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Kenya
Finance Act 2026

Technical analysis and
key business implications

What changed,
why it matters,
and effective dates

Business Tax	Personal Tax	Tax Procedures Act	VAT	Excise Duty	Levies & Fees

Effective dates:
1 July 2026 and 1 January 2027

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This publication provides an overview of the key tax measures introduced through the Finance Act, 2026 and highlights their implications for businesses, investors and individual taxpayers across Kenya.

Executive summary

On 23 June 2026, the President of Kenya, His Excellency William Samoei Ruto assented to the Finance Act, 2026.

The Act was assented to as a matter of ordinary Fiscal Budgetary course and has amended various tax laws: the Income Tax Act (ITA), The VAT Act, 2013 (VAT Act), Excise Duty Act, Tax Procedures Act, 2015 (TPA), and the Miscellaneous Fees and Levies Act. The Act also provides for other miscellaneous amendments to the Affordable Housing Act, Stamp Duty Act and the Road Maintenance Levy Fund Act.

Unless specifically mentioned, the changes contained in this analysis are expected to take effect on 1 July 2026 and 1 January 2027.

Business tax

Definition of immovable property

The Act has amended the definition of immovable property by substituting "and" with "or," thus separately defining land and its encumbrances as well as rights over property including mining rights and interests in petroleum agreements. This refinement of the definition of immovable property resolves a long standing interpretational ambiguity by clearly separating land based interests from extractive and petroleum rights.

The proposal strengthens the statutory basis for taxing income derived from each category independently.

Expanded definition of management or professional fee

The Act has expanded the definition of "management or professional fee" to include interchange fees and merchant service fees arising from transactions that use a card as a means of payment. The Supreme Court of Kenya recently struck out a bid by the Kenya Revenue Authority (KRA) to demand withholding tax from these fees on the basis of the current definition of management and professional fees.

The amendment has introduced an express statutory basis for withholding tax on the fees.

Expanded definition of royalty

The Act has expanded the definition of "royalty" to include payments for the use of or access to a proprietary digital payment card network or platform, payment networks and payment processing systems regardless of whether the payment for these services is periodic or transaction based and the contractual description of the fees. The applicability of withholding tax on payments to providers of payment platforms and related services has been subject to prolonged dispute with the KRA losing multiple appeals on the matter. This is an apparent reaction to the rulings with the Government now seeking to introduce a wide and all-encompassing definition that is likely to capture payments for access to digital platforms and payment services providers.

Definition of withdrawals in the betting and gaming Industry

The Act has redefined "withdrawals" from the amount of money withdrawn by a customer from their betting wallet to the amount of money, cash equivalent or money's worth paid or disbursed to the player's account. The amendment has changed the tax point for withholding tax purposes from when the player actually withdraws money from his or her account to when the money, cash equivalent or money's worth is paid or disbursed to the account.

The amendment has sealed a loophole that previously enabled players to defer the tax point by placing additional bets from the winnings as opposed to withdrawing from their wallet.

Reintroduction of definitions of winnings

The Act has reintroduced a definition of "winnings," which had been repealed by the Finance Act 2025. The Act has provided the new definition of winnings as a pay-out from a lottery or prize competition by a person licensed under the Gambling Control Act, 2025.The amendment brings into the ambit of taxation income in the form of winnings from activities classified as lottery or prize competitions..

“ The Supreme Court of Kenya recently struck out a bid by the Kenya Revenue Authority (KRA) to demand withholding tax from these fees on the basis of the current definition of management and professional fees.

Imposition of nonresident rental income tax

The Act has introduced a self-declaration regime on gross rental income earned by nonresident persons to be known as nonresident rental income tax at the rate of 30% on gross rental income. Nonresident persons subject to this tax will be required to register and account for the tax through a simplified registration framework. Further, they will be required to submit a return and pay the tax due by the 20th day of the month following the month on which the rent is paid.

