AUDIT • TAX • ASSURANCE

Tax Alert

FINANCE ACT, 2026

Now, for tomorrow

bakertilly

The Finance Act 2026 ("the Act") was assented to by the president on 26th June 2026. The Act introduces various amendments to tax laws including the Income Tax Act, Value Added Tax Act, Excise Duty Act, Tax Procedures Act, and other related legislation.

1.Changes to the Income tax Act

a) Immovable Property Definition

Section 2 of the Income Tax Act defines "immovable property" to include land (whether covered by water or not), any estate, rights, interest or easement in or over land, things attached to the earth, and mining rights or interests in petroleum agreements. This definition is critical because it determines what property disposals attract capital gains tax under Section 3(2)(g) and the Eighth Schedule.

The definition is being clarified by replacing "and" with "or" between the land-based elements and the extractive rights elements.

Implications

This ensures that land-based interests and mining or petroleum rights each qualify independently as immovable property, without both needing to co-exist in a single asset. This eliminates potential ambiguity about whether both provisions must exist simultaneously for the definition to apply.

Effective Date: 1st July 2026

b) Management and Professional Fees: Expanding the Scope

Section 2 defines "management or professional fee" as any payment made to any person, other than an employee, as consideration for managerial, technical, agency, contractual, professional or consultancy services. Section 35(1) and (3) require withholding tax to be deducted on such payments made to non-residents and residents respectively, at rates specified in the Third Schedule (currently 20% for non-residents, 5% for residents on fees of Kes 24,000 or more per month).

The definition is being expanded to expressly include interchange fees and merchant service fees arising from card-based transactions. This amendment responds directly to the Supreme Court ruling in Absa v Commissioner of Domestic Taxes (2022), which held that such fees did not fall within the statutory definition and were therefore not subject to withholding tax.

Implications

Banks, payment acquirers, and payment service providers must now deduct withholding tax on interchange and merchant service fees paid to both resident and non-resident recipients. This significantly increases compliance obligations for the financial services sector and is likely to raise the cost of card payment processing in Kenya, as the tax cost may be passed through the payment chain.

Effective Date: 1st July 2026

c) Royalty Definition

Section 2 defines "royalty" as payment for the use or right to use copyrights, software, films, patents, trademarks, designs, industrial equipment, or information concerning industrial, commercial or scientific equipment. Royalties paid to non-residents are subject to 20% withholding tax under Section 35(1); royalties paid to residents are subject to 5% withholding tax under Section 35(3).

The definition is being replaced with a broader version that adds one significant category; the use of proprietary digital platforms, payment networks, card schemes, and processing, switching, clearing or settlement systems.

Implications

Payments to global card networks such as Visa and Mastercard, will now attract withholding tax as royalties. This amendment effectively reverses the practical impact of the Supreme Court's ruling in the Barclays case and raises transaction costs for Kenyan banks and businesses that rely on international payment infrastructure.

The bill had proposed to include Software distribution but this proposal has been dropped.

Effective Date: 1st July 2026

d) Withdrawals and Winnings

Section 2 defines "withdrawals" as the amount of money withdrawn by a customer from their betting or gaming wallet maintained by a licensed operator. Section 35(1)(i) and (3)(h) impose withholding tax on withdrawals at 5% for both residents and non-residents. The concept of "winnings" was deleted by the Finance Act 2025.

The definition of "withdrawals" is being broadened to cover any payout to a player's account by a licensed gambling operator, regardless of whether the funds are physically withdrawn from a wallet. Additionally, the bill had reintroduced the concept of "winnings" to mean net lottery or prize payouts (calculated as gross payout less the staked amount). However, the Act does not retain the Bill wording that excluded the amount staked or wagered.

Implications

The Act reverts the tax point for betting/gaming winnings from withdrawals (the Finance Act 2025 position) back to winnings, but without expressly excluding the staked/wagered amount from the taxable base.

This creates ambiguity: the Bill had proposed taxing only the net gain (payout less stake), but the Act as passed leaves it unclear whether withholding tax applies to the gross payout or the net gain. If gross payouts are taxed, players face a higher effective tax burden, potentially forcing operators to adjust pricing and payout structures.

Effective Date: 1st July 2026

e) Non-resident Air Transport Operators

Section 5 of the Income Tax Act is amended in subsection (1) by inserting a proviso that the income of a non-resident individual employed by, or engaged on behalf of, a resident air transport operator designated by the Government as a national carrier shall not be deemed to accrue in or be derived from Kenya to the extent that the income is related to duties performed outside Kenya and the international transport operation of the air transport operator.

Implications

This amendment provides tax relief for non-resident employees of Kenya's national carrier (Kenya Airways) by excluding from Kenyan taxation the portion of their income attributable to duties performed outside Kenya and international transport operations. This addresses the practical challenges of taxing flight crew and other staff who spend significant time outside Kenya in the course of international operations.

Effective Date: 1st July 2026

f) Conditional Gratuity Tax Exemption

Section 5(4)(g) of the Income Tax Act provides that an amount paid by an employer as a gratuity or similar payment in respect of employment is exempt from tax if paid into a registered pension scheme, subject to a limit of Kes 360,000 for each year of service. The gratuity exemption will now only apply if:

- The gratuity was for a contract of service for a continuous period of at least three years or renewal/extension beyond three years; and
- The amount paid as gratuity does not exceed 31% of the emoluments earned by the employee for the period of the contract.

Employees on short-term or fixed-term contracts (common in NGOs, construction, and project-based roles) will lose the gratuity tax shelter and the 31% cap on exempt gratuity contributions limits the quantum of relief even for qualifying employees.

Implications

Employees on short-term or fixed-term contracts, which are common in NGOs, construction, and project-based roles, will lose the gratuity tax shelter. If the bill passes, employers must review remuneration structures for contract staff to ensure accurate tax withholding and reporting. The 31% cap on exempt gratuity contributions limits the quantum of relief even for qualifying employees, requiring careful payroll planning.

Effective Date: 1st July 2026

g) Mortgage Interest Deduction

Section 15(3)(b) of the Income Tax Act allows an employed person to deduct interest paid on money borrowed from one of the first six financial institutions specified in the Fourth Schedule, applied to the construction, purchase or improvement of premises occupied for residential purposes. The deduction is capped at KShs 360,000 per year.

