invoice showing an amount that purports to be tax shall only be issued in respect of a taxable supply.	The implications of the proposal are that— a) any person (not only registered persons) who makes a supply is required to issue a tax invoice; and b) invoices showing VAT can only be issued for taxable supplies, preventing the issuance of VAT invoices for exempt or non-taxable supplies.
Tax Avoidance schemes	The Bill proposes to delete section 66 of the VAT Act, 2013 which imposes VAT charge on any kind of scheme that purports to present a tax benefit realizable to any person in connection with that scheme.	The Bill suggests that there will be no gaps in relation to tax avoidance therefore no need to charge VAT. In our opinion, the loopholes that existed have been sealed by the enhancement of the tax systems to allow for accurate reporting of VAT due and/ or claimable. However, this is now covered under TPA 2015.

# Value Added Tax

Issue	Proposal	Implication
Amendment to VAT exempt supplies	<p>The Bill proposes extensive amendments to the VAT Act (Parts I and II) as follows-</p> <p>Part I &amp; II (Exempt goods and services): Add a new tariff under paragraph 39: tariff 3002.90.00 – human blood and animal blood for therapeutic, prophylactic or diagnostic uses;</p> <p>a) add new paragraphs 158, 159, 163, 169 and 170 exempting additional new items listed as follows: dialyzers of tariff number 8421.29.00, scrap metal, imported or locally purchased telephones for cellular networks and other wireless network, worn clothing and other worn articles of tariff heading 6309 (other than upon importation), and goods for direct and exclusive use in the implementation of infrastructure projects undertaken under a PPP framework (upon approval).</p> <p>b) the issue, transfer, receipt or any other dealing with money, including money transfer services, and accepting over the counter payments of household bills, but does not include—</p> <ul style="list-style-type: none"><li>(i) the services of carriage of cash, restocking of cash machines, sorting or counting of money; and</li><li>(ii) money transfers, payment processing, settlement, merchants acquiring, gateway or aggregation services supplied over a software or platform for a fee or commission by a payment service provider;</li></ul>	<ul style="list-style-type: none"><li>• Exempting goods or services from VAT does not add much value to the amendment but instead increases the cost of the product or service as input tax cannot be claimed and ultimately increases the cost of providing the service or the goods as this is passed to the end consumer.</li><li>• Exempting Infrastructure project under PPP will have to go through a rigorous process of acquiring exemption from the relevant ministry concerned</li><li>• Please note however, that on worn articles under 6309 VAT still applies upon importation and exemption on vat is when they are sold locally.</li></ul>

# Value Added Tax

Issue	Proposal	Implication
<p>Amendment to VAT exempt supplies</p>	<p>c) In paragraph 25, insert definitions of "tour operator" (needs to be licensed by tourism authority) and "in-house supplies" to include supplies made by a tour operator's own resources or from third parties but materially altered so that it is different to that purchased);</p>	<ul style="list-style-type: none"> <li>• This is to curb the emergency of unlicensed tour operators and only recognise those licenced by tourism authority.</li> <li>• This also clarifies that only in-house supply is vatable under this sector and also any supplies where value add is done hence also vatable.</li> </ul>
<p>Amendment to VAT exempt supplies</p>	<p>The Bill proposes extensive amendments to the VAT Act (Parts I and II) as follow:</p> <ul style="list-style-type: none"> <li>• Amendments</li> <li>• In paragraph 51, insert "spare parts" after "lubricants" and adds a proviso that exemptions for spare parts granted before 30th June 2026 apply until project conclusion;</li> <li>• In paragraph 99 (i), by deleting the words "three hundred" and substituting the words "two thousand"</li> </ul>	<p>This adds 'spare parts' to the list of items included under VAT exemptions. The spares can be imported or purchased for direct and exclusive use in the implementation of official aid funded projects.</p> <p>Increases the threshold (from USD 300 to USD 2,000) for goods imported by passengers arriving from places outside Kenya in his/ her accompanied baggage provided that the person has been outside Kenya for a period in excess of twenty-four hours.</p>