The tax does not apply to a a non- resident person who receives rent income that is already subject to tax through the withholding tax regime.

Currently, the Income Tax Act (ITA) provides a withholding tax regime on rental payments to nonresident persons.

The proposal seeks to introduce a self-declaration regime in addition to the existing withholding tax regime.

Timeline for payment of taxes on income of a shipowner, charterer or air transport operator

The Act has introduced a specific timeframe for payment of taxes on income received by nonresident shipowners, charterers or air transport operators to the earlier of five days after receipt of payment of such income or when the ship leaves the port of landing.

Previously income of a nonresident shipowner was withheld by the payer through a withholding tax regime. The Act has repealed the enabling section that mandated withholding tax on the business income of a ship owner or charterer. This implies that it will be the responsibility of nonresident ship owners to make a self-assessment and declare the same to the KRA.

Income accrued from Kenya by nonresident ship owners is subject to income tax at the rate of 2.5% of the gross income.

Reintroduction of withholding tax on sale of scrap metal and winnings

The Act has re-introduced withholding tax on winnings at the rate of 20% for both resident and nonresident persons.

The Tax Laws (Amendment) Act, 2018 introduced withholding tax on winnings, but this was repealed by the Finance Act, 2025. The reintroduction of winnings seeks to capture operations that are classified under lotteries and prize competitions.

The Act has also reintroduced withholding tax on sale of scrap metal at the rate of 1.5% for both resident persons and nonresident persons.

Taxation of trust income

Family trusts have gained prominence following the introduction of several tax incentives and a regulatory framework a few years ago. The Act has enacted amendments aimed at streamlining the taxation framework of trusts.

The Act provides that income received by a trustee in their capacity as trustee, executor or administrator shall be deemed to be income of the trustee. Additionally, the Act has provided that qualifying dividends or qualifying interest included therein shall be exempted from further taxation. The Act also provides that if trust income has been subjected to tax on the executor/administrator, the beneficiaries will not be subject to further income tax.

The amendments provide clarity on the taxation of trust income and will prevent double taxation at both trustee and beneficiary levels.

Clarification on the criteria for determining instalment tax

The Act has introduced a new provision that exempts taxpayers whose sole income is emoluments from paying instalment tax.

The amendment will not lead to a change in the current practice since previously natural persons whose sole income was from employment did not pay instalment tax since income tax on their emoluments is deducted at source by the employers.

Bad debts deductibility for the financial sector

The Act has clarified that for taxpayers carrying on a money lending business, a bank or financial institution licensed under the Banking Act, the Microfinance Act and the Central Bank of Kenya Act, a debt that has become bad in accordance with the guidelines issued by the Commissioner shall include the principal, interest and any other amount relating to the debt.

This amendment is a welcome move and has addressed an issue that has been the subject of numerous tax disputes between players in the financial sector and KRA.

Tax loss utilization

The Act has introduced a provision that allows taxpayers who had invested at least KES 10 Billion in Kenya prior to 1st July 2025, to utilize their tax losses beyond the five-year limit currently provided for in the ITA. The taxpayer will be allowed to utilize the tax loss until it is extinguished.

Any tax loss realized by such a taxpayer prior to the 2025 year of income will be deemed to have been realized in 2025 year of income.

The tax loss utilization period was capped at 5 years by the Finance Act, 2025. Taxpayers who have made substantial significant investments are often eligible for investment allowances that could result in tax losses that may not be extinguished with 5 years. The amendment is laudable as it will allow such investors to enjoy the tax loss beyond the 5-year cap and reduce the administrative hurdle for applying extension of the periods to utilize the tax loss.

Amendment of interest expense restriction exemptions

Previously, non-deposit-taking institutions engaged in lending and leasing business were exempt from interest expense restriction rules. The Act has introduced a provision to separate the lending and leasing business thus allowing non-deposit-taking institutions undertaking either one or both activities to be excluded from interest expense restriction rules.