The proposal was not retained in the Act as the Parliamentary Committee noted that CBK employees already benefit from preferential loan terms. Granting additional mortgage interest relief would have created inequity by giving them an added tax advantage over other taxpayers. As a result, CBK employees remain ineligible for mortgage interest relief.

h) Bad Debts Deduction

Section 15(2)(a) of the Income Tax Act allows deduction for bad debts incurred in the production of gains or profits which the Commissioner considers to have become bad. However, there has been uncertainty regarding whether lending institutions can deduct the principal component of bad debts, with the KRA historically taking the position that principal amounts represent capital and are therefore not deductible.

Implications

This amendment provides legislative clarity that resolves the uncertainty created by conflicting court decisions. It expressly allows lending institutions to deduct the full amount of bad debts, including principal, interest, and any other related amounts, provided the debt has become bad in accordance with guidelines issued by the Commissioner. This aligns the tax treatment with the economic reality of lending businesses where the principal advanced represents revenue expenditure incurred in the ordinary course of business rather than capital expenditure. The amendment effectively overturns the strict interpretation in Premier Credit Limited and codifies the more commercial approach suggested in HCCOMMITA/E080/2025.

Effective Date: 1st July 2026

i) Loss Carryforward for Large Investors

Section 15(2)(a) of the Income Tax Act allows deduction for bad debts incurred in the production of gains or profits which the Commissioner considers to have become bad. However, there has been uncertainty regarding whether lending institutions can deduct the principal component of bad debts, with the KRA historically taking the position that principal amounts represent capital and are therefore not deductible.

Implications

This provides significant tax relief for large-scale investors who incurred losses before July 2025, allowing them unlimited carryforward period to utilize their losses.

Effective Date: 1st July 2026

j) Death Benefits

Section 8 of the Income Tax Act governs the taxation of pensions and retirement benefits. Para 53 of the First Schedule provides certain exemptions for withdrawals from registered funds, but the treatment of death benefits paid to beneficiaries has been subject to uncertainty and administrative interpretation.

Pension-related benefits paid to beneficiaries or dependents upon the death of a member of a registered pension fund, provident fund, individual retirement fund, public pension scheme, or the National Social Security Fund are now expressly exempt from tax.

Implications

This amendment removes prior uncertainty on the tax treatment of death benefits. Beneficiaries and surviving dependents will receive full pension payouts without tax deduction, providing meaningful financial relief for families of deceased members.

Effective Date: 1st July 2026

Capital Gains Tax

1)Indirect Share Transfers by Non-Residents

Section 3(2)(g) of the Income Tax Act, read with the Eighth Schedule, imposes capital gains tax on the net gain derived on the disposal of an interest in a person, if the interest derives twenty per cent or more of its value, directly or indirectly, from immovable property in Kenya. The tax rate is 15% and is a final tax under the Third Schedule.

Capital gains tax is being extended to gains by non-residents from the alienation of shares where: (i) the shares derive their value from Kenya (not limited to immovable property); or (ii) the transaction results in a change of group membership of a Kenyan-resident company; or (iii) the transaction changes ownership of Kenyan property or interests. The existing 20% immovable property threshold is being removed entirely.

Implications

Cross-border mergers and acquisitions, and group re-organisations involving Kenyan assets, become significantly more complex. Non-resident investors may face Kenyan capital gains tax on transactions that were previously outside the scope of Kenyan tax.

Effective Date: 1st July 2026

2)REIT Transfers - Introducing Capital Gains Exemption

Under the Eighth Schedule to the Income Tax Act, gains arising from the transfer of property are generally chargeable to capital gains tax at 15%. There is no specific exemption for transfers to Real Estate Investment Trusts (REITs), although REITs themselves enjoy certain income tax exemptions under Section 20.

Capital gains arising from the transfer of property to a REIT registered by the Commissioner under the Collective Investment Schemes framework are now exempt from capital gains tax. There is also a corresponding stamp duty exemption under the Stamp Duty Act for transfers of beneficial interest to REITs.

Implications

Property owners and developers can now transfer assets into REIT structures without triggering a capital gains tax liability. This significantly improves the economics of REIT formation and is expected to stimulate growth of Kenya's REIT market.

Effective Date: 1st July 2026

a) Non-Resident Rental Income Tax

For non-residents, Section 35(1)(c) imposes withholding tax at 30% on rent, premium or similar consideration for the use of immovable property. However, there has been no specific filing regime for non-resident landlords.

A new Section 6B is being inserted requiring non-resident persons with rental income from Kenya to:

- Register through a simplified registration framework
- Submit monthly returns and pay tax by the 20th day of the following month

The tax shall be a final tax at the rate specified in the Third Schedule

Implications

Non-resident landlords face direct compliance obligations in Kenya for the first time. This creates additional administrative burden but provides clarity on tax obligations. Non-residents should register proactively with KRA to avoid penalties.

Effective Date: 1st July 2026

b) Instalment Tax Exemption

The provision is being changed to exempt persons from instalment tax if, to the best of their judgement and belief, they will have no income chargeable to tax for that year of income other than emoluments.

As the exemption depends on the taxpayer’s best judgement and belief, taxpayers should reassess their position if circumstances change during the year.

Effective Date: 1st July 2026

c) Deemed Dividends

The Finance Bill 2026 had initially proposed that where a company fails to distribute its income within twelve months of the financial year end and the Commissioner determines it could have done so without prejudicing operations, at least 60% of undistributed profit would be treated as a deemed dividend and subjected to withholding tax.

This proposed amendment was dropped during the legislative process and is not part of the final Act. The existing provisions under Section 24 of the Income Tax Act remain unchanged.