# Value Added Tax

Issue	Proposal	Implication
Amendment to VAT zero rated supplies	<p>From zero rated to exempt supplies</p> <p>a) This includes:</p> <ul style="list-style-type: none"><li>i. Inputs for animal feeds (upon Agriculture CS recommendation);</li><li>ii. Inputs for pharmaceutical products (upon Health CS recommendation),</li><li>iii. Transportation of sugarcane from farms to milling factories;</li><li>iv. Electric motorcycles (8711.60.00),</li><li>v. electric bicycles;</li><li>vi. solar and lithium-ion batteries,</li><li>vii. electric buses of tariff heading 87.02.</li><li>viii. Bioethanol vapor (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel)</li></ul>	<p>The input VAT incurred by the suppliers during purchase cannot be claimed by the supplier during sale. This means the supplier will have to recover this cost at the point of sale by adjusting the sale price making the products more expensive.</p> <p>We note that some of these items like Inputs for animal feeds, Transportation of sugarcane, Electric motorcycles and bicycles and solar and lithium-ion batteries had been zero rated by the finance Act 2023 and shortly after have been reversed to exempt. Hence causing instability to dealers of such products.</p> <p>The implications of the proposal to move pharmaceutical inputs, sugarcane transport, mobile phones, electric motorcycles, electric bicycles, solar and lithium-ion batteries, electric buses, animal feed inputs, and bioethanol stoves from zero rated regime to exempt regime will only make the products expensive as the suppliers will not be able to claim Vat input.</p>

# Value Added Tax

Issue	Proposal	Implication
Amendment to VAT Exempt supplies	Exempt to standard rated <ol style="list-style-type: none"><li>Aircraft, spacecraft, and parts thereof;</li><li>Direction-finding compasses, instruments and appliances for aircraft;</li><li>Taxable goods and services for construction of tourism facilities, recreational parks of fifty acres or more (paragraphs 62 in Part I and 26 in Part II);</li><li>Goods imported or purchased locally for the direct and exclusive use in the construction of houses under an affordable housing scheme;</li><li>Supply of denatured ethanol of tariff number 2207.20.00.</li></ol>	<ul style="list-style-type: none"><li>The input VAT incurred by the suppliers will not be claimable and this is due to pressure on VAT refunds which have been accumulating over the years,</li><li>Going forward the taxpayers under this sector will have to account for VAT on their sales and input and file returns accordingly.</li><li>No more incentives will be given to any taxpayer developing affordable housing projects, as the affordable housing project is more of government project rather than private sector hence no need to give incentives to such developers and this means their projects will be more expensive.</li></ul>

# Excise Duty

# Excise duty

Issue	Proposal	Implication
Amendment to definitions	<p>The Bill proposes to amend section 2 of the Excise Duty Act as follows-</p> <ul style="list-style-type: none"> <li>a) in the definition of "import", add a proviso that where goods originate from an East African Community Partner State and meet the EAC Rules of Origin, the goods shall not be considered an import; and</li> <li>b) insert a new definition of "antique, vintage or classic vehicle" meaning a motor vehicle whose year of first registration is at least thirty years before the date of purchase and whose value is at least ten million shillings exclusive of depreciation</li> </ul>	<p>The implications of the proposal are that—</p> <ul style="list-style-type: none"> <li>a) goods from EAC Partner States meeting Rules of Origin are exempt from excise duty treatment applicable to imports; and</li> <li>b) antique, vintage or classic vehicles are now specifically defined based on age (30+ years) and value (≥ KES 10 million) for purposes of excise duty.</li> </ul>
Amendment to excise duty on mobile phones	<p>The Bill proposes to amend the Excise Duty Act as follows -</p> <ul style="list-style-type: none"> <li>a) insert a new subsection (4A) in section 6 providing that excise duty liability on locally purchased or imported telephones for cellular and other wireless networks shall arise at the time of activation of the phone;</li> <li>b) insert a new subsection (4B) empowering the Cabinet Secretary to make regulations for implementation; and</li> <li>c) amend section 36 by inserting corresponding subsections (4A) and (4B) providing that excise duty on such telephones shall be paid to the Commissioner by the time of activation.</li> </ul>	<p>The implications of the proposal are that excise duty on mobile phones is deferred from the point of importation or local purchase to the point of network activation, meaning duty becomes payable only when the phone is actually activated for use on a network.</p>
<p>Amendment to part II of the First Schedule</p> <p>Betting and Gaming</p>	<p>The Bill proposes extensive amendments to the First Schedule of the Excise Duty Act as follows -</p> <p>Paragraph 4A - In betting, change "into a customer's betting wallet" to "for betting purposes" and delete the proviso;</p> <p>Paragraph 4B - In gambling, change "into a customer's betting wallet" to "for gambling purposes";</p>	<p>Betting and gambling excise duty is streamlined by removing wallet-specific language and applicability to horse racing.</p>