Leasing has exponentially grown in the Kenyan market, driven by Government leasing programs particularly on motor vehicles. The amendment will therefore shield those who play the role of a lessor without necessarily being the financiers of the leasing transactions or the vice versa.

Amended definition of Ultimate Parent Entity

The Act has amended the definition of Ultimate Parent Entity (UPE) to align it with the definitionas provided in the Organisation for Economic Co-operation and Development (OECD) Transfer Pricing Guidelines. The amended definition expressly provides that a UPE is an entity that is required to prepare consolidated financial statements or would be required to prepare consolidated financial statements if its shares were traded on a traded publicly on a securities exchange.

Taxation of insurance companies

The Act has amended Section 19 of the ITA by substituting the term "life insurance fund" with the term "statutory fund." The Act has also amended the definition of annuity fund by substituting the term "life insurance fund" with "statutory fund."

The amendment aligns the taxation framework of long-term insurance funds to transfers from the statutory fund as defined by the Insurance Act. This will imply that dealings involving non-statutory funds will therefore be taxable under the ordinary tax regime.

Repeal of tax anti-avoidance provisions under the ITA

The Act has repealed Section 23 of the ITA, which empowered the KRA to make presumptions on taxpayers' transactions that are structured for the purpose of avoiding tax and make adjustments on their tax liability.

This is a clean-up provision, as the tax anti-avoidance rules are comprehensively provided under the Tax Procedures Act (TPA).

Withholding tax on commissions paid on international transport services

The Act has amended Section 35 (1) of the ITA to the effect that commissions paid by a resident air transport operator to a non-resident agent in order to secure tickets involved in the cross-border transportation of passengers and goods will be exempt from tax. Prior to the change, only commissions paid to an agent in order to secure tickets for the transportation of passengers were exempt from tax.

Introduction of exemption on payments made by the National Carrier to specific non-residents

The Act has introduced an exemption on payments made by a resident air transport operator designated by the Government as a national carrier to specified non-residents. Currently, Kenya Airways is the only resident air transport operator designated by the Government as a national carrier. The payments that will be exempt from tax when made by the designated national carrier include:

- payments made to a non-resident person for access to, participation in or use of a proprietary digital platform, payment network, payment-card scheme, payment processing system, switching system, clearing system or settlement system, including access, participation or usage rights in the system through a card, whether the consideration is periodic or transaction-based and whether or not the payment is described as a service fee, transaction fee, network fee, assessment fee, processing fee or similar charge.

The amendment is aimed at making the national carrier more competitive in the regional and global markets.

Income tax return filing timelines

The Act has amended the due date for income tax return filing for individuals from the last day of the sixth month to the last day of the fourth month after the end of their year of income.

Effective date: 1 January 2027

Tax exemption of gains arising from transfer of property to a registered real estate investment trust

There has been notable growth in the number of real estate investment trusts (REITs) in the Kenyan market, in addition to growing interest by other interested parties.

The Act has amended Part 1 of the First Schedule to the ITA to introduce an exemption from income tax any capital gains arising from the transfer of property to a REIT registered by the Commissioner under Section 20 of the ITA.

Investment allowance

The Act has introduced a 100% investment allowance for petroleum or gas storage facilities in the first year of use, whereby the investment exceeds KES 10 billion. This is a positive move that might trigger private investments in petroleum and gas storage facilities.

The Act has also clarified that investment allowances on industrial buildings of 10% shall be claimed per year of income in equal instalments.

This amendment corrects a drafting gap that did not specify how the investment allowance provided in the law on qualifying industrial buildings should be claimed for income tax purposes.

Repeal of a preferential tax rate for companies engaged in construction of residential units

The Act has deleted the reduced corporate income tax (CIT) rate of 15% for companies engaged in the construction of at least 100 residential units per year of income, subject to approval by the Cabinet Secretary in charge of Housing., These developers will now be subject to the standard CIT rate of 30%.

