ALERT | MAY 2025

Analysis of The Finance Bill 2025

The Finance Bill 2025 was tabled before parliament on 29th April 2025. This alert delves into the key proposed amendments, their effective dates, and the potential impact of these provisions, providing a comprehensive overview of what lies ahead:

A. INCOME TAX ACT, CAP 470 LAWS OF KENYA

Definition of Royalty

The Bill proposes to broaden the definition of "Royalty" to encompass software distribution, specifically where regular payments are made for the use of software via a distributor, broadening the tax base to capture indirect or intermediary-based software payments. If enacted, this amendment would subject businesses engaged in software distribution, licensing, and related services to withholding tax obligations, potentially increasing their tax burden.

Previously, license payments made to software providers through distribution were not subject to withholding tax, as such transactions did not grant intellectual property rights to the end user. This proposal not only challenges the practical nature of these transactions but also deviates from OECD guidelines, which stipulate that withholding tax should apply only to payments made in consideration of copyright rights over software.

Effective Date: 1st July 2025

Definition of Related Persons

The Bill proposes to broaden the definition of "related persons" by replacing the existing definition with a more expansive framework. This revision seeks to include third parties that control multiple entities and individuals or entities that participate directly or indirectly in the management, control, or capital of two or more businesses.

Additionally, the proposed changes would incorporate relationships formed through marriage, consanguinity (blood relations), or affinity (connections through marriage or family ties), along with scenarios where businesses participate in the management, control, or capital of an individual.

If enacted, this proposal will significantly expand the scope of related parties, ensuring comprehensive coverage of interconnected entities while introducing more complex relationships into tax and regulatory considerations. This could impact compliance requirements and influence tax planning strategies for affected businesses.

Effective Date: 1st July 2025

Increased limit per diem

The Bill seeks to increase the threshold for tax-free per diem allowance for employees from Kshs. 2000 to Kshs. 10,000 per day.

This proposal could have been triggered by the need to align with inflationary adjustments, it implies allowing employers to treat this amount as an allowable emolument without needing an eTIMS compliant invoice to support the expense.

Effective Date: 1st July 2025

Introduction of Withholding Tax on Supply of Goods to Public Entities and Sale of Scrap

The Bill proposes to amend Section 10 of the Income Tax Act, expanding the scope of taxable income by including payments for the supply of goods to public entities and the sale of scrap as income deemed to have been derived from Kenya.

This means that individuals or businesses involved in these activities will now be subject to taxation on the payments they receive from these transactions. The implication is that these entities may be required to deduct withholding tax when making payments and comply with additional tax obligations. Practically, this broadens the tax base, ensuring that more economic activities contribute to government revenue while potentially increasing costs for businesses supplying public entities or dealing in scrap sales.

Effective Date: 1st July 2025

Expansion of Scope and Removal of Threshold for Significant Economic Presence Tax

The Finance Bill 2025 proposes to amend Section 12E of the Income Tax Act by broadening the scope of the Significant Economic Presence (SEP) Tax to apply to services provided through any internet or electronic network, not just digital marketplaces. This reflects a shift toward taxing a wider range of digital transactions by non-residents where Kenyan users are involved.

Additionally, the Bill removes the Kshs 5 million turnover threshold that previously exempted small non-resident providers, meaning all qualifying non-residents, regardless of size, will now be subject to the SEP tax. These changes significantly tighten the digital tax regime and aim to increase revenue from the growing digital economy.

Effective Date: 1st July 2025

Minimum Top Up Tax

The Bill proposes to amend Section 12G of the Income Tax Act, introducing a clear deadline for the payment of the minimum top-up tax. By requiring that the tax be paid by the end of the fourth month after the close of the financial year, similar to balance of tax.

If accepted, this proposal establishes a fixed timeframe for compliance, ensuring timely tax collection. This means that multinational entities falling under the scope of this tax must calculate and settle their obligations within the specified period, reducing ambiguity and aligning with structured tax payment schedules.

Effective Date: 1st July 2025

Deductible Expenses

The Bill proposes changes to Section 15(2) of the Income Tax Act, introducing significant shifts in deductible expenses for taxable income computation.

- **Diminution on Loose Tools**

The Bill proposes to amend the existing provision allowing the Commissioner to determine a just and reasonable amount for the wear and tear of implements, utensils, or similar articles is replaced. The Bill proposes a 100% deduction in the year of income for such items, provided they are not classified as machinery or plant deductible under the Second Schedule.

- **Removal of Deductions Related to Timber and Expatriate Employees**

The Finance Bill 2025 proposes to delete several deduction provisions, including:

- Deduction for the value of standing timber when land is acquired;
- Deduction for the cost of acquiring timber felling rights;
- Deduction of one-third of employment income for certain expatriates in regional offices;
- Deduction for sports sponsorship expenditure.

These proposed changes point to a shift toward limiting targeted deductions, particularly those tied to specific industries or employee categories.

- **Refinement of Mortgage Interest Deduction**

The Bill proposes to expand the scope of the mortgage interest deduction by including the cost of construction of residential premises clarifying that the deduction applies not only to interest on loans for purchasing owner-occupied homes but also to those taken for constructing them.

- **Expanded Sports Infrastructure Deduction**

The Bill proposes to expands the scope of the allowable deductions on donations to cover charitable organizations or approved projects by explicitly allowing a deduction for expenditure on the construction of public sports facilities. This supports physical infrastructure development in sports, while removing the allowance for general sponsorship under.

Effective Date: 1st July 2025

Removal of Loss Deduction on Disposal of Property

The Bill proposes to delete provisions allowing the deduction of losses from capital gains taxed under section 3(2)(f). If enacted capital gains losses will no longer be deductible, limiting opportunities to offset taxable capital gains with past losses. This means losses from asset sales or similar transactions can no longer reduce taxable income, potentially increasing tax liability for affected entities.