Although the stringent 60% automatic deemed distribution threshold was not enacted, companies, especially entities that retain profits, remain subject to the existing deemed dividend rules under Section 24. Businesses must continue to maintain proper documentation of commercial justifications for retained earnings, such as capital expenditure plans, working capital requirements, or debt obligations. Proper documentation remains critical to defend against any potential deemed dividend assessments by the Commissioner under the current law.

d) Withholding Tax on Scrap Metal and Winnings

Section 35 is being amended to add:

- Sale of scrap metal: 1.5% withholding tax (both resident and non-resident)
- Winnings: 20% withholding tax (both resident and non-resident)

Implications

This brings scrap metal dealers and gambling operators into the withholding tax net, expanding the tax base and improving compliance.

e) EBITDA Exemption

Section 16(2)(j) of the Income Tax Act limits the deductibility of interest paid to non-residents to 30% of earnings before interest, taxes, depreciation and amortisation. However, this limitation does not apply to banks, financial institutions licensed under the Banking Act, microfinance institutions, entities licensed under the Hire Purchase Act, non-deposit-taking institutions involved in lending and leasing business, and certain other specified entities.

The exemption is being clarified to extend to non-deposit-taking institutions engaged in lending only, leasing only, or both. Previously, a strict reading of the provision could be interpreted as requiring engagement in both activities simultaneously to qualify.

Implications

Pure lenders and pure lessors previously at risk of the interest cap can now access the exemption with greater certainty. This provides relief to specialised financial institutions and leasing companies, reducing their financing costs and improving their competitiveness. Institutions should review their licensing and business activities to confirm eligibility for the exemption.

Effective Date: 1st July 2026

f) Income Tax Return Deadline

Section 52B of the Income Tax Act requires individuals to furnish a return of income including self-assessment not later than the last day of the sixth month following the end of their year of income. For companies and other persons, the deadline is also six months after the end of the accounting period.

The Act replaces section 52B(1) to provide that every individual chargeable to tax must file a return, including a self-assessment of tax from all sources, not later than the last day of the fourth (4th) month following the end of the year of income. Every person other than an individual must file not later than the last day of the sixth (6th) month following the end of the accounting period.

The Act has removed the one month deadline for nil return filings.

Implications

For individuals, the deadline is the last day of the fourth month after the year of income. For companies and other non-individual taxpayers, the deadline is the last day of the sixth month after the accounting period.

Effective Date: 1st January 2027

g) Investment Allowance

The Act amends the para 1(1), item (iv) of the Second Schedule to introduce a 100% investment allowance in the first year of use for petroleum or gas storage facilities, where the investment exceeds KES 10 billion.

Implications

The introduction of the 100% first-year investment allowance for investments exceeding KES 10 billion is a significant incentive for large capital projects for persons in the petroleum and gas infrastructure. It allows qualifying taxpayers to deduct the full cost of the investment in the year the facility is first put into use, rather than claiming the allowance over several years.

Effective Date: 1st July 2026

Mining and Petroleum

a) Repatriation Tax for Mining Licensees and Rate Alignment for Petroleum Contractors

Under the Ninth Schedule to the Income Tax Act, mining licensees and petroleum contractors are subject to special tax rules. Non-resident petroleum contractors used to pay corporate tax at 37.5%. There was no specific repatriation tax provision in the 9th Schedule, although Section 7B imposes a repatriated income tax on non-resident persons carrying on business through a permanent establishment.

A specific 15% tax on repatriated income has been introduced for mining licensees operating through a permanent establishment in Kenya. Simultaneously, the corporate tax rate for non-resident petroleum contractors is has been reduced from 37.5% to 30%, aligned with Kenya's standard corporate rate.
This brings scrap metal dealers and gambling operators into the withholding tax net, expanding the tax base and improving compliance.

Implications

Mining licensees face an explicit repatriation tax for the first time, which will affect cash repatriation planning.
Petroleum contractors benefit from a lower headline corporate tax rate but will now also face the 15% repatriation levy.

Effective Date: 1st January 2027

b) Clarification of Taxation of Trust Income

Section 11 is being repealed and replaced with streamlined provisions:
•Income received by a trustee, executor, or administrator is deemed their income for tax purposes;
•Qualifying dividends or qualifying interest included in trustee income shall not be subject to further tax; and where tax is paid by the trustee, beneficiaries are exempt from tax on that income

Implications

This eliminates double taxation of trust income. Beneficiaries will not be taxed on distributions where the trustee has already paid tax, providing clarity and tax certainty for trust structures.

Effective Date: 1st July 2026

c) Definition of Ultimate Parent Entity (UPE)

The Act has replaced the existing definition of an UPE with a more detailed formulation aligned with international standards, particularly under the OECD BEPS Action 13 framework. Currently, a UPE was simply defined as an entity that is not controlled by another entity and owns or controls other entities within the group.

The revised definition is more comprehensive. A UPE is now defined as a constituent entity of an MNE group that:
•Holds sufficient ownership interest (directly or indirectly) in other group entities;
•Prepares, or is required to prepare, consolidated financial statements under applicable accounting standards (or would be required to do so if its equity were publicly traded); and
•No other constituent entity owns a sufficient interest in the other constituent entities of the MNE.

Effective Date: 1st July 2026

Other Income Tax Proposals

a) Withholding Tax On Dividends for East Africa Community

The Act has deleted the preferential withholding tax applicable on dividend payments to citizens of the East African Community Partner States.

Implications

The deletion of the preferential withholding tax rate of 5% applicable on dividend payments to citizens of East African Community (EAC) Partner States means that such dividend payments will be subject to the standard non-resident rate of 15%. This change would likely increase the tax burden on cross-border EAC investment and may discourage regional capital flows. Notably, this amendment appears misaligned with the broader objective of promoting EAC economic integration, a policy direction that Kenya has historically supported. By eliminating a tax incentive that has facilitated investment by citizens of Partner States, the change could be perceived as a step back from Kenya's commitment to preferential intra-EAC investment treatment.

Effective Date: 1st July 2026

b) Anti-Avoidance Provisions

Section 23 contains anti-avoidance provisions for transactions designed to avoid tax liability. Section 23 is being repealed (anti-avoidance provisions relocated to Tax Procedures Act).
This eliminates duplication as the Tax Procedures Act consolidates and expands the Commissioner's anti-avoidance powers across all tax laws.

Effective Date: 1st July 2026

c) Microfinance Institution

The Act has amended the Fourth Schedule to add “A financial institution licensed under the Microfinance Act (Cap. 493C.)”