Repeal of preferential withholding tax rate on payments of dividends to EAC citizens

The Act has deleted the reduced withholding tax rate of 5% on dividend payments to citizens of East African Community (EAC) partner states. This amended has likely stemmed from an absence of reciprocal mechanisms from other EAC partner states.

Expansion of specified financial institutions

The Act has amended the Fourth Schedule to the ITA to include in the list of financial institutions, a financial institution licensed under the Microfinance Act (Cap. 493C.). This means that microfinance institutions will now be considered financial institutions for purposes of the ITA. There are specific tax implications or treatments provided in the ITA with respect to the interest and dividends received from a specified financial institution.

Taxation of gains arising from alienation of shares by a nonresident person

The Act brings into the ambit of capital gains tax income arising from alienation of shares by a nonresident person if the shares derive their value from Kenya or the alienation results in change of the group membership of a company resident in Kenya or ownership of, title in or interest in property located in Kenya.

The amendment on the taxation of gains arising from sales of shares by a nonresident person does not provide any shareholding or control-related thresholds. This implies that any gains arising from alienation of shares by a nonresident person will be subject to capital gains tax.

Taxation of mining licenses and contractors operating in the extractive sector

The Act has amended the Ninth Schedule to the ITA by introducing a 15% repatriation tax on income earned in Kenya by nonresident persons operating under a mining license or holding a mining right. The Act has also extended the 15% repatriation tax to nonresident contractors operating in the petroleum industry.

The Act has also aligned the CIT rate applicable to nonresident persons operating in the extractive industries by reducing the rate from 37.5% to 30%, consistent with the CIT rate applicable to persons operating in other sectors.

The introduction of a repatriation tax aligns with section 7B of the ITA which requires nonresident persons carrying on business in Kenya through a permanent establishment to pay repatriation tax at 15%, computed by reference to the movement in the net assets of the permanent establishment.

The amendments will promote tax neutrality and ensure fairness and equity by aligning the tax treatment of nonresident persons (permanent establishments) with that of subsidiaries (resident entities) across all sectors.

Effective date: 1 January 2027

Personal tax

Taxability of non-resident individuals working with air transport operators

The Finance Act amends Section 5 of the ITA by providing for the non-taxability of income earned by non-resident individual employed by, or engaged on behalf of a resident airtransport operator designated by the Government as a national carrier to the extent that the income is related to duties of the individual performed outside Kenya and the international transport operation of the air transport operator.

This provision is welcome given that takes into account the nature of the work/duties of non-resident persons working with air transport operators.

Gratuity qualifying for exemption from income tax

The Act amends Section 5(4) of the ITA by providing circumstances under which gratuity income does not constitute gains or profits from employment.

The Act introduces Section 5(4)(ga) of the ITA which provides that any contribution to a gratuity in respect of employment or services rendered shall be exempt from tax if these conditions are met:

- The gratuity was for contract of service for a continuous period of at least three years.
- The total contribution does not exceed 31% of the employee's basic salary.

This provision is welcome because it provides clarity on the tax treatment of gratuity. Further, it is expected to cushion employees' retirement savings and end-of-service benefits by setting clear conditions for exemption from income tax.