Effective Date: 1st July 2025

Limiting Loss Carryforward

The Bill proposes to cap the loss carryforward period at five years, whereas currently there is no time limit. This change could affect businesses with prolonged loss-making periods by limiting their ability to offset future taxable income beyond the five-year window.

Effective Date: 1st July 2025

Repeal of Extension for Deficit Deductions Beyond Ten Years

The Finance Bill 2025 proposes to remove the provision that currently allows the Cabinet Secretary to extend the period for carrying forward tax losses beyond ten years upon application. Currently, the law does not impose a time limit on how long tax losses could be carried forward, making the extension provision largely redundant.

However, the Bill now introduces a five-year cap on carrying forward tax losses. The repeal of the extension mechanism therefore closes any possibility of going beyond this new limit, reflecting a shift toward a stricter and more predictable treatment of tax losses.

Effective Date: 1st July 2025

Removal of Reference to “Seven” Specified Sources of Income

The Bill 2025 proposes to delete the word “seven” from the provision requiring separate computation of income from specified sources. This amendment reflects a technical cleanup, likely in recognition that the number of specified sources may change over time or has already changed, making a fixed numerical reference outdated or potentially inaccurate. The change does not alter the requirement to compute each specified source of income separately but improves clarity and flexibility.

Effective Date: 1st July 2025

Country -By- Country Reporting Obligations

The Bill proposes to amend the reporting obligations of multinational enterprise groups operating in Kenya. The amendment removes the concept of a surrogate parent entity and instead mandates that a designated constituent entity file the country-by-country report and notify the Commissioner within the reporting financial year. This ensures timely submission and strengthens oversight of multinational tax compliance.

Additionally, the Bill seeks to delete the provision for exemptions for resident surrogate parent entities from filing country-by-country reports if certain conditions are met; such as when the ultimate parent entity was filing the report in its own jurisdiction, or if there were international agreements in place between Kenya and the parent entity's jurisdiction.

This proposed deletion means that all relevant entities must comply with reporting requirements without exemptions, tightening tax administration and ensuring comprehensive documentation of global income distribution.

Effective Date: 1st July 2025

Introduction of Advance Pricing Agreement

The Bill proposes the introduction of a new provision allowing the Commissioner to enter into Advance Pricing Agreements (APAs) with taxpayers involved in related-party transactions. An APA will establish, in advance, the methodology for determining the arm's length price for such transactions and will be valid for a maximum of five years.

This change is intended to provide certainty, reduce transfer pricing disputes, and align Kenya's tax regime with international best practices. However, if it is discovered that the agreement was secured through misrepresentation of facts, the Commissioner may declare it void.

The Cabinet Secretary is also empowered to issue regulations to guide the implementation of this provision. The is likely to promote predictability and transparency in transfer pricing.

This is a welcome development, as it is expected to reduce disputes between the Kenya Revenue Authority and taxpayers.

Effective Date: 1st January 2026

Revenue Subject to Tax for Members' Clubs and Trade Associations

The Finance Bill 2025 proposes to delete the definition of "gross investment receipts" under the provisions relating to members' clubs and trade associations. This is a clean-up measure, following previous amendments. The change is technical in nature and does not affect the taxation framework for members' clubs or trade associations.

Effective Date: 1st July 2025

Deemed Approval for Change of Accounting Date

The Finance Bill 2025 proposes to introduce a new provision stating that if the Commissioner fails to respond to a taxpayer's application to change their accounting date within six (6) months, the application will be deemed approved. This amendment enhances administrative efficiency and provides certainty for taxpayers by preventing indefinite delays in decision-making by the Commissioner.

Effective Date: 1st July 2025

Gains from the Business of a Ship Owner Chartered

The Bill seeks to subjects gains or profits from the business of non-resident ship owners or charterers, as outlined in Section 9(1), to withholding tax. This change clarifies the tax treatment of income derived from shipping activities linked to Kenya and shifts the responsibility of tax collection to local entities.

This means that a resident making payments to such non-residents will be required to withhold 2.5% of the gross amount and remit it to the Commissioner within five working days.

Effective Date: 1st July 2025

Employer to Grant All Applicable reliefs and Deductions and Exemptions to Employees

The Finance Bill 2025 seeks to introduce a provision that mandates employers to apply all applicable deductions, reliefs, and exemptions to employees before calculating the tax deductible from their emoluments. This change ensures that employees benefit fully from the available tax reliefs, potentially reducing their overall tax liabilities. It emphasizes a more employee-centric approach to tax deductions.

This measure is intended to prevent over taxation and reduce the number of refund applications submitted by employees.

Effective Date: 1st July 2025

Dividend Tax Reporting

The Bill proposes that companies liable to tax must include an assessment and return of any dividends distributed from untaxed gains or profits along with their self-assessment and income return. The tax calculated on such dividends would need to be paid by the same due date as the self-assessment tax.

Effective Date: 1st July 2025

Alignment of Tax Enforcement Measures

The proposed amendment is a cleanup intended to remove an outdated reference to a repealed provision, aiming to align tax enforcement procedures with the current legal framework.

While the Commissioner still retains the authority to prevent the departure of ships or aircraft owned by tax-defaulting businesses until tax debts are settled, the removal of the obsolete reference eliminates a legal inconsistency. This update does not change the substance of enforcement powers but ensures the legislation remains clear, accurate, and enforceable.

Effective Date: 1st July 2025

Offences for non-compliance with tax notices and reporting requirements

The Bill proposes to amend Section 109 of the Income Tax Act and seeks to simplify and refine the scope of offences related to non-compliance with tax notices and reporting requirements.

By removing certain provisions, the amendment reduces the number of specific violations that would lead to penalties. The deletion of paragraph (b) eliminates the requirement for furnishing a “full and true return” in response to notices, potentially easing compliance burdens on taxpayers.