Implications

The amendment formally recognises microfinance institutions licensed under the Microfinance Act within the relevant Schedule. This aligns the ITA more closely with the regulated financial sector and reduces uncertainty whether microfinance institutions should be treated in the same manner as other specified financial institutions for purposes of the Schedule.

The change is consistent with the broader amendments in the Act that expressly refer to financial institutions licensed under the Microfinance Act, including the bad debt provisions and the interest deductibility clarification. In addition, one notable benefit arising from inclusion of microfinance institutions under Fourth Schedule is that interest payments to microfinance institutions will be exempt from withholding tax.

d) Tax on Shipping and Air Transport

The Act to amends 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.

Effective Date: 1st July 2026

Summary of Clean-ups and Clarifications

The Finance Bill 2026 proposes five key clean-up measures:
(i) Industrial Building Allowance
The bill seeks to clarify that the 10% deduction for industrial buildings must be claimed per year in equal instalments thus removing ambiguity by expressly stating the deduction should be spread evenly on an annual basis.
(ii) Deletion of Historical Income Tax Rates
Para 2(1) of the Third Schedule covering tax rates for 1974-1990 has been deleted to remove obsolete provisions that have no continuing application, improving clarity and currency of the Act.
(iii) County by Country Report
Section 18D of the Income Tax Act has been amended to correct the cross-referencing to ensure the provisions are aligned.

Effective Date: 1st July 2026

2.Changes to the Value Added Tax Act

a) Deletion of Definitions under Section 2(1)

The Act has deleted in Section 2 the definitions for “assessment”, “information technology”, and “tax computerized system” from the VAT Act.

Implication

The deletion of the definitions harmonizes VAT and TPA procedural definitions to eliminate duplication in respect of procedural definitions and administrative framework. It enhances legislative consistency across tax laws, facilitating effective tax compliance and administration.

Effective Date: 1st July 2026

b) VAT Treatment of Labour Outsourcing and Employee-Related Costs

The Act introduces new Sections 13(5A) and 13(5B), which provide that employee-related costs incurred in labour outsourcing and employee placement services, such as salaries, wages, and statutory deductions, are treated as disbursements made on behalf of the client and are excluded from the VAT taxable amount.

Implication

Employee-related costs incurred in providing labour outsourcing or employee placement services are now deemed to be disbursements on behalf of the client and are excluded from the taxable value. Consequently, VAT applies only to the supplier's service fee or margin

c) Financial Charges under Hire Purchase Agreements

Section 13(6) amended by deleting para (a) and substituting therefor the following new para; (a) in the case of a supply of goods from a person licensed to carry on hire purchase business under a hire purchase agreement registered in accordance with the Hire Purchase Act, any financial charge payable in relation to the supply of credit under the agreement.

Implication

The amendment narrows the scope of the VAT exclusion on finance charges by limiting it to licensed hire purchase businesses with agreements registered under the Hire Purchase Act.

This departs from the previous broader position and locks out businesses offering instalment or credit sales outside a regulated hire purchase framework

Effective Date: 1st July 2026

d) Adjustment of Input Tax after Supplies become Exempt

The VAT Act previously did not expressly require reversal of input previously claimed on taxable supplies that later become exempt while still unsold. The Act has now introduced Section 17A requiring registered persons to account for input tax previously claimed on unsold supplies once the supplies become exempt.
using the same method that was originally applied to claim the input tax. The Act also clarifies, through an amendment to subsection (2), that the adjustment is made in accordance with subsection (1).

Implication

The amendment ensures taxpayers do not retain input VAT credits on goods that subsequently become exempt from VAT. Businesses may face additional VAT liabilities and cash flow implications where previously taxable goods transition into exempt status.

Effective Date: 1st July 2026

e) Input VAT Deduction on Exempt Supplies to KDF, DEFWES, NIS and NPS

The Act amends Section 17 of the Value Added Tax Act by inserting a new para (e) in subsection (5) and introducing subsections (7) and (8). The amendment allows registered persons to deduct input VAT incurred on supplies made to the Kenya Defence Forces (KDF), Defence Forces Welfare Services (DEFWES), National Intelligence Service (NIS), and National Police Service (NPS) where such supplies are exempt under para 57 and 101 of the First Schedule, provided the prescribed documentation is maintained.

Implication

Suppliers to KDF, DEFWES, NIS, and NPS can now recover VAT directly attributable to qualifying exempt supplies, reducing VAT costs and improving cash flow, provided the prescribed documentation is maintained.

Effective Date: 1st July 2026

f) Bad debt relief

The Act has amended section 31 of the VAT Act by extending the period for claiming bad debt relief from two years back to three years. This reverses the position introduced by the Finance Act, 2025 and delays the point at which a supply may be treated as a bad debt for VAT purposes.

Implication

The effect of this amendment is to delay taxpayers' ability to recover VAT on unpaid invoices, thereby creating a longer cash flow strain on suppliers.

Effective Date: 1st July 2026

g) Restriction on Issuance of Tax Invoices

The Finance Bill proposed to amend Section 42 by replacing the term "registered person" with "person", which would have extended the requirement to issue VAT invoices to all persons. It also proposed that an invoice showing VAT should only be issued in respect of a taxable supply. However, the Act only adopted the latter proposal, providing that an invoice showing an amount that purports to be VAT may only be issued in respect of a taxable supply, while retaining the existing requirement that only VAT-registered persons are permitted to issue VAT tax invoices

Implication

The enacted amendment confirms that VAT can only be charged on taxable supplies while retaining the existing rule that only VAT-registered persons are required to issue VAT tax invoices. This provides clarity to taxpayers and avoids expanding VAT invoicing obligations to all businesses

Effective Date: 1st July 2026

h) Repeal of Section 66 of the VAT Act

Section 66 gives the Commissioner the power to look beyond the form of a transaction and disregard any arrangement that is mainly designed to avoid or reduce VAT.

The act removes Section 66 of the Value Added Tax Act, which previously allowed the Commissioner to ignore transactions that were mainly structured to reduce tax and then reassess the correct tax due. This power is not being removed completely, it is being shifted to the broader rules under the TPA

Implication

The VAT Act will no longer have its own anti-tax-avoidance rule.
Instead, all tax avoidance matters will be handled under the general tax rules in the TPA

Effective Date: 1st July 2026

i) New Para – PPP Infrastructure Projects

Introduction of a VAT exemption for goods and services listed in the First Schedule of the VAT Act, used directly and exclusively in Public-Private Partnership (PPP) infrastructure projects, subject to approval by the Cabinet Secretary for the National Treasury.