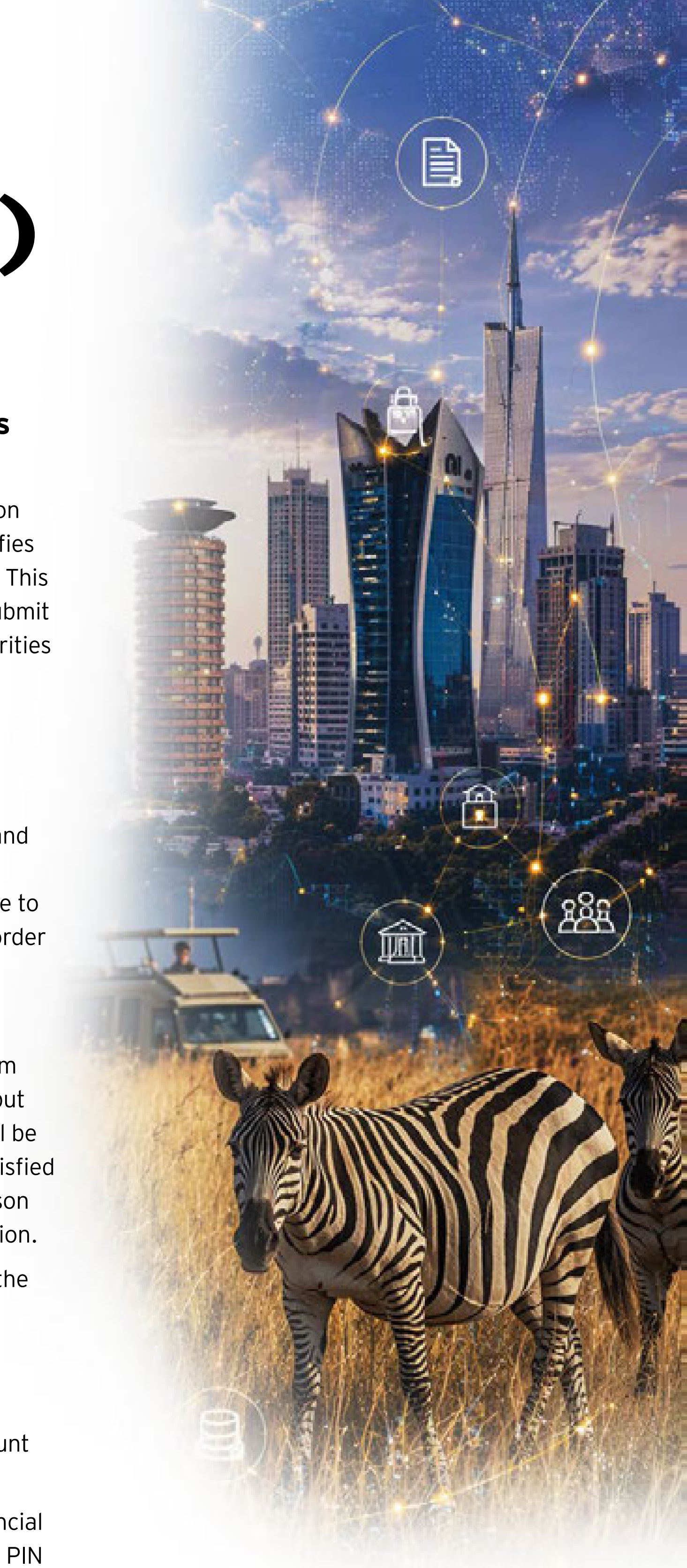
Tax exemption of benefits arising from death

The Act amends Paragraph 53 of the First Schedule to the ITA by exempting from income tax, benefits received as a result of death from registered pension fund, registered provident fund, registered individual retirement fund, public pension scheme or National Social Security Fund.

This is a welcome provision given that it seeks to cushion from income tax the amounts that are due to the beneficiaries/estate of a deceased person.

> "The amendments seek to enhance certainty, fairness and protection of employee and retirement benefits while addressing practical challenges faced by globally mobile workers.

Tax Procedures Act, 2015 (TPA)



Tax administrative measures affecting Virtual Assets Service Providers (VASPs)

The Act introduces a requirement for VASPs to file annual information returns with the KRA. It also creates an offense for a VASP who falsifies information in a return or fails to file a return, including a nil return. This provision adds to the existing requirement that all licensed VASPs submit Audited Financial Statements (AFS) to the relevant regulatory authorities specified under the Virtual Asset Service Providers Act.

The Act also introduces a framework allowing Kenya to enter into agreements with other countries for the automatic exchange of information relating to virtual asset transactions.