Additionally, the Bill proposes to reduces the obligations related to document submission, record production, attendance at official tax proceedings, and tax deduction/accounting. However, the proposal for a narrower requirement to supply prescribed certificates under Section 37 ensures that obligations related to tax withholding and remittance remain intact.

This amendment likely aims to streamline enforcement while still maintaining oversight on key tax compliance areas, potentially reducing unnecessary penalization while upholding critical reporting requirements.

Effective Date: 1st July 2025

Stamp Duty Exemption

The Bill proposes to repeal Section 131 of the Income Tax Act, which currently provides an exemption from stamp duty on securities and property transfers involving the Commissioner, and would remove a key tax privilege.

Under the current provision, any transfer of movable or immovable property in favour of or by the Commissioner is not subject to stamp duty, meaning such transactions are processed without additional tax costs. The repeal of this exemption implies that all such transfers will now attract stamp duty, increasing the tax burden on transactions related to the Commissioner’s dealings.

This change could result in higher costs for government-related property transactions, potentially affecting administrative efficiency and financial obligations when handling public assets. Additionally, it aligns stamp duty treatment with general taxation principles, ensuring that no entity, including government-related offices, benefits from special exemptions unless explicitly provided elsewhere.

Effective Date: 1st July 2025

Tax Exemption Application

The proposed amendment extends the time frame for issuing tax exemptions to qualifying institutions from 60 to 90 days after an application is submitted. This change provides the Commissioner with more time to assess whether applicants meet the conditions for tax exemption, ensuring thorough scrutiny.

While this could improve administrative diligence, it may also delay the exemption process, affecting institutions that rely on timely approvals for planning and funding. However, the amendment does not change the eligibility criteria for tax exemption, only extending the verification period.

Effective Date: 1st July 2025

Alignment of Income Tax Provisions

The proposed amendment seeks to update the tax laws to reflect Kenya's shift from the National Hospital Insurance Fund (NHIF) to the Social Health Insurance Fund (SHIF). It ensures that contributions and payments made under the new healthcare system continue to benefit from the same tax exemptions previously applied to NHIF, formalizing the change in the country's healthcare financing model.

Pension Benefits and Payments Exemption

The Bill proposes to amend Paragraph 53 of Part I of the Income Tax Act and restructure the exemption provisions related to pension benefits and payments under registered retirement schemes. By separating gratuity payments from other allowances paid under a public pension scheme, the amendment provides greater specificity regarding the tax treatment of different types of payments made to retirees.

The key implication of this change is that gratuity payments will now be explicitly exempted from tax as a standalone category, ensuring clarity in its treatment. Similarly, the introduction of a distinct exemption for other allowances paid under a public pension scheme reinforces that such payments—whether they involve additional retirement benefits, post-service allowances, or welfare support funds, will also benefit from tax exemptions.

While the fundamental tax-exempt nature of pension-related benefits remains intact, this amendment clarifies and strengthens the tax treatment of distinct payment types, ensuring greater clarity in tax policy for retirement funds.

Effective Date: 1st July 2025

CGT within SEZ

The Bill proposes to amend Section 72 of the Income Tax Act, refining the definition of gains on the transfer of property within a special economic zone by explicitly restricting the scope to licensed special economic zone developers, enterprises, or operators.
The key implication is that tax treatment related to property transfers within these zones will now only apply to entities that hold formal licenses under Kenya’s special economic zone framework. This change likely aims to enhance regulatory clarity by ensuring that only registered and authorized participants within special economic zones benefit from specific tax provisions.

Effective Date: 1st July 2025

Exempt Income

The proposed amendments introduce two new tax exemptions and remove existing provisions under the Income Tax Act:

- Exemption on Gains from Transfer of Securities - The proposal exempts profits from the transfer of securities traded on exchanges licensed by the Capital Markets Authority (CMA) from taxation. This aims to make the Kenyan securities market more attractive by removing capital gains tax for investors trading on regulated exchanges, potentially boosting market activity and liquidity.

- Exemption on Dividends for Certified Companies - The amendment introduces a tax exemption on dividends paid by companies certified by the Nairobi International Financial Centre Authority, provided they reinvest at least KES 250 million in Kenya within the income year. This incentive is designed to encourage high-value investments and strengthen Kenya's position as a global financial hub.

- Deletion of Paragraph 3 of the Eighth Schedule - The removal of this provision eliminates explicit exemptions related to income not charged under Section 3(2)(f), such as gains from the transfer of certain machinery and income already taxed elsewhere. This could create uncertainty in tax application, potentially subjecting previously exempted gains to capital gains tax unless new exemptions are defined.

Effective Date: 1st July 2025

Investment Deduction

The Bill proposes to delete provisions for accelerated investment deductions for businesses making large-scale investments outside Nairobi and Mombasa counties or within special economic zones.

As a result, companies will no longer be able to claim 100% investment deductions based on their cumulative investment value in these areas. Instead, they will only qualify for standard investment allowance rates, potentially concentrating investments in Nairobi and Mombasa.

Effective Date: 1st July 2025

Taxation of Fringe Benefits & Qualifying Interest

The Bill proposes introduce a distinction between regular taxable income and income comprising fringe benefits and qualifying interest by explicitly excluding the latter from the standard individual tax rate structure.

The Bill also proposes to tax the fringe benefits at the corporate tax rate for the year of income.

Effective Date: 1st July 2025

Tax Rate for Construction of Residential Units & Local Motor Vehicle Assembly

The proposed amendments introduce significant changes to Kenya's corporate tax structure by removing certain tax incentives.

- The Bill seeks to eliminate the preferential tax rate for residential construction, which is currently at 15% and has the potential to discourage large-scale housing development, making these projects less financially attractive.

- The Bill further seeks to removes the tax benefits for local vehicle assembly, which enjoyed a 15% tax rate in the first 5 years of operation and could potentially slow down investment in Kenya's automotive industry, as companies will no longer enjoy reduced tax rates based on their use of locally sourced materials.