# Excise duty

Issue	Proposal	Implication
Virtual assets	Paragraph 9 - Insert "service" before "providers";	Clarity has been provided and updated to reference the Virtual Asset Service Providers Act.
Amendment to definitions under part III of the First Schedule  Betting and Gaming	The Bill proposes to amend the definitions as follows:  Delete definition of "amount deposited into a customer's betting wallet" and introduced "amount deposited" to mean 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 issued a license under the Gambling Control Act, whether provided by a player or the operator, whether in cash or cash equivalents, whether or not such amount is held in an account operated by a player, operator or licensed person, or converted into chips, tokens, tickets, credits, or similar instruments".	The introduction of the new definition in the Act carries significant legal implications, shaping interpretation, enforcement and compliance.
Virtual assets	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 digital representation of fiat currencies, securities and other financial assets".  Virtual asset service provider means "a company licensed under this Act to carry on the business of virtual asset services".	The definitions of virtual asset and virtual asset service provider as per the Excise Duty Act have been aligned as per the definitions provided under Section 2 of the Virtual Asset Service Providers Act.

# Excise duty

Issue	Old rate	New rate	Implication
Coal	None	5% of the excisable value	The proposal aims to discourage the extraction and use of coal in a bid to reduce environmental pollution.
Imported Articles of plastic of tarrif heading 3923.30.00	10%	0%	The reduction of taxes represents a significant fiscal relief for businesses.
Imported Articles of plastic of tarrif heading 3923.30.00 and 3923.90.90	10%	0%	
Fruit juices (including grape must) and vegetable juice, unfermented, containing added sugar or other sweetening matter and not containing added spirit	Kshs 14.14 per litre	Kshs 20 per litre	The government broadened the tax base by raising the excise duty levied on these goods.
Imported Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of tariff heading 6910	5% of custom value or KSh. 50 per kg	5% of excisable value or KSh. 50 per kg, whichever is higher	
Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences	Kshs. 11,382.48 per kg	Kshs. 12,550 per kg	
Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	Kshs 16,260.29 per kg	Kshs 18,000 per kg	
Replace "imported cellular phones" with "Telephones for cellular networks and other wireless networks of tariff heading 8517" at 25% of excisable value;	10%	25%	

# Excise duty

Issue	Old rate	New rate	Implication
Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages.	Kshs. 500 per litre	Kshs. 80 per litre	The government aims to increase revenue by introducing excise duty on the products under the specific tariff codes.
Antique , vintage and classic vehicles	None	50 % of the excisable value	
Fruit juices (including grape must) and vegetable juice, unfermented and not containing added spirit	None	Kshs 14.14 per litre	
Exclusion of exemption to EAC partner states that meet the EAC Rules of Origin:			
i. Imported furniture of tariff heading 9403	None	30%	This removes preferential treatment previously available to imports from (EAC) partner states, subjecting such goods to excise duty. This may increase the cost of importing the affected products within the region, potentially discouraging intra-EAC trade and raising production costs for businesses that rely on these inputs.
ii. Imported printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00	None	25% of excisable value or 200per Kilogramme, whichever is higher	
iii. Imported plates of plastic of tariff heading 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90	None	25% or KSh. 200 per kilogramme, whichever is higher	
iv. Imported paper or paper board, labels of all kinds whether or not printed of tariff heading 4821.10.00 and 4821.90.00	None	25% or KSh. 200 per kilogramme, whichever is higher	
v. Imported printing ink of tariff 3215.11.00 and 3215.19.00	None	15%	
vi. Imported Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked of tariff 7005	None	35% of excisable value or Ksh 500 per square meter whichever is higher.	
vii. Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number 3919.90.90	None	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	
viii. Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90	None	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher	

