

MAXIMIZING TAX INCENTIVES FOR INVESTORS IN KENYA: REDUCTION OF QUALIFYING INVESTMENT VALUE

In this edition

The Tax Laws Amendment Act, 2024 (TLAA), revised the threshold for the cumulative investment value required to qualify for the 100% or 150% investment allowance, reducing it from KES 2 billion to KES 1 billion.

The amendment came into effect on 27th December 2024. As such, it is important for taxpayers to be aware of this change in order to take advantage of the available incentives as applicable when submitting their tax returns.

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This tax incentive, outlined under the Second Schedule of the Income Tax Act, applies exclusively to investments made outside Nairobi City County and Mombasa County.

TAX LAW CHANGES

The accelerated investment allowance was initially introduced through the Finance Act, 2021, and took effect on 1st January 2022.

The key change introduced at the time was that investments valued at a cumulative amount of at least 2 billion shillings in the preceding three years outside Nairobi and Mombasa, qualified for a 100% deduction. Additionally, for the Investments made on or before the 25th April 2020 where the applicable rate was 150%, that rate would continue to apply.

The Finance Act 2022 changes, effective from 1st July 2022, expanded the scope of the 150% investment deduction to include;

- Investments made in the four years preceding the date the provision came into effect; and

- Investments made over the succeeding three years.

Most recently, the Tax Laws Amendment Act, 2024, which came into effect on 27th December 2024, lowered the qualifying threshold from KES 2 billion shillings to KES 1 billion.

The Finance Bill 2025 had proposed the removal of these incentives; however, this proposal was not adopted in the Finance Act 2025.

CURRENT APPLICATION OF INVESTMENT ALLOWANCE

The accelerated investment allowance currently applies as follows;

1. Claiming of 100% investment allowance

To qualify for 100% investment allowance, the cumulative investment value in the preceding three years outside Nairobi City County and Mombasa County should be at least KES 1 billion.



2. Claiming of 150% Investment allowance

A 150% investment allowance is available where;

a) The cumulative value of investment for the preceding three years of income was KES 1 billion shillings on or before the 25th April, 2020, and the applicable rate of investment deduction was 150%, that rate shall continue to apply for the investment made on or before the 25th April, 2020;

- **Covered Period;** Cumulative investment between 25th April 2017 and 25th April 2020

b) The cumulative investment value for the preceding four years from the date that this provision comes into force is at least KES 1 billion outside Nairobi City County and Mombasa County;

- **Covered Period;** Cumulative investment between 1st July 2018 and 1st July 2022

c) The cumulative investment for the succeeding three years is at least KES 1 billion outside Nairobi and Mombasa.

- **Covered Period;** Cumulative investment between 1st July 2022 - 1st July 2025

Taxpayers should take note of the above, especially when filing their returns, and ensure to claim the applicable investment allowances accordingly to maximize these tax incentives.

Other than the incentive associated with the reduced qualifying threshold, it is also important to note that the 100% investment allowance also applies in the following scenarios;

- Where the investment value outside Nairobi City County and Mombasa County in that year of income is at least two hundred and fifty million shillings
- The taxpayer has incurred investment in a special economic zone



CONCLUSION

The reduction in the threshold required to qualify for the investment allowance is a strategic move aimed at fostering economic growth in regions outside Nairobi City County and Mombasa County. By lowering the threshold, the government seeks to make it more feasible for businesses to establish operations in these areas.

While these incentives are commendable, there is need for further clarification and more detailed guidelines from the Kenya Revenue Authority. This would ensure that investors can fully benefit from the measures, promote compliance and help mitigate the risk of potential tax disputes.

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