Effective Date: 1st July 2025

Relief to Companies Certified by NIFCA

The Bill proposes to introduce new preferential tax rates for companies certified by the Nairobi International Financial Centre Authority (NIFCA), aiming to strengthen Nairobi's position as a leading financial hub.

Certified companies will benefit from a 15% corporate tax rate for the first 10 years, followed by 20% thereafter, provided they meet specific investment and employment criteria. This is designed to attract multinational firms and create jobs, enhancing Nairobi's global financial competitiveness.

Additionally, the amendment introduces tax incentives for startups, offering a 15% tax rate for the first three years, followed by 20% thereafter, to support early-stage growth.

These changes represent a strategic shift in Kenya's tax policy, focusing on financial services and startups instead of sectors like real estate, capital markets, and manufacturing, with the goal of boosting the financial industry. However, this may lead to reduced investment in sectors that previously enjoyed tax benefits.

Effective Date: 1st July 2025

Withholding Tax on Qualifying Dividends and Qualifying Interest Income

The proposed amendments seek to clarify the tax treatment of qualifying dividends and qualifying interest income by explicitly stating that the withholding tax applied to these categories will be final tax.

- The proposed amendment proposes to make the 5% withholding tax on qualifying dividends final, meaning recipients will not need to declare or pay any additional tax on these dividends beyond what is deducted at source.

This adjustment simplifies tax compliance for dividend recipients while ensuring certainty in their tax obligations.

- Similarly, the amendment seeks to introduce a provision stating that withholding tax on qualifying interest income is also final tax, eliminating any further tax liability for individuals or entities earning such interest.

This change reinforces Kenya's tax policy on passive income, ensuring that interest earnings, whether from housing bonds, bearer instruments, or other sources, are not subject to further taxation beyond the initial withholding.

Effective Date: 1st July 2025

Digital Asset Tax

The proposed amendment seeks to reduce the digital asset tax rate from 3% to 1.5% of the transfer or exchange value of the digital asset.

The primary implication of this change is that it lowers the tax burden on transactions involving digital assets, such as cryptocurrencies, tokenized securities, and other blockchain-based assets. This reduction is likely intended to encourage more participation in the digital asset market by making transactions more affordable and less financially restrictive for investors and traders.

Effective Date: 1st July 2025

Trade Associations and Members' Clubs

The proposed amendment revises the definition of "company" to categorize all trade associations and members' clubs that engage in business activities as companies for tax purposes.

This change removes the option for these entities to voluntarily elect to be treated as businesses. The result is that trade associations and members' clubs conducting business activities will be subject to the same tax regulations as corporate entities, regardless of their formal election status.

Effective Date: 1st July 2025

Transfer of Assets

The proposed amendment modifies the conditions under which asset transfers are not considered taxable by allowing an individual with 100% shareholding in a company to transfer property to the company without triggering capital gains tax. This change broadens the scope of non-taxable transfers, making it easier for individuals to move assets into companies they fully own without incurring capital gains tax.

Effective Date: 1st July 2025

B. VALUE ADDED TAX ACT

Definition of Tax Invoice

The Bill proposes to amend the definition of a "tax invoice" to include "an electronic tax invoice issued in accordance with Section 23A of the Tax procedures Act"

Businesses must electronically generate and transmit tax invoices using an approved system unless exempted—such as for emoluments, imports, investment allowances, interest, airline tickets, or withholding tax payments, or as specified in a Gazette notice.

The proposed amendment clarifies the definition of a tax invoice, aligning it with the Tax Procedures Act to improve compliance and streamline tax administration.

Effective Date: 1st July 2025

Clarification on the Place of Supply of Services

The Bill proposes to repeal 8(2)(c) of the Act which currently provides for one of the conditions to deem a supply of services to be made in Kenya where "the services are radio or television broadcasting services received at an address in Kenya"

This change is intended to eliminate repetition as the same has been captured in Paragraph 8(2)(d) under electronic services.

The Bill also seeks to expand the definition of electronic services to encompass "internet, radio, and television broadcasting." The broadens the scope of taxable services in Kenya.

Effective Date: 1st July 2025

Offset of Withheld VAT

The Bill seeks to repeal Section 17(5)(c) which gives taxpayers an option to utilize excess input tax against any tax payable, or is due for refund pursuant to section 47(4) of the Tax Procedures Act (TPA).

This move will remove the ability for taxpayers to use excess input tax arising from tax withheld by appointed tax withholding agents to offset their tax liabilities under the VAT Act or other laws. Instead, taxpayers would need to rely solely on the refund process as per Section 47(4) of the TPA.

This will lead to challenges, especially in terms of cash flow management, as businesses would no longer have the flexibility to offset excess input tax against other tax liabilities.

Effective Date: 1st July 2025

VAT Refund Claims Timeline

The Bill proposes to amend the timelines for lodging of VAT refund claims from twenty-four (24) months to twelve (12) months from the date the tax becomes due and payable.

This proposed change is intended to align with the provisions of the TPA which provides a timeline of twelve (12) months from the date the tax was overpaid within which the taxpayer may apply to Commissioner for a refund.

Effective Date: 1st July 2025

Refund of Tax on Bad Debts

The Bill seeks to reduce the timeline for which a taxpayer may apply for a VAT refund on bad debts from three (3) years to two (2) years from the date of the supply.

This proposed change will reduce the time currently required to unlock VAT refunds on bad debts hence enhancing cash flow for the affected businesses.

The Bill also seeks to introduce a new provision clarifying that the VAT refund on bad debts may be applied to offset any other VAT liabilities upon approval by the Commissioner.

Effective Date: 1st July 2025

Erroneous Refund of Bad Debts

The Bill proposes to repeal the requirement for a registered person to refund the Commissioner within sixty (60) days of debt recovery, including two percent (2%) monthly interest on the refunded tax, capped at one hundred percent (100%) of the refunded amount.

The proposed change aims to align the provisions regarding erroneous tax refunds on bad debts in the VAT Act with Section 48 of the TPA.