# Excise duty

Issue	Old rate	New rate	Implication
Exclusion of exemption to EAC partner states that meet the EAC Rules of Origin:			
viii. Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90	None	25% of excisable value or 200per Kilogramme, whichever is higher	This removes preferential treatment previously available to imports from (EAC) partner states, subjecting such goods to excise duty. This may increase the cost of importing the affected products within the region, potentially discouraging intra-EAC trade and raising production costs for businesses that rely on these inputs.
ix. 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	None	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher	
x. Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, poly allylesters or other polyesters of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90	None	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher	
xi. Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90	None	25% of excisable value or Ksh.	
xii. Printed self-adhesive paper of tariff number 4811.41.90	None	200 per Kilogramme, whichever is higher.	
xiii. Gummed paper and paperboard of tariff number 4811.49.00	None	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	

# Excise duty

Issue	Old rate	New rate	Implication
Exclusion of exemption to EAC partner states that meet the EAC Rules of Origin:			
viii. Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; unbleached of tariff number 4804.11.00	None	25% of excisable value or 200per Kilogramme, whichever is higher	<p>This removes preferential treatment previously available to imports from (EAC) partner states, subjecting such goods to excise duty.</p> <p>This may increase the cost of importing the affected products within the region, potentially discouraging intra-EAC trade and raising production costs for businesses that rely on these inputs.</p>
ix. Imported other kraft paper or paperboard weighing 150g/m2 or less, in rolls or sheets; unbleached of tariff number 4804.31.0	None	25% of excisable value or kshs.50 per kilogramme, whichever is higher	
x. Imported other kraft paper or paperboard weighing more than 150g/m2 but less than 225g/m2, in rolls or sheets; unbleached of tariff number 4804.41.00	None	25% of excisable value or kshs.50 per Kilogram, whichever is higher.	
xi. Imported other kraft paper or paperboard weighing 225 g/m2 or more others in rolls or sheets; unbleached of tariff number 4804.51.00	None	25% of excisable value or kshs.50 per Kilogram, whichever is higher.	
xii. 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	None	35% of excisable value or Kshs. 500 per square metre, whichever is higher	
xiii. Imported safety glass of tariff numbers 7007.19.00 and 7007.29.00	None	35% of excisable value or Kshs. 500 per squaremetre, whichever is higher.	
xiv. Imported Multiple-walled insulating units of glass of Tariff Heading 70.08	None	35% of excisable value or Kshs. 500 per squaremetre, whichever is higher	

# Tax Procedures Act

# Tax Procedures Act

Issue	Proposal	Implication
Introduction of terms	<p>The Bill proposes to amend section 3(1) of the Tax Procedures Act as follows—</p> <p>(i) "virtual asset" having the meaning assigned in section 2 of the Virtual Asset Service Providers Act, 2025 (No. 20 of 2025); and</p> <p>(ii) "virtual asset service provider" having the meaning assigned in section 2 of the Virtual Asset Service Providers Act, 2025</p>	<p>By defining and recognizing virtual assets in law, the amendment expands the tax base and enables the tax authority to tax income derived from activities such as trading, mining, or transferring cryptocurrencies and other digital tokens.</p> <p>This development enhances transparency and provides legal clarity on the treatment of digital asset transactions while strengthening the capacity of the tax authority to monitor and enforce compliance.</p>
Deletion the definition certificate of origin	(a) delete the definition of "certificate of origin"; and	<p>The deletion of the definition of certificate of origin may shift reliance to definitions provided under regional trade frameworks such as those of the EAC African Community. This could promote alignment with regional rules of origin but may also create interpretational gaps within the Act, particularly in determining eligibility for preferential tariff treatment and the assessment of applicable customs duties.</p>