Implication

The amendment is intended to encourage investment in infrastructure projects through PPP arrangements by lowering VAT costs. However, the requirement for approvals from different Cabinet Secretaries may create administrative delays and increase compliance procedures for investors.

Effective Date: 1st July 2026

j) Clarification of VAT Exemption for Tour Operator Services

The Act amends Para. 25 of the First Schedule by introducing the following definitions:
"Tour operator" means a tour or safari operator licensed as such by the competent authority responsible for regulating and overseeing the tourism sector.
"In-house supplies" means supplies made from a tour operator's own resources; or bought from third parties but materially altered so that the supply made is substantially different to that purchased.

Implication

The amendment clarifies that the VAT exemption applies only to qualifying services provided by licensed tour operators. Services provided using a tour operator's own resources or significantly altered from third-party services do not qualify for the exemption and may be subject to VAT

Paragraph	Sector	Description	Previous rate	New rate
Para. 49 ,58,89	Aviation	Aircraft, direction-finding compasses, instruments and appliances for aircraft. (only spare parts remain exempt under Para. 89)	Exempt	Standard-rated (16%)
Para. 62 Part I and Para. 26 Part II	Tourism	Taxable goods and services for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon recommendation by the Cabinet Secretary responsible for matters relating to recreational parks.	Exempt	Standard-rated (16%)
Para. 156, Part I,	Healthcare	Inputs, machinery and raw materials used in the manufacture of mosquito repellent, subject to approval by the Cabinet Secretary responsible for Health	Exempt	Standard-rated (16%)
Para. 109	Affordable Housing	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
Para. 149	Manufacturing	Exemption of capital goods the exemption of which the Cabinet Secretary may determine to promote investment in the manufacturing sector. Provided that the value of such investment is not less than two billion shillings.	Jan – June 2026 Standard rated (exemption period expired in Dec 2025)	Exempt
Para. 158	Healthcare	Dialyzers	Standard-rated (16%)	Exempt
Para. 158	Construction	Scrap metal	Standard-rated (16%)	Exempt
Para. 160	Healthcare	Inputs or raw materials locally purchased or imported for the manufacture of pharmaceutical products upon recommendation by the Cabinet Secretary for the time being responsible for matters relating to health.	Zero Rated	Exempt
Para. 161	Environment	Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel)	Zero Eated	Exempt

Para.162	Infrastructure	The supply of goods for the direct and exclusive use in the implementation of infrastructure projects undertaken under a partnership framework, upon approval by the Cabinet Secretary on the recommendation of the Cabinet Secretary for the Ministry responsible for the implementation of the project.	Standard-rated (16%)	Exempt
Para. 163	Infrastructure	The supply of goods for direct and exclusive use in the implementation of infrastructure projects undertaken and funded by the National Infrastructure Fund as approved by the Cabinet Secretary responsible for the National Treasury	Standard-rated (16%)	Exempt
Para. 163	Manufacturing	Plant, machinery, equipment and spare parts imported or purchased locally for use in a project whose total investment value is not less than three billion shillings as approved by the Cabinet Secretary responsible for the National Treasury upon recommendation by the Cabinet Secretary responsible for Trade and Investment Promotion.	Standard-rated (16%)	Exempt
Para. 165 Part I and Para. 40 Part II	Energy	Taxable goods and services used in the construction of liquefied petroleum gas storage tanks and related infrastructure. Provided that the investment in the construction of liquefied petroleum gas Kenya amounts to at least five billion shillings and upon recommendation of the Cabinet Secretary responsible for matters relating to energy.	Standard-rated (16%)	Exempt
Para. 166	Financial Services	The making of any advances or the granting of credit, including the sale, disposal or realization of collateral, repossessed assets or secured property arising from the enforcement of security for loans, credit or other exempt financial services.	Standard-rated (16%)	Exempt
Para. 1, Part II,	Financial Services	Payment merchant processing, settlement, acquiring, gateway, aggregation services supplied over a software or platform for a fee or commission by a payment service provider:	Standard-rated (16%)	Exempt
Para. 39, Part II,	Infrastructure	The supply of services for the direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework, upon approval by the Cabinet Secretary on the recommendation of the Cabinet Secretary for the Ministry responsible for the implementation of the project.	Standard-rated (16%)	Exempt

3. Changes to the Tax Procedures Act.

a) Deletion of the certificate of origin requirement.

The Finance Bill had proposed to repeal the requirement introduced by the Finance Act, 2025, that all persons importing goods into Kenya to present a certificate of origin to the KRA before their goods could be cleared through customs. This proposed amendment was not retained in the Act.

b) Definition of Virtual Asset services

The Act has adopted the definitions of the terms "Virtual Asset" from the Virtual Asset Providers Act (VASPA).

A virtual asset is defined under the VASPA as a digital representation of value that can be digitally traded or transferred and can be used for payment or investment. However, digital representations of fiat currencies, securities, and other financial assets are excluded from this definition.

c) Definition and filing of information return

The Bill defined the Information return as a report setting out the prescribed information which a reporting VASP is required to file with the Commissioner.

The Finance Bill had proposed that VASPs file an information return with the Commissioner in respect of all virtual - asset users with which it maintains a relationship in every calendar year and that are identified as reportable users or have controlling persons the at are reportable persons.

The information return shall be required if the VASP provides a service that effectuates exchange transactions or making available trading platform on behalf of a customer and includes acting as a counterparty. or as an intermediary, to the exchange transactions.

False on the information return would attract a fine of Kshs. 100,000 for each false statement or imprisonment not exceeding three years or both. Omission of any information required will attract a penalty of Kshs. 100,000 for each omission. A VASP who fails to file an information return or a "nil" information return will be liable to a penalty of Kshs. 1,000,000 for each failure.