The TPA provides for immediate payment of erroneously paid refunds from the date of the demand. Failure to remit the payment within thirty (30) days from the date of service will result in an interest charge of one percent (1%) per month or part thereof on the outstanding amount, capped to a maximum of one hundred percent (100%) of the original tax liability.

Effective Date: 1st July 2025

Tax Invoices to Apply to all Supplies

The Bill proposes to amend Section 42(1) of the Act by removing the word "taxable," thereby requiring a tax invoice to be issued for all supplies, including exempt supplies, made by a registered person. This will align the definition of a tax invoice and streamline the process for taxpayers to claim corporate tax expenses.

Effective Date: 1st July 2025

Liability to Pay Tax for Exempt and Zero-rated Supplies

The Bill proposes to introduce a provision for charge of VAT at the applicable rate when goods or services, initially exempt or zero-rated, are disposed of or used in a manner inconsistent with their original exempt or zero-rated purpose.

This aims to prevent abuse of VAT exemptions and zero-rating by reinforcing that these benefits depend on continued adherence to their original purpose.

Amendment to the First Schedule of the VAT Act – Change in VAT Status

Item	Current VAT Status	Proposed VAT Status
Other medicaments, containing alkaloids or derivatives thereof, put up in measured doses or in forms or packings for retail sale (3003.41.00, 3003.42.00, 3003.43.00, and 3003.49.00)	Exempt	Standard Rated
All goods and parts thereof of chapter 88	Exempt	Standard Rated
Direction-finding compasses, instruments and appliances for aircraft.	Exempt	Standard Rated
Specially designed locally assembled motor vehicles for transportation of tourists, purchased before clearance through Customs by tour operators upon recommendation by the competent authority responsible for tourism promotion, provided the vehicles meet the following conditions— (i)the vehicles shall at all times be registered and operated by a company that is licenced under the Tourism Vehicle Regime;(ii) the vehicles shall be used exclusively for the transportation of tourists;(iii) the vehicles shall have provisions for camping, rescue and first aid equipment, luggage compartments and communication fittings; and(iv)any other condition the Commissioner may impose: Provided that tax shall become payable upon change of use or disposal of the vehicle for other use.	Exempt	Standard Rated
Inputs and raw materials used in the manufacture of passenger motor vehicles.	Exempt	Standard Rated
Locally Manufactured passenger motor vehicles: Provided that in this paragraph— “locally manufactured passenger motor vehicle” means a motor vehicle for the transportation of passengers which is manufactured in Kenya and whose ex-factory value comprises at least thirty percent of local content; and “local content” means parts designed and manufactured in Kenya by an original equipment manufacturer operating in Kenya.	Exempt	Standard Rated

This will increase costs for businesses and consumers, as goods will now be subject to VAT at the standard rate. While businesses can reclaim VAT on purchases related to these goods, they will face higher administrative costs and a greater compliance burden. Consumers will experience higher prices, which could reduce demand.

Effective Date: 1st July 2025

The Bill also proposes amendments to the First Schedule, changing some exempt supplies to standard-rated. It includes a provision that **any exemption approved prior to the deletion will remain in effect until 30th June 2026**, as detailed below:

Item	Current VAT Status	Proposed VAT Status
Taxable goods for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon recommendation by the Cabinet Secretary responsible for matters relating to recreational parks. For the purposes of this paragraph, "recreational parks" means an area or a building where a person can voluntarily participate in a physical or mental activity for enjoyment, improvement of general health, well-being and the development of skills.	Exempt	Standard Rated
Taxable goods for the direct and exclusive use in the construction and equipping of specialized hospitals with a minimum bed capacity of fifty, approved by the Cabinet Secretary upon recommendation by the Cabinet Secretary responsible for health who may issue guidelines for determining eligibility for the exemption. Provided that notwithstanding this subparagraph, any approval granted by the Cabinet Secretary before the commencement thereof in respect of the supply of taxable goods and which is in force at such commencement shall continue to apply until the supply of the exempted taxable goods is made in full.	Exempt	Standard Rated
Goods imported or purchased locally for the direct and exclusive use in the construction of houses under an affordable housing scheme approved by the Cabinet Secretary on the recommendation of the Cabinet Secretary responsible for matters relating to housing.	Exempt	Standard Rated

Item	Current VAT Status	Proposed VAT Status
Taxable goods, excluding motor vehicles, imported or purchased for direct and exclusive use in geothermal, oil or mining prospecting or exploration by a company granted a prospecting or exploration license in accordance with the Energy Act (Cap. 314), production sharing contracts in accordance with the Petroleum Act (Cap. 308) or a mining license in accordance with the Mining Act (Cap. 306) upon recommendation by the Cabinet Secretary responsible for matters relating to energy, the Cabinet Secretary responsible for matters relating to petroleum, or the Cabinet Secretary responsible for matters relating to mining, as the case may be.	Exempt	Standard Rated
Specialized equipment for the development and generation of solar and wind energy, including photovoltaic modules, direct current charge controllers, direct current inverters and deep cycle batteries that use or store solar power, upon recommendation to the Commissioner by the Cabinet Secretary responsible for matters relating to energy.	Exempt	Standard Rated
Discs, tapes, solid-state non-volatile storage devices, “smartcards” and other media for the recording of sound or of other phenomena, whether or not recorded of tariff heading 85.23, including matrices and masters for the production of discs, but excluding products of Chapter 37 upon approval by the Cabinet Secretary responsible for matters relating to health.	Exempt	Standard Rated
Weighing machinery (excluding balances of a sensitivity of 5 cg or better), of tariff number 8423.10.00 purchased or imported by registered hospitals upon approval by the Cabinet Secretary responsible for matters relating to health.	Exempt	Standard Rated

The goods will become costlier, though suppliers will be eligible for input VAT deductions, and any exemption approved prior to the deletion of these provisions will remain valid until 30th June 2026.