The recent introduction of the VASP Act in 2025, draft regulations and the proposed changes signals Kenya's move from regulating virtual assets purely from a licensing and anti-money laundering perspective to a fully integrated regime covering supervision, taxation and cross border information exchange.

Reinstatement of deregistered taxpayers

The Act has amended section 10 of the TPA introducing a mechanism for the reinstatement of persons who were previously deregistered but subsequently qualify for registration as taxpayers. Such a person will be required to apply to the KRA for reinstatement and, if the KRA is satisfied that the person is again liable for tax, the KRA shall register the person and reinstate the same PIN that had been issued prior to deregistration.

This change addresses a gap in the current framework by clarifying the procedure for reregistration for tax purposes.

Exemption of nonresident person from obtaining a Personal Identification Number (PIN)

The Act exempts a non-resident person who wishes to open an account with an Investment Bank from the requirement to obtain a PIN.

The First Schedule to the ITA includes opening of accounts with financial institutions and investment banks as one of the activities requiring a PIN in Kenya. This provision eases the process of onboarding non-resident persons seeking to make investments in the country through investment banks.

> "The Finance Act, 2026 reinforces Kenya's commitment to a modern, data-driven tax administration framework by enhancing transparency, strengthening compliance mechanisms and expanding oversight of emerging digital sectors.

Tax avoidance schemes and assessments

The Act:

- Empowers the KRA to independently assess a tax liability if a taxpayer is determined to have participated in a tax avoidance scheme; and
- Expands the scope of sources of information that the KRA may rely on in raising an assessment.

The information sources specified include:

- Withholding tax declarations;
- PAYE declarations;
- Electronic Tax Invoice Management System (e-TIMS) data;
- Third-party returns;
- Information obtained from inspection of records and goods;
- Information obtained from whistleblowers
- Information submitted to the KRA under any other written law.

These provisions are aimed at broadening the powers that the KRA may exercise in enhancing compliance and curtailing tax avoidance schemes. This also signals an intention to broaden KRA's powers in obtaining information from varied sources including from other government agencies.

Tax amnesty and waiver of penalties and interest

The Act has:

- Introduced an amnesty on penalties and interest arising from obligations relating to periods up to 31 December 2025 for which the entire principal is settled by 31 December 2026;
- Empowers the KRA to waive penalties and interest arising from an error generated by an electronic tax system if the liability does not exceed KES 2m; and
- The tax amnesty allows taxpayers an opportunity to voluntarily disclose unpaid taxes, enter structured payment plans, and reduce exposure to penalties and interest

Electronic tax system

The Act amends section 75 of the Tax Procedures Act

to empower the Commissioner to generate pre-populated tax returns for taxpayers using information available to the KRA. Taxpayers may rely on these returns when filing their tax returns and are required to confirm or amend the returns within the prescribed period.

The provisions are aimed at legitimizing the use of the electronic tax system in enhancing tax compliance while balancing KRA's powers in enforcing compliance with the system.

Import documentation requirements

The Finance Act, 2026 introduces a new section 23B of the Tax Procedures Act requiring importers to obtain, retain and, upon request, provide export declarations or equivalent customs documents issued by the country of export as evidence of the lawful exportation of goods into Kenya. Failure to produce the required documentation may result in the KRA rejecting claims relating to the importation, value, origin, cost or ownership of the goods and determining the applicable tax liability based on available information. This amendment strengthens KRA's verification and enforcement powers in relation to imported goods.

Recovery of unpaid levies, fees and charges

The Finance Act, 2026 introduces section 39B to the Tax Procedures Act, empowering KRA to recover any unpaid fee, levy or charge that it collects under any written law as though the amount were an unpaid tax liability. The amendment broadens KRA's enforcement mandate beyond taxes and allows the Authority to utilise the recovery mechanisms available under the Tax Procedures Act to collect outstanding statutory amounts, including levies administered on behalf of the Government such as housing levy. Amounts not exceeding KES 100,000 may be recovered summarily.