The Act has incorporated Section 6C, largely retaining the core reporting obligations for VASPs, but with notable refinements. In particular, the enacted provision introduces an explicit data protection safeguard, requiring that information collected in the annual returns be limited to what is necessary, relevant and proportionate, and that it be handled in accordance with the Data Protection Act. The Act also maintains the scope of reporting entities, offences, and penalties as originally proposed

Implication

The provisions are also expected to enhance transparency and traceability within the virtual asset sector, thereby strengthening the Commissioner's ability to monitor transactions, curb tax evasion, and improve revenue collection from the digital economy.

Effective Date: 1st January 2027

d) Consolidation and expansion of the anti-avoidance rule

The Finance Bill had proposed repealing the existing anti-avoidance provisions in section 23 of the Income Tax Act and section 66 of the VAT Act and replace them with a new consolidated anti-avoidance provision in the Tax Procedures Act. Under the new provision, where the KRA determines that a person has entered into or carried out a tax avoidance scheme, a person has obtained a tax benefit in connection with the scheme, and the purpose of the scheme was to enable the person to obtain that tax benefit, the KRA may assess additional tax on the person as if the scheme had not been entered into or carried out. Any assessment must be issued within 5 years from the last day of the tax period to which it relates.

Scheme included a course of action and an agreement, arrangement, promise, plan, proposal or undertaking, whether or not legally enforceable.

The Act has retained the proposed Section 18A, preserving the Commissioner's power to address tax avoidance schemes by reassessing a taxpayer's liability as though such arrangements had not been entered into. The Act introduces key enhancements aimed at strengthening procedural fairness and transparency.

e) Exemption of Non-resident persons from the PIN requirement for investment bank accounts

The Act is now exempting non-resident persons from the requirement of obtain a PIN when opening an account with an investment bank.

Implication

This amendment is intended to facilitate foreign investment into Kenya's capital markets. The expectation is that any taxable income such as interest on bonds and dividends on shares earned by such non-resident persons would be subject to withholding tax at source.

Effective Date: 1st July 2026

f) Issuance of agency notices

The Finance Bill had proposed deleting one of the five conditions that should be satisfied before the KRA issued an agency notice. The condition proposed to be deleted prevents the KRA from issuing an agency notice where the taxpayer has appealed against a decision of the Tax Appeals Tribunal or a Court. This amendment was not retained in the Act

g) Deletion of requirement not to deduct/withhold tax where the recipient has accounted for tax

The Bill removes the protection (introduced by the Finance Act, 2025) under which a person who fails to deduct, withhold or remit tax is not required to pay the principal tax where the recipient has already paid and accounted for the full amount, including the tax that should have been deducted or withheld. This proposed amendment was **not** retained in the Act.

h) Introduction of prepopulated tax returns

The Finance Bill had proposed empowering the KRA to generate prepopulated tax returns on behalf of taxpayers using its information technology systems. A taxpayer may rely on the prepopulated return to submit or lodge the return.

The Act has retained the proposed introduction of Section 29A. However, the Act introduces important procedural enhancements to support fairness and taxpayer engagement. Notably, it now provides that the Commissioner may request additional information from the taxpayer in writing at least thirty (30) days before issuing an assessment.

Implication

This amendment is designed to enable the KRA to prepopulate returns using data generated through e-TIMS.We expect this issue, together with the format of prepopulated returns and applicable timelines, to be addressed in regulations to be prescribed by the Cabinet Secretary under section 112 of the Tax Procedures Act.

Effective Date: 1st July 2026

i) Deletion of the exclusion of weekends and public holidays in computing timelines for objections and appeals

The Finance Bill had proposed removing the current rule that excludes Saturdays, Sundays, and public holidays when calculating the deadlines for lodging tax objections and appeals before the Tax Appeals Tribunal, the High Court, and the Court of Appeal. However, this proposal was not adopted in the Act. As a result, weekends and public holidays will continue to be excluded when computing these statutory timelines.

j) Removal of VAT on imports from the scope of tax liabilities against which overpaid taxes may be applied.

The Finance Bill had proposed to amend section 47(1)(a) of the Tax Procedures Act by removing VAT on imports from the list of tax liabilities against which a taxpayer may offset overpaid taxes. This would have reversed a change introduced by the Finance Act, 2025, which had allowed taxpayers to apply credits from overpaid domestic taxes against their VAT on imports liability. This proposed amendment was **not** retained in the Act.

k) Extension of the tax amnesty programme

The Act has extended the tax amnesty program under section 37E of the Tax Procedures Act, which expired on 30 June 2025. The deadline for payment of all outstanding principal taxes under the amnesty is extended from 30 June 2025 to 31 December 2026.

Implication

This is the third extension, where first the amnesty was introduced by the Finance Act, 2023 and extended by the Tax Procedures Amendment) Act, 2024. This is a welcome move as taxpayers with outstanding principal taxes for periods up to 31 December 2025 should settle the principal tax in full or enter into a payment plan with the KRA by 31 December 2026 to secure the waiver of penalties, interest and fines.

Effective Date: 1st July 2026

l) Penalty restructuring for non-compliance with the electronic tax system

The Finance Bill had proposed to replace the current penalty regime for non-compliance with the electronic tax system with a more structured process. The KRA must first issue a written notice, then consider whether the failure arose from circumstances beyond the taxpayer's reasonable control, was not due to wilful neglect, and whether the taxpayer took reasonable steps to comply. If the KRA is not satisfied with the explanation, the penalty is the higher of; (i) two times the tax due, (ii)Shs.100 000 for corporations, or Shs.10 000 for individuals.

The Act has retained the structured framework introduced in the Bill for addressing noncompliance with electronic tax obligations. However, the Act revises the penalty framework. Instead of the earlier proposal of a penalty based on twice the tax due, the Act now imposes a more moderated approach, with penalties set at the higher of 5 percent of the tax due, KES 100,000 for companies, or KES 10,000 for individuals.

Implication

Overall, the amendment introduces a more balanced compliance framework by incorporating taxpayer safeguards, while at the same time imposing stricter financial consequences for unjustified non-compliance.

Effective Date: 1st July 2026

m) Reforms to the penalty and interest waiver framework.

The Act has been amended to make 'a malfunction of an electronic tax system' a ground for the waiver of penalties and interest. The Act also empowers the commissioner to waive part or whole penalties or interest not exceeding Kes 2Million where the liability was due to an electronic tax system error.