# Tax Procedures Act

Issue	Proposal	Implication
Requirement for virtual asset service providers to file information returns	<p>The Bill proposes to insert a new section 6C immediately after section 6B of the Tax Procedures Act, requiring that:</p> <ul style="list-style-type: none"><li>(a) each virtual asset service provider shall file an information return with the Commissioner in respect of all virtual-asset users with which it maintains a relationship in every calendar year that are identified as reportable users or having controlling persons that are reportable persons;</li><li>(b) this requirement applies if the provider offers services that effectuate exchange transactions or makes available a trading platform on behalf of a customer, including acting as counterparty or intermediary to exchange transactions;</li><li>(c) a false statement in an information return is an offence punishable by a fine of Ksh. 100,000 per false statement, imprisonment not exceeding three years, or both;</li><li>(d) omission of required information attracts a penalty of Ksh. 100,000 per omission;</li><li>(e) a person is not liable where the information relates to another person and reasonable effort was made to obtain it; and</li><li>(f) failure to file an information return or a "nil" return attracts a penalty of Ksh. 1,000,000 per failure.</li></ul>	<p>The amendment increases the tax base by requiring Virtual Asset Service Providers (VASPs), such as cryptocurrency exchanges, to comply with mandatory reporting obligations on user transactions.</p> <p>This enhances the tax authority's visibility over virtual asset activities and enables the identification and taxation of income that was previously difficult to trace or enforce, such as trading gains and transaction-based earnings within the digital asset ecosystem.</p>

# Tax Procedures Act

Issue	Proposal	Implication
Automatic exchange of virtual asset information & PIN reinstatement	<p>The Bill proposes to insert new provisions in the Tax Procedures Act as follows-</p> <p>New section (Automatic Exchange of Information on Virtual Assets):</p> <ul style="list-style-type: none"> <li>a) Kenya may enter into agreements with other countries for automatic exchange of information relating to virtual asset transactions;</li> <li>b) such agreements shall provide for exchange of information including: information returns filed under section 6C(1), due diligence reporting, record keeping obligations, virtual asset user relationships, nil returns, and arrangements intended to avoid obligations under the Act;</li> <li>c) "information return" means a report setting out prescribed information required to be filed with the Commissioner; and</li> <li>d) the Cabinet Secretary may make regulations for implementation.</li> <li>e) a person deregistered who later qualifies for registration under section 8 shall apply for reinstatement; and</li> <li>f) where the Commissioner is satisfied the applicant is liable for tax, the Commissioner shall register the person and issue the same PIN issued prior to deregistration</li> </ul>	<p>The proposal enhances cross-border tax transparency by allowing Kenya to exchange virtual asset transaction data with other countries, including details on returns, user information, and avoidance arrangements. For taxpayers, this means increased global visibility of their crypto-related activities, reduced opportunities for non-disclosure, and a higher compliance burden, as transactions can now be tracked and verified across jurisdictions.</p>
PIN exemption for Non-Resident investors	<p>The Bill proposes to amend section 12 of the Tax Procedures Act by inserting a new subsection (5B) immediately after subsection (5A), providing that a non-resident person shall be exempt from the requirement of a PIN when opening an account with an investment bank.</p>	<p>The implications of the proposal are that non-resident persons opening accounts with investment banks in Kenya are not required to obtain a Personal Identification Number (PIN), removing a potential administrative barrier to foreign investment</p>