Enhanced penalties for non-compliance with electronic tax systems

The Finance Act, 2026 replaces section 86 of the Tax Procedures Act and introduces a structured enforcement framework for non-compliance with electronic tax obligations. Where a taxpayer fails to issue electronic tax invoices, file returns electronically, or make electronic tax payments, KRA must first issue a notice requiring the taxpayer to provide reasons for the failure. If the Commissioner determines that the non-compliance was not due to circumstances beyond the taxpayer's control and that reasonable steps to comply were not taken, the taxpayer will be liable to a penalty equal to the higher of 5% of the tax due, KES 100,000 for companies, or KES 10,000 for individuals. The amendment reinforces KRA's ongoing digitisation agenda and the importance of complying with electronic tax administration requirements.

Relief for penalties and interest arising from electronic system errors

The Finance Act, 2026 amends section 89 of the Tax Procedures Act to provide relief where penalties and interest arise due to malfunctions or errors in electronic tax systems. The amendment expressly recognizes electronic system malfunctions as a basis for waiver and empowers the Commissioner to waive, in whole or in part, penalties and interest of up to KES 2 million where the liability resulted from an error generated by an electronic tax system. The change is expected to provide certainty and relief to taxpayers adversely affected by system-related issues beyond their control.

Regulatory framework for pre-populated tax returns

The Finance Act, 2026 amends section 112 of the Tax Procedures Act to empower the Cabinet Secretary to prescribe regulations governing the submission and lodging of tax returns based on pre-populated returns generated by the Commissioner. The amendment provides the legal framework for the implementation and administration of KRA's pre-populated return system and is intended to enhance tax compliance, improve the accuracy of tax filings and simplify return filing processes for taxpayers.

Overall, the Act strengthens administrative efficiency, improve compliance monitoring and increase the efficiency of revenue collection from the revenue authority's perspective.

Value Added Tax (VAT) Act

Clarification on disbursements in supply of labor, outsourcing & employee placement services

The Act has introduced a new subsection 5A under the VAT Act which provides that employee related costs incurred by suppliers of labour, outsourcing or employee placement services to be considered as disbursements made on behalf of the client.

The Act also introduces the definition of 'employee related costs' as salaries, wages, statutory deductions and other related costs.

This implies that in determining the consideration of supply (for VAT purposes) for the above services, employment-related costs should be excluded, meaning VAT should not be applicable on these services since these services are now considered as mere disbursements on actual costs incurred. The amendment cures the recent uncertainty that was introduced by the decision in Income Tax Appeal No. E228 of 2023 – Commissioner of Domestic Taxes vs Techsavana Company Limited

Exclusion of financial charges from taxable value under licensed/registered hire purchase transactions

The Act has amended Section 13 (6) of the VAT Act to exclude financial charges from the taxable value of a supply under hire purchase (HP) transactions in which the supplier of goods is licensed and the HP agreement is registered under the Hire Purchase Act.

The implication of this is that for businesses conducting unlicensed/unregistered HP transactions, any financial charges on such transactions will be treated as consideration (taxable value) of the supply of the goods and therefore subject to VAT.

> "The amendments provide greater certainty on VAT treatment while enhancing recovery opportunities for businesses across key sectors of the economy.

Expansion of the scope of the VAT refunds

The Act has amended Section 17 (5) to introduce a new subsection 5(e) which allows a registered person to apply for a refund of input tax attributable to supplies made for official use to the Kenya Defence Forces (KDF), the Defence Forces Welfare Services (DEFWES), the National Intelligence Service (NIS) and the National Police Service (NPS).

Such suppliers will now enjoy input tax deductibility on these supplies to KDF, DFWES, NIS & NPS and eventually apply for such VAT refunds.