Effective Date: 1st July 2025

Official Aid Funded Projects

The Bill proposes to subject fuels, lubricants, and tyres for vehicles used in official aid-funded projects to VAT. Currently, all taxable goods imported or purchased for exclusive use in such projects, with approval from the Cabinet Secretary responsible for the National Treasury, are exempt.

This change will increase the cost of these specific goods, but suppliers will be eligible to claim input VAT.

Effective Date: 1st July 2025

Packaging Materials for Tea and Coffee

The Bill proposes to exempt packaging materials for tea and coffee upon the recommendation of the Cabinet Secretary responsible for agriculture. This change from standard-rated to exempt status will improve cash flow for businesses. However, suppliers will no longer be eligible to claim input VAT.

Effective Date: 1st July 2025

Amendments to the Second Schedule of the VAT Act

The Bill proposes to change the VAT status of the following supplies:

Item	Current VAT Status	Proposed VAT Status
Inputs or raw materials (either 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.	Zero-rated	Exempt
Transportation of sugarcane from farms to milling factories.	Zero-rated	Exempt
The supply of locally assembled and manufactured mobile phones.	Zero-rated	Exempt
The supply of motorcycles of tariff heading 8711.60.00.	Zero-rated	Exempt
The supply of electric bicycles.	Zero-rated	Exempt
The supply of solar and lithium-ion batteries.	Zero-rated	Exempt

Item	Current VAT Status	Proposed VAT Status
The supply of electric buses of tariff heading 87.02.	Zero-rated	Exempt
Inputs or raw materials locally purchased or imported for the manufacture of animal feeds.	Zero-rated	Exempt
Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).	Zero-rated	Exempt

The proposed exemption will result in an increase in the price of the supplies as the suppliers will be ineligible to claim input tax thus passing on the added cost to the final consumer, ultimately making the supply more expensive

C. EXCISE DUTY ACT

Definition of 'Digital Lender'

The bill proposes to amend Section 2 of the Excise Duty Act by revising the definition of a "digital lender." Currently, the Act defined a digital lender as a person licensed under the Central Bank of Kenya Act to provide digital credit. The proposed amendment seeks to broaden this definition to include any person who provides credit through digital channels, regardless of licensing status.

The revised definition brings unlicensed digital lenders within the scope of excise duty. This expansion is intended to level the playing field between regulated and unregulated lenders and increase tax revenues from a fast-growing sector.

Effective Date: 1st July 2025

Definition of 'Digital Market Place'

The Bill proposes to amend the definition of "digital marketplace" under Section 2 of the Act, replacing "a platform that enables the direct interaction between buyers and sellers of goods and services through electronic means" with "an online platform that enables users to sell or provide services, goods, or other property to other users."

This amendment broadens the definition by removing the focus on direct buyer-seller interaction, thereby bringing more platforms—such as classified ad sites, ride-hailing apps, and rental marketplaces—within the scope of excise duty.

Adoption of EAC Tariff Classification for Excisable Goods

The Bill proposes a new subsection 3 to Section 2 of the Act as follows:

"(3) In this Act, goods shall be classified by reference to the tariff codes set out in Annex 1 to the Protocol on the Establishment of the East African Community (EAC) Customs Union, and in interpreting that Annex, the General Rules of Interpretation set out in the Annex shall apply."

This amendment legally binds the classification of excisable goods under the Excise Duty Act to the EAC Common External Tariff (CET) and its General Rules of Interpretation (GRIs).

This is intended to ensure consistency between Kenya's excise duty classifications and the tariff codes recognized under the EAC Customs Union.

Effective Date 1st July 2025

Expansion of Digital Service Tax Scope

The Bill proposes to expand the scope of excisable digital services by replacing the phrase "through a digital platform" with "over the internet, an electronic network, or through a digital marketplace."

This measure is intended to widen the tax base as it captures more digital services, including those offered via websites and apps. It may lead to increased service costs for consumers.

Effective Date 1st July 2025

Definition of "Non-Resident Person"

The Bill proposes a new subsection (4) to Section 5 of the Act, defining a "non-resident person" as "a person outside Kenya."

This measure strengthens the enforcement of excise tax obligations on foreign digital service providers and reinforces Kenya's framework for taxing the digital economy.

Effective Date 1st July 2025

Place of Supply of Excisable Services

The Bill proposes to amend Section 13 of the Act by numbering the current provision as subsection (1) and introducing a new subsection (2). The new clause deems services to be supplied in Kenya if:

- The supplier is based outside Kenya, and
- The services are consumed in Kenya via the internet, an electronic network, or a digital marketplace.

This implies that Excise duty will now apply to digital services consumed in Kenya, even if supplied by non-residents.

Effective Date 1st July 2025

Timeline for License Processing

The Bill introduces a 14-day timeframe for the Commissioner to process an excise license upon receipt of the required documents.

This will reduce administrative delays and give businesses clear timelines for receiving decisions from the Kenya Revenue Authority (KRA).

Effective Date: 1st July 2025

Proposed Deletion of Excise Duty on Select Imports

The Bill proposes to remove excise duty on the following imported goods listed under Part I of the First Schedule to the Act:

Goods	Current Rate	Proposed Change
Imported eggs of tariff heading 04.07	25%	Deleted
Imported onions of tariff heading 07.03	25%	Deleted
Imported potatoes, potato crisps and potato chips of tariff heading 07.01	25%	
Imported 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, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or sh. 75 per Kilogramme, whichever is higher	Deleted
Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KSh. 150 per kilogramme, whichever is higher	Deleted
Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KSh. 200 per kilogramme, whichever is higher	Deleted

The proposed deletion supports Kenya’s regional trade goals and may reduce import costs, but it could strain local producers and reduce revenue. Its success will hinge on balancing trade facilitation with protection of domestic industries.