Implication

These amendments respond to iTax system challenges, including duplicate penalties, payment posting errors and system-generated liabilities. The Kes two million threshold should reduce the administrative backlog for lower-value waiver applications

Effective Date: 1st July 2026

n) Reinstatement of registration following deregistration

The Finance Bill had proposed amending section 10 of the Tax Procedures Act to provide that where a person who was previously deregistered specifically for KRA PIN, and subsequently qualifies for reregistration under section 8 of the Tax Procedures Act, such person is required to apply to the KRA for reinstatement and if the KRA is satisfied that the applicant is liable for tax under a tax law, the KRA will reissue the same Personal Identification Number (PIN) that had been issued prior to the deregistration.
The Act has retained the proposed amendments to Section 10 of the TPA, preserving the requirement that a person who has been deregistered and subsequently qualifies for registration must apply to the Commissioner for reinstatement.

Implication

This is a welcome procedural clarification, as it preserves the taxpayer's historical compliance record

Effective Date: 1st July 2026

4.Changes to the Excise duty Act.

Amendments to the Excise Duty Act.

a) Definitions

Introduction of “antique, vintage or “classic vehicle” definition in Section 2.
antique, vintage or "classic vehicle" means a motor vehicle whose year of first registration is at least 30 years before the date of purchase of the motor vehicle and whose value is at least 10 million shillings exclusive of depreciation.

Implication

While this provides clear guidelines for collecting more revenue for the government, it will significantly increase the cost to the collectors of vehicles under this category.

Effective Date: 1st July 2026

b)Refund on excise duty for supply to Kenya Defence forces canteen organization

IIntroduction of excise duty refund on inputs used in manufacturing excisable goods supplied to the Kenya Defence forces Welfare Services which are exempt from excise duty.

Implication

This expands the existing refund framework, which previously applied only to non-excisable outputs, to also cover exempt supplies under Para. 12. However, access to the refund is contingent upon the ability to clearly identify qualifying inputs that are directly attributable to the manufactured goods to successfully claim the refund. Hence, the need for proper documentation is important.

c) Amendment to the Excise duty rates on the first schedule of the Excise duty Act.

The first schedule sets out the list of excisable goods and their respective rate of excise duty rate.

Description	Previous excise rate	New excise rate
Imported gas cylinder of tariff code 7311.00.10	35% on Imported gas cylinder	35% imported cylinders for Liquefied gas
cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes	Kes 16,260.29 per kg	Kes. 18,000 per kg
Fruit juices (including grape must) and vegetable juice, unfermented, containing added sugar or other sweetening matter and not containing added spirit	Kes. 14.14 per litre	Kes. 20 per litre
bottled or similarly packaged water	Kes 6.41 per litre	Not excisable
Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences	Kes 11,382.48 per kg	Kes. 12,550 per kg
imported sugar excluding by a registered pharmaceutical manufacturer and raw sugar imported for processing by a licensed sugar refinery	Kes 7.50 kg	Kes 40.00 per kg
"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 Kes. 50 kg per kg	5% of the excisable value or Kes. 50 per kg, whichever is higher
Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages.	Kes. 500 per litre	Kes. 80 per litre"

d) Introduction of excisable goods and the respective excise duty rate to the first schedule

Imported Articles of plastic of tariff heading 3923.30.00 and 3923.90.90	10%
Antique, vintage and classic vehicles	50% of the excisable value
Imported MDF of tariff number 4411.12.00, 4411.13.00, 4411.14.00, 4411.92.00, 4411.93.00, 4411.94.00	30% of the excisable value
Imported particle boards of tariff number 4410.11.00, 4410.19.00, 4410.90.00	30% of the excisable value
Imported Block board of tariff number 4412.51.00, 4412.52.00, 4412.59.00, 4412.91.00, 4412.92.00, 4412.99.00	30% of the excisable value
Imported Plywood of tariff number 4412.10.00, 4412.31.00, 4412.33.00, 4412.34.00, 4412.39.00	30% of the excisable value
Imported timber of tariff number 4407.19.00	30% of the excisable value
Imported unprinted banner sheeting, flex banner and unprinted PVC sheeting of tariff 3921.12.10 and 3921.90.10	Kes. 200 per kg or 35% of the excisable value
Imported shower heads (whether or not fitted with heating elements) including fully assembled units designed for domestic or commercial use of tariff heading 8516.10	35% of the excisable value
Imported heating elements used exclusively in the manufacture of shower heads of tariff heading 8516.10	35% of the excisable value
Oral smokeless tobacco products (Swedish-style snus) being processed tobacco intended for placement in the mouth and not intended for smoking, combustion or heating	Kes. 2000 per kg.
Unprinted plastic sheets of tariff number 3920.43.10	10% of the excisable value
Pre-personal chip modules of tariff number 8542.31.00	10% of the excisable value

Effective Date: 1st July 2026

e) Extension of Excise exemption to goods supplied to National Intelligence Service (NIS)

Formally, only the Kenya Defence Forces, the Defence Forces Welfare Services and the National Police Service enjoyed an exemption from excise duty on all goods including materials supplies, equipment, machinery and motor vehicles for the official use. The amendment to include NIS will reduce the operational cost of NIS while ensuring consistency of tax treatment across all the security agencies.

f) Amendments affecting the Betting and Gaming sector.

Excise duty on betting and gaming was previously charged at (5%) on the amount deposited into a customer's betting and gaming wallet, respectively.
The Act has amended the provision from charging excise duty on the amount deposited into a customer's betting and gaming wallet to the amount deposited for gambling purposes to a person who has been issued a license under the Gambling Control Act.
The Act defines "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

Implication

The amendments broaden the tax base across all betting and gaming activities including horse racing and inclusion of all forms of funding for betting and gaming activities by shifting from wallet deposits to a wider range of funding structures for betting and gaming activities. This provides certainty on the amounts subject to excise duty.

Effective Date: 1st July 2026

g) Introduction of "virtual asset" and "virtual asset service provider" definition

The Act assigns the meaning of "virtual asset" and "virtual asset service provider" to the meaning assigned to it in section 2 of the Virtual Asset Service Providers Act, 2025 to mean,
The "Virtual asset" is 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" is a company licensed under this Act to carry on the business of virtual asset services.