# Tax Procedures Act

Issue	Proposal	Implication
Tax Avoidance Schemes	<p>The Bill proposes to insert a new section 18A immediately after section 18 of the Tax Procedures Act, empowering the Commissioner to -</p> <ul style="list-style-type: none"> <li>a) determine that a person has entered into a tax avoidance scheme and obtained a tax benefit for that purpose;</li> <li>b) reassess the tax liability as if the scheme had not been entered into;</li> <li>c) rely on information from the Income Tax Act (sections 35(5) and 37(1)), KRA Act (section 5A), electronic systems (sections 23A, 24A, 59A), goods inspection (section 58), records audit (section 59), and any other written law;</li> <li>d) issue an assessment within five years from the last day of the tax period;</li> <li>e) define "scheme" broadly to include any agreement, arrangement, plan, or undertaking (whether enforceable or not); and</li> <li>f) define "tax benefit" to include tax reduction, increased input tax deductions, refunds, payment postponement, or making taxable supplies non-taxable.</li> </ul>	<p>The implications of the proposal are that the Commissioner gains broad anti-avoidance powers with access to multiple information sources, a five-year assessment window, and widely defined schemes and tax benefits to counteract aggressive tax planning.</p>
Commissioner to issue an assessment	<p>The Bill proposes to insert a new section 29A immediately after section 29 of the Tax Procedures Act, empowering the Commissioner to—</p> <ul style="list-style-type: none"> <li>a) issue an assessment on a person's income as he may deem necessary based on information obtained from various sources;</li> <li>b) rely on information from: Income Tax Act sections 35(5) and 37(1); KRA Act section 5A; Tax Procedures Act sections 23A (electronic system), 24A, 58 (inspection), 59 (audit), and 59A (data management system); and any other written law.</li> </ul>	<p>The implications of the proposal are that the Commissioner gains broad discretionary powers to issue income assessments based on multiple information sources, strengthening the KRA's ability to assess tax where returns are inadequate or missing.</p>

# Tax Procedures Act

Issue	Proposal	Implication
Extension of Amnesty	<p>The Bill proposes to amend section 37E of the Tax Procedures Act by extending various deadlines as follows—</p> <ul style="list-style-type: none"><li>(a) in subsection (1), extend the due date for filing from 31st December 2023 to 31st December 2025;</li><li>(b) in subsection (2), extend the payment deadline from 31st December 2023 to 31st December 2025;</li><li>(c) in subsection (3)—<ul style="list-style-type: none"><li>(i) extend the tax due date from 31st December 2023 to 31st December 2025; and</li><li>(ii) extend the payment deadline from 30th June 2025 to 31st December 2026;</li></ul></li><li>(d) in subsection (4)—<ul style="list-style-type: none"><li>(i) extend the tax unpaid as at date from 31st December 2023 to 31st December 2025; an</li><li>(ii) extend the unpaid deadline from 30th June 2025 to 31st December 2026.</li></ul></li></ul>	<p>Waiver of penalties and interest once principal is paid. This is a welcome move. It incentivizes prompt payment of the principal amount, improves revenue collection efficiency for the tax authority, and provides relief to taxpayers by eliminating the additional financial burden of accumulated penalties and interest.</p>
Penalty for failure to deduct or withhold tax	<p>The Bill proposes to delete this section a person who does not deduct, withhold or remit tax on a payment shall not be required to pay the principal tax not deducted, withheld or remitted where the recipient of the payment has paid and accounted for the full principal tax and the tax not deducted, withheld or remitted.</p>	<p>Taxpayers will be required to pay principal tax that was not withheld and remitted.</p>

# Tax Procedures Act

Issue	Proposal	Implication
Power to collect tax from persons owing money to a tax payer	<p>The Bill proposes to delete Section 42 subsection 14 (e)</p> <p>14. The Commissioner shall not issue a notice under this section unless</p> <p>(e) the taxpayer has not appealed against an assessment specified in a decision of the Tribunal or court.</p>	The Bill proposes to grant the Commissioner power to issue a notice on a third party despite the taxpayer having lodged an appeal in court/ tribunal
Offset or refund of overpaid tax	<p>By deleting the words “ and value added tax payable on imports”</p> <p>(1)Where a taxpayer has overpaid a tax under any tax law, the taxpayer may apply to the Commissioner in the prescribed form—</p> <p>(a)to offset the overpaid tax against the taxpayer’s outstanding tax debts and future tax liabilities including instalment taxes and 'value added tax payable on imports';</p>	Tax payers shall not be able to utilize their overpaid tax to offset VAT payable on imports.
Prepopulated Tax Returns	<p>The Bill proposes to amend section 75 of the Tax Procedures Act by adding new subsections (3) and (4) immediately after subsection (2), providing that—</p> <p>(a) the Commissioner may use information technology to generate a prepopulated tax return on behalf of a person required to submit a tax return; and</p> <p>(b) such a person may rely on the prepopulated return generated by the Commissioner to submit or lodge their return.</p>	The implications of the proposal are that the KRA will have the power to auto-populate tax returns using available data, and taxpayers can choose to rely on these pre-filled returns, simplifying the filing process, reducing compliance burdens, and minimizing manual errors.