Effective Date: 1st July 2025

Proposed Expansion of Excise Duty on Select Imported Goods

The Bill proposes to introduce excise duty on the following products:

Description	Proposed Rate
Imported 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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)
Imported printed polymers of ethylene of other plates, sheets, film, foil and strip of plastics, non - cellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90 but excluding those originating from East African community partner states that meet the east African community rules of origin	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)
Imported Printed polymers of Vinyl chloride containing by weight not less than 6% of other Plates, sheets, film, foil and strip of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.43.90 but excluding those originating from East African community partner states that meet the east African community rules of origin	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)
Imported Printer poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other polyesters of other plates, sheets, film, foil, strip of plastics, non-cellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90 but excluding those originating from East African community partner states that meet the east African community rules of origin.	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)
Imported printed cellular of other Plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90 but excluding those originating from East African community partner states that meet the east African community rules of origin.	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)

Description	Proposed Rate
Printed self-adhesive paper of tariff number 4811.41.90 but excluding those originating from East African community partner states that meet the east African community rules of origin.	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)
Gummed paper and paperboard of tariff number 4811.49.00 but excluding those originating from East African community partner states that meet the east African community rules of origin.	(25% of Excisable value or KES 200 per Kilogramme whichever is higher)
Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed Manufactures of spirituous beverages	(KES 500 Per litre)

This will increase costs for businesses importing these materials, potentially raising prices for products like packaging, stationery, and plastics. However, goods from EAC Partner States meeting the Rules of Origin will be exempt from excise duty, promoting regional trade.

Effective Date 1st July 2025

D. TAX PROCEDURES ACT

Exceptions to Electronic Tax Invoice Requirement

The Bill seeks to amend the provision for exclusion of electronic tax invoicing in respect of payments made in respect of emoluments, imports, interest, investment allowances, airline passenger ticketing.

Additionally, the proposal seeks to replace the exclusion of payments for withholding tax with the provision for payments subject to withholding tax where the tax is a final tax.

This brings clarity that payments where withholding tax is a final tax may be excluded from the generation of an electronic invoice, unlike payments where the withholding tax is not a final tax, such as professional fees.

Effective 1st July 2025

Amended Assessments to include Reasons for Amendment

The Bill seeks to amend the requirements for assessments as amended by the Commissioner to include the reasons for the amendment in its notification to the taxpayer.

This proposal will require the Commissioner to give reasons for making an amended assessment to the taxpayer. Currently, the Commissioner is only required to notify the taxpayer of the amount assessed, late payment penalty, interest, the reporting period, the due date for payment of any tax, penalty, or interest, and the manner of objecting to the assessment.

This is a welcome proposal as it provides clarity to taxpayers on the basis for amended assessments particularly in framing grounds of objections to the amended assessments.

Effective 1st July 2025

No Recovery of Unpaid Withholding Tax If Recipient of Payment Has Fully Paid the Tax

The Bill seeks to amend the provision empowering the Commissioner to collect and recover tax, penalties, and interest in respect of tax not deducted or withheld as if it were tax due and payable by that person.

The proposal seeks to relieve persons who fail to deduct and remit tax on payments from liability to pay the principal tax where the recipient of the payment has paid and accounted for the full amount of the principal tax not withheld.

This is a welcome proposal as it provides relief from double taxation by giving reprieve to persons who have failed to deduct or remit tax where the recipient of the payment has already accounted for the same and remitted to the Commissioner.

Effective 1st July 2025

Stamp Duty Exemption on Security on Property Held by Commissioner

The Bill seeks to provide for the exemption of stamp duty fees in respect of property held by the Commissioner as security for unpaid tax once the Commissioner notifies the Lands Registrar.

Additionally, the Bill also seeks to exempt disposal or transfer of such property for recovery of unpaid tax by the Commissioner to be exempt from stamp duty.

Effective 1st July 2025

Agency Notices to be Issued for Tax Liabilities of Non-resident Persons

The Bill seeks to amend the section 42 of the TPA to include non-resident persons subject to tax in Kenya in the scope of issuance of agency notices for any unpaid tax liability.

The implication of this proposal is that the Commissioner may collect or recover tax owed by non-resident persons from persons holding money on account of these persons.

Effective 1st July 2025

Penalty for Failure to Withhold VAT

The Bill proposes to delete the duplicate provision imposing the penalty of ten per cent (10%) for failure by an appointed agent to withhold or remit withholding VAT.

This is a clean-up provision as the penalty is already provided for in subsection 4(C) of section 42A of the Tax Procedures Act.

Effective 1st July 2025

Removal of Digital Service Tax Agents

The Bill proposes to repeal section 42B of the Tax Procedures Act which provides for the appointment of digital service tax agents.

This is a clean-up proposal as the appointment of DST agents is now redundant due to the scrapping off of digital service tax and replacement by the introduction of Significant Economic Presence (SEP) tax.

Effective 1st July 2025

Revised Timelines for Offset or Refund of Overpaid Tax

The Bill proposes to amend the timeline for the Commissioner to determine applications for offset or refund of overpayment of tax within one hundred and twenty (120) days from the current provision for ninety (90) days.

The Bill further proposes to increase the period for conclusion of audit of refund applications from one hundred and twenty (120) days to one hundred and eighty (180) days.

The Bill also proposes to exclude input VAT from the scope of tax liabilities that taxpayers may offset overpaid tax against. This is a clean-up proposal as the offset of overpaid tax could not apply to input VAT.

The implication of these proposals is to increase the time provided to the Commissioner to conclude refund applications and refund audits. This will impact taxpayers as the processing of refunds will be delayed.

Effective 1st July 2025

Computation of Time for Late Objection

The Bill seeks to amend the Tax Procedures Act to provide the timeline for determination of allowed late objections by the Commissioner. The Bill proposes to provide for the period for determination to run from the date when the objection was validly lodged.

Currently, the Act only provides timelines with respect to which the application for late objection should be considered by the Commissioner, but not on when an objection decision with respect to such late objections should be made.