Implication

This amendment provides clarity and alignment of the interpretation of the virtual assets and who qualifies to be a virtual asset service provider effectively subject to excise duty to the Virtual Asset Service Providers Act, 2025.

Effective Date: 1st July 2026

h) Proposed amendments not adopted by the Finance Act 2026

·Timing of liability for excise duty for imported telephones for cellular networks and other wireless networks to the point of phone activation and the proposal for the cabinet secretary to develop regulations to for the timing of tax liability upon activation.
·Proposal to increase the excise duty rate from 10% to 25% for telephones for cellular networks and other wireless networks of tariff heading 8517.
·The Proposal to removal the exclusion for a number of goods from the East African Community (EAC) implying that the respective excise duty rates would have been applicable to the following excisable goods imported from the EAC partner states.

Goods	Current import rates for non-EAC partner state imports.
Imported Glass bottles (excluding imported glass bottles for packaging of pharmaceutical products)	35% or Kes.40 per kg whichever is higher
Imported furniture of tariff heading 9403	30%
Imported plates of plastic tariff heading 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90	25% or Kes. 200 per kg whichever is higher
Imported paper or paper board, labels of all kinds whether or not printed with tariff heading 4821.10.00 and 4821.90.00	25% or Kes 200 per kg, whichever is higher.
Imported printing ink of tariff 3215.11.00 and 3215.19.00	15%
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	35% of excisable value or Kes 500 per square meter whichever is higher.
Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number 3919.90.90,	25% of excisable value or Kess. 200 per Kg, whichever is higher.
Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90,	25% of excisable value or Kess. 200 per Kg 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,	25% of excisable value or Kess. 200 per Kg, whichever is higher.
Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallylesters 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,	25% of excisable value or Kes. 200 per Kg, whichever is higher.
Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90,	25% of excisable value or Kess. 200 per Kg, whichever is higher

Goods	Current import rates for non-EAC partner state imports.
Printed self-adhesive paper of tariff number 4811.41.90	25% of excisable value or Kes. 200 per Kg, whichever is higher.
Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraft liner unbleached of tariff number 4804.11.00	25% of excisable value or kess.50 per kg, whichever is higher.
Imported other kraft paper or paperboard weighing 150g/m2 or less, in rolls or sheets; unbleached of tariff number 4804.31.00	25% of excisable value or kess.50 per Kg, whichever is higher
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	25% of excisable value or kess.50 per Kg, whichever is higher.
Imported other kraft paper or paperboard weighing 225 g/m2 or more others in rolls or sheets; unbleached of tariff number 4804.51.00	25% of excisable value or kess.50 per Kg, whichever is higher.
Imported Glass of heading 70.03, 70.04 or 70.05, bent, edge-worked, engraved, drilled, enameled or otherwise worked, but not framed or fitted with other materials of Tariff Heading 70.06,	35% of excisable value or Kess. 500 per square metre, whichever is higher
Imported safety glass of tariff numbers 7007.19.00 and 7007.29.00	35% of excisable value or Kess. 500 per square metre, whichever is higher
Imported Multiple-walled insulating units of glass of Tariff Heading 70.08,	35% of excisable value or Kess. 500 per square metre, whichever is higher

5. Amendments to Miscellaneous Fees and Levies Act, CAP 469C (MFLA)

Broadening of the application of East African Community Customs Management Act, 2004 on fees and levies imposed in part III of the Miscellaneous Fees and Levies Act

Section 9 of MFLA is amended to read; The provisions of the East African Community Customs Management Act, 2004, relating to the determination of value of imported goods, collection and enforcement of the payment of duty shall apply for the purposes of assessment, collection and enforcement of the payment of all the fees and levies imposed under part III

Implication

Apart from the import declaration fee, railway development levy and the export levy, going forward export and investment promotion levy and the processing fees on duty free motor vehicles and Anti-adulteration levy are subject to the EAC Customs Management framework in respect of the assessment, collection and payment of the above levies.

Restriction of exemption for IDF and RDL on Aircraft imports.

Previously IDF and RDL on "all goods and parts thereof of chapter 88" were exempt from IDF and RDL. The amendment restricts the exemption only to all the spare parts of goods in chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00.

8802.30.00: Aero planes and other aircraft, of an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg
8802.40.00: Aero planes and other aircraft, of an unladen weight exceeding 15,000 kg

Implication

The restriction of the IDF and RDL targets relief on all the aircrafts spare parts and only larger aircraft. Importation of smaller aircraft will be subject to RDL and IDF, hence an increase in the cost of importation to the aviation service providers.

Effective Date: 1st July 2026

Introduction of exemption of RDL and IDF on goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure.

The Act exempts RDL and IDF on goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure, provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Kenya amounts to at least five billion shillings and has been recommended by the Cabinet Secretary responsible for matters relating to energy.

Implication

The amendment provides an incentive to invest in the energy sector; however, the exemption is subject to a recommendation by the cabinet secretary and a threshold of Kes 5 billion.

Effective Date: 1st July 2026

Proposed amendment not adopted by the Finance Act 2026

The proposal to exempt imported telephones for cellular networks and other wireless networks from Import declaration levy and Railway Development levy when imported or purchased before clearance through customs.

6. Changes to the Stamp Duty Act

The Act has exempted transfers of properties to a Real Estate Investment Trust (REIT) from stamp duty. This exemption has been re-introduced as the previous exemption expired in December 2022. This will lower the cost of asset acquisition thus encouraging property owners to transfer assets into REIT structure.

How we can assist

Bakertilly can assist you to identify which areas of your business will be affected by the law changes provided under the Act. Furthermore, we can offer advisory services on tax planning to make the most of the tax incentives provided as well as provide awareness to avoid penalties that may arise due to omissions considering requirements by the law.

GET IN TOUCH.

Should you require more information or wish to discuss this further, please do not hesitate to reach out to any of our contacts at Bakertilly or kindly contact the team below:

CONTACT US.

Jimmy Merali
Practice Development Manager
telephone: +254 733 603 200
email: jimmy@bakertilly.ke

Julta Okiring
Tax Department
telephone: +254 733 603 002
email : julta.okiring@bakertilly.ke

bakertilly