# Tax Procedures Act

Issue	Proposal	Implication
Failure to Comply with Electronic Tax System	<p>The Bill proposes to repeal section 86 of the Tax Procedures Act and replace it with a new section providing that—</p> <ul style="list-style-type: none"><li>(a) where the Commissioner determines a taxpayer has failed to issue an electronic tax invoice, submit an electronic return, or pay tax electronically, the Commissioner shall issue a notice requiring reasons for non-compliance;</li><li>(b) upon receiving the response, the Commissioner shall consider whether—<ul style="list-style-type: none"><li>(i) the failure arose from circumstances beyond the taxpayer's reasonable control;</li><li>(ii) the failure was not due to willful neglect or deliberate default; and</li><li>(iii) the taxpayer took reasonable steps to comply as soon as practicable;</li></ul></li><li>(c) where the Commissioner is not satisfied, the taxpayer shall pay the higher of: two times the value of tax due, one hundred thousand shillings, or ten thousand shillings (for an individual.)</li></ul>	<p>This proposal significantly tightens compliance obligations around electronic tax systems. Taxpayers who fail to issue e-invoices, file returns electronically, or pay taxes online will be required to justify non-compliance, with the Commissioner assessing whether the failure was beyond their control or not willful. If the explanation is rejected, steep penalties apply being the higher of twice the tax due, KES 100,000, or KES 10,000 for individuals. This exposes taxpayers to substantially higher financial risk for non-compliance and underscores the importance of robust digital tax compliance systems and timely adherence to electronic filing and payment requirements.</p>
Waiver of Penalties and Interest Due to Electronic System Errors	<p>The Bill proposes to amend section 89 of the Tax Procedures Act as follows—</p> <ul style="list-style-type: none"><li>(a) in subsection (5A)—<ul style="list-style-type: none"><li>(i) in paragraph (c), delete the words "due to a malfunction of an electronic tax system" appearing after the word "interest"; and</li><li>(ii) insert a new paragraph (ca) immediately after paragraph (c) for "a malfunction of an electronic tax system";</li></ul></li><li>(b) insert a new subsection (5B) providing that despite subsection (5A), the Commissioner may waive the whole or part of any penalty or interest where the liability does not exceed two million shillings and was due to an error generated by an electronic tax system.</li></ul>	<p>The implications of the proposal are that electronic tax system malfunction is now explicitly recognized as a ground for waiver of penalties and interest, and the Commissioner is empowered to waive amounts up to KES 2 million where the error was system-generated, providing relief to taxpayers affected by KRA system failures.</p>

# Tax Procedures Act

Issue	Proposal	Implication
Regulations for prepopulated tax returns	The Bill proposes to amend section 112(2) of the Tax Procedures Act by inserting a new paragraph (ba) immediately after paragraph (b), providing for the procedure for the submission or lodging of returns based on prepopulated tax returns generated by the Commissioner.	The implications of the proposal are that the Cabinet Secretary is now empowered to make regulations specifically governing how taxpayers can submit or lodge returns using prepopulated tax returns generated by the KRA, providing a legal framework for the automation of tax filing introduced under section 75.
Due date for submission and payment	The Bill proposes to delete Section 77 (2) that provides; In computing the period for the lodgment of an objection to the Commissioner under section 51, an appeal to Tax Appeals Tribunal under section 52, an appeal to the High Court under section 53 or an appeal to the Court of Appeal under section 54, the computation shall not include Saturdays, Sundays or public holidays.	Saturdays, Sundays shall be considered in determining the days available to submit objections