This provides clarity on when an objection decision with reference to a late objection should be made.

Effective Date 1st July 2025

Removal of Data Privacy Exception for Personal Data & Trade Secrets

The Bill proposes to delete the provision which currently provides for the exception to the requirement for taxpayers to provide the Commissioner with data in respect of trade secrets and personal data collected from customers.

The implication of deleting this provision poses a data privacy conflict as the disclosure of personal data relating to customers may be subject to restrictions under the Data Protection Act. The provision of transactional data through the electronic tax invoice management system (eTIMS) provides sufficient disclosure to the Commissioner.

Additionally, the proposal to remove the exception provided to trade secrets presents a risk to businesses whose trade secrets provides them with a competitive edge. This information is confidential and protected as intellectual property and should not require disclosure to the Commissioner.

Effective 1st July 2025

Refusal of Private Ruling Applications

The Bill proposes to delete the provision where the Commissioner may refuse an application for private ruling on the grounds that the ruling was already published under the repealed section 69 of the Act.

This is a clean-up proposal deleting the provision for refusal of private ruling applications relating to private rulings published by the Commissioner in newspapers which provision was obsolete following its deletion by the Tax Laws (Amendment) Act 2020.

Effective 1st July 2025

Computation of Time for Objections and Appeals

The Bill proposes to delete the current provision for the exclusion of weekends and public holidays from the computation of time for lodging objections and appeals.

This proposal seeks to reverse the introduction by the Tax Laws Amendment Act 2024 of the provision for computation of time based on working days for lodging objections and appeals.

This proposal poses a challenge to taxpayers as the exclusion of non-working days provided additional time to prepare and lodge objections and appeals.

Effective 1st July 2025

Penalties for Non- Submission of Returns

The Bill proposes to insert a provision to provide for penalties in instances where persons fail to submit tax returns in addition to late returns.

This is a clean-up proposal which seeks to provide for penalties for non-filing of returns in addition to late submission of returns which is covered under section 83 of the Tax Procedures Act.

Effective 1st July 2025

Waiver of Penalties & Interest

The Bill proposes to insert a provision for waiver by the Cabinet Secretary upon the recommendation of the Commissioner.

The waiver of penalties or interest either wholly or partially will relates to liability arising from-

1. errors generated by the electronic tax system (iTax);
2. delays in updating of the electronic tax system;
3. duplication of penalties or interest due to malfunctioning of the system; and
4. the incorrect registration of tax obligations of a taxpayer.

This proposal is a welcome one as it provides a legal basis for taxpayers to obtain waivers on erroneous penalties and interest which is a relief for taxpayers.

Effective 1st January 2026

E. MISCELLANEOUS FEES AND LEVIES

The Bill proposes to introduce the following changes to the Miscellaneous Fees and Levies Act;

Amendment of the Application of Tax refunds

The Bill proposes to amend Section 9B of the Act by removing phrase “to excess tax refunds” and by deleting “provisions of section 47 of the”.

This measure is a positive step as it aims to harmonize the Miscellaneous Fees and Levies Act with the Tax Procedures Act. By removing the references to excess tax refunds reduces duplication and potential confusion in the administration of tax refunds.

Effective Date: 1st July 2025

Amendments to the Goods Exempted from Import Declaration Fees and Railway Development Levy

The Bill proposes to amend the Second Schedule of the Act by narrowing the list of goods exempted from Import Declaration Fee (IDF) and Railway Development Levy (RDL).

Specifically, it limits the exemption currently applicable to goods under chapter 88 of the EAC Custom External Tariff_ such as aircraft and spare parts_ to only cover goods under tariff headings **8802.30.00 and 8802.40.00**, which pertain to **aeroplanes and other aircraft of an unladen weight not exceeding 15,000 kg.** These goods will remain exempt subject to recommendation by the competent civil aviation authority.

This amendment reduces the range of aircraft and aircraft parts eligible for IDF and RDL exemptions. Consequently, importers of aircraft exceeding 15,000 kg in unladen weight and related spare parts will face increased import costs due to the reintroduction of these levies.

Effective Date: 1st July 2025

Amendments to the Third Schedule

The Bill proposes to amend the Third Schedule to the Miscellaneous Fees and Levies Act by reducing the Export and Investment Promotion Levy (EIPL) rates on the following iron and steel products from 17.5% to 5%:

Tariff No	Tariff Description
7207.11.00	Semi-finished products of iron or non-alloy steel containing, by weight, <0.25% of carbon; of rectangular (including square) cross-section, the width measuring less than twice the thickness

Tariff No	Tariff Description
7213.91.10	Bars and rods of iron or non-alloy steel, hot-rolled, in irregularly wound coils of circular cross-section measuring less than 14mm in diameter of cross section measuring less than 8 mm
7213.91.90	Bars and rods of iron or non-alloy steel, hot-rolled, in irregularly wound coils of circular cross-section measuring less than 14mm in diameter; other

This change is likely to negatively affect local manufacturers, particularly those in the steel and construction supply sectors, as it could encourage increased importation of semi-finished and finished steel products.

Effective Date: 1st July 2025

F. MISCELLANEOUS

STAMP DUTY ACT

The Bill proposes to exempt stamp duty on the transfer of property by a company to its shareholders when it is part of an internal reorganization. This exemption applies only if: (a) the property is distributed to shareholders in proportion to their existing shareholding, and (b) If the property being transferred is shares, those shares must be in a subsidiary of the transferring company.

This is a welcome development as it will ensure efficient internal corporate restructuring without incurring additional tax burdens.

CONTACT US

For further information on these amendments and how they will affect your business or need assistance on any other legal and tax matter kindly contact your regular Taxwise Africa Analyst or contact us through the contacts below:

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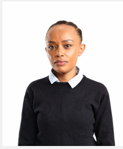

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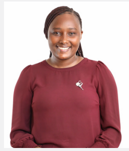

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