# Miscellaneous Fees and Levies changes

# Miscellaneous Fees and Levies changes

Issue	Proposal	Implication
Amendment to Definition of East African Community Partner States	The Bill proposes to amend section 2(1) of the Miscellaneous Fees and Levies Act by deleting the definition of "East African Community Partner States" and substituting a new definition providing that the term means the Republic of Kenya, the Republic of Uganda, the United Republic of Tanzania, and any other country granted membership to the Community under Article 3 of the Treaty Establishing the East African Community.	The implications of the proposal are that the definition is updated to reflect the current EAC membership structure (Kenya, Uganda, Tanzania) and explicitly includes any future member states admitted under the EAC Treaty, ensuring the definition remains dynamic as the Community expands.
Amendment to Allocation of Fees and Levies	The Bill proposes to amend section 7 of the Miscellaneous Fees and Levies Act as follows— (a) in subsection (6), delete the words "twenty percent" appearing after the expression "subsection (2)" and substitute therefor "ten percent"; and (b) in subsection (7), delete the words "while ten percent shall be used for revenue enforcement initiatives" appearing after the word "obligation"	The reduction of the allocation from 20% to 10% and removal of the dedicated revenue enforcement funding ring-fence means less revenue is earmarked specifically for enforcement activities. For taxpayers, this could signal a potential shift in enforcement intensity, as fewer dedicated resources may slow down audit and compliance follow-ups, but it may also reflect a move toward a more centralized or streamlined revenue administration approach.

# Miscellaneous Fees and Levies changes

Issue	Proposal	Implication
Amendment to the Second Schedule	<p>The Bill proposes to amend the Second Schedule to the Miscellaneous Fees and Levies Act as follows -</p> <p>Part A:</p> <p>(a) delete paragraph (xv) and substitute a new paragraph covering all parts of chapter 88 and goods of tariff headings 8802.30.00 and 8802.40.00;</p> <p>(b) insert a new paragraph (xxxiii) for imported telephones for cellular networks and other wireless networks;</p> <p>Part B:</p> <p>(c) delete paragraph (xiii) and substitute a new paragraph covering all parts of chapter 88 and goods of tariff headings 8802.30.00 and 8802.40.00;</p> <p>(d) insert a new paragraph (xix) for imported telephones for cellular networks and other wireless networks.</p>	Lowering of import duty and frequent exemptions from IDF and RDL lowers acquisition costs
Amendment to Allocation of Fees and Levies	<p>The Bill proposes to amend section 7 of the Miscellaneous Fees and Levies Act as follows—</p> <p>(a) in subsection (6), delete the words "twenty percent" appearing after the expression "subsection (2)" and substitute therefor "ten percent"; and</p> <p>(b) in subsection (7), delete the words "while ten percent shall be used for revenue enforcement initiatives" appearing after the word "obligation"</p>	The implications of the proposal are that the allocation percentage under subsection (6) is reduced from 20% to 10%, and the specific allocation for revenue enforcement initiatives under subsection (7) is removed.

# Stamp duty act

# Stamp Duty Act

Issue	Proposal	Implication
Amendment to Stamp Duty on Transfers to Real Estate Investment Trusts	The Bill proposes to amend section 96A(1) of the Stamp Duty Act by adding a new paragraph (c) immediately after paragraph (b), providing for instruments that have the effect of conveying or transferring a beneficial interest in property from a person or persons to a real estate investment trust..	The implications of the proposal are that instruments effecting the transfer of beneficial interest in property to a REIT are now explicitly covered under the stamp duty provisions, potentially qualifying for any applicable relief or exemption available to REIT transactions under the Act.

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This analysis and interpretation is based on a copy of the Finance Bill, 2026 that is available in general circulation, but has not yet been confirmed as the official copy tabled before the National Assembly.

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