Input tax relief on supplies to security agencies

The Act has introduced Section 17(7) and 17(8) to the VAT Act which empowers a registered person to deduct in full (no apportionment) of input VAT directly attributable to supplies made to KDF, DEFWES, NIS & NPS. The supplier is however required to ensure proper documentation are in place to enjoy this relief.

Adjustment of input tax upon exemption of previously taxable supplies

The Act has introduced a new section 17A to the VAT Act requiring registered persons to make an input tax adjustment if taxable supplies subsequently become exempt while still unsold. In such circumstances, any input VAT previously deducted in relation to those unsold supplies must be accounted for in the VAT return for the period in which the supplies became exempt, using the same apportionment or deduction method that was applied when the input tax was originally claimed.

The implication is that businesses will be required to reverse and pay back input VAT previously claimed on stock or supplies that remain unsold at the point that VAT status of the supplies change from taxable to exempt. By accounting for the input tax claimed, the business must declare the amount as VAT payable and remit it to the Commissioner, even though no output VAT has been charged to a customer. This will potentially result in an immediate cash flow impact for affected businesses, particularly those holding significant inventory at the time of exemption, heightening the need for robust inventory tracking and VAT status monitoring to manage compliance risk.

Refund of tax on bad debts

The Finance Act2026 has amended section 31 of the VAT Act increasing the period within which a taxpayer can apply for refund of VAT on account of bad debts from 2 years to 3 years.

This means that businesses will now have to wait longer before applying for refunds of VAT paid on bad debts, which may increase cash flow pressure if customers default.

Tax invoice requirements

The Act has amended Section 42 of the VAT Act to restrict the issuance of invoices purporting to show VAT for taxable supplies only.

The amendment aims to increase compliance for informal suppliers who may not be registered for VAT as well as prevent tax leakage on "Artificial" VAT charged on nontaxable supplies.

Alignment with the Tax Procedures Act on tax avoidance schemes

The Act has repealed Section 66 of the VAT Act, which addresses tax avoidance schemes and associated tax liabilities. As a result, the Commissioner will rely on the provisions of the Tax Procedures Act, which provide a general framework for addressing tax avoidance and prescribe the applicable penalties.

Increase for tax-free allowance on baggage for returning travelers

The Act has increased the tax-free allowance on value of goods imported by a returning travelers from US$300 (approximately KES 39,000) to US$2,000 (approximately KES 260,000) on applicable goods subject to applicable conditions under Paragraph 99, Part 1 of the First Schedule to the VAT Act.

The relief aims to ease the additional tax burden on returning passengers because of the increasing cost of living in the country.

Clarification on VAT treatment of financial services provided over a digital platform/by payment service providers

The Act has amended Paragraph 1, Part II of the First Schedule to the VAT Act to clarify that VAT exemption does not apply on financial services in respect of 'payment processing, settlement, merchants acquiring, gateway or aggregation services supplied through software or over a platform by a payment service provider for a fee or commission.

The implication is that fees/commissions charged on financial services provided/supplied over a digital platform by a payment service provider are subject to VAT at standard rate (16%).

Definition of a payment service provider

The Act has introduced the definition of "payment service provider" as;

a) a person, company or organization which owns, possess, operates, manages or controls a public switched network for the provision of payment services; or

b) any other person, company or organization that processes or stores data on behalf of such payment service provider or users of such payment services.

The definition brings clarity with respect to the scope of VAT on services of payment-service providers eliminating any uncertainties.

Clarification on exemption of services of tour operators

The Act has clarified the extent of the exemption on services of tour operators by introducing the definition of "tour operator" and "inhouse supplies" as follows:

- A tour operator is a tour or safari operator licensed as such by the competent authority responsible for regulating and overseeing the tourism sector.
- In-house supplies are 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 from that purchased.

The amendment seeks to remove uncertainty on the VAT treatment of services of tour operators.

VAT Relief for financiers on repossessed loan collateral

The Finance Act 2026 has introduced an exemption under Part I of the First Schedule of the VAT Act (Paragraph 166) that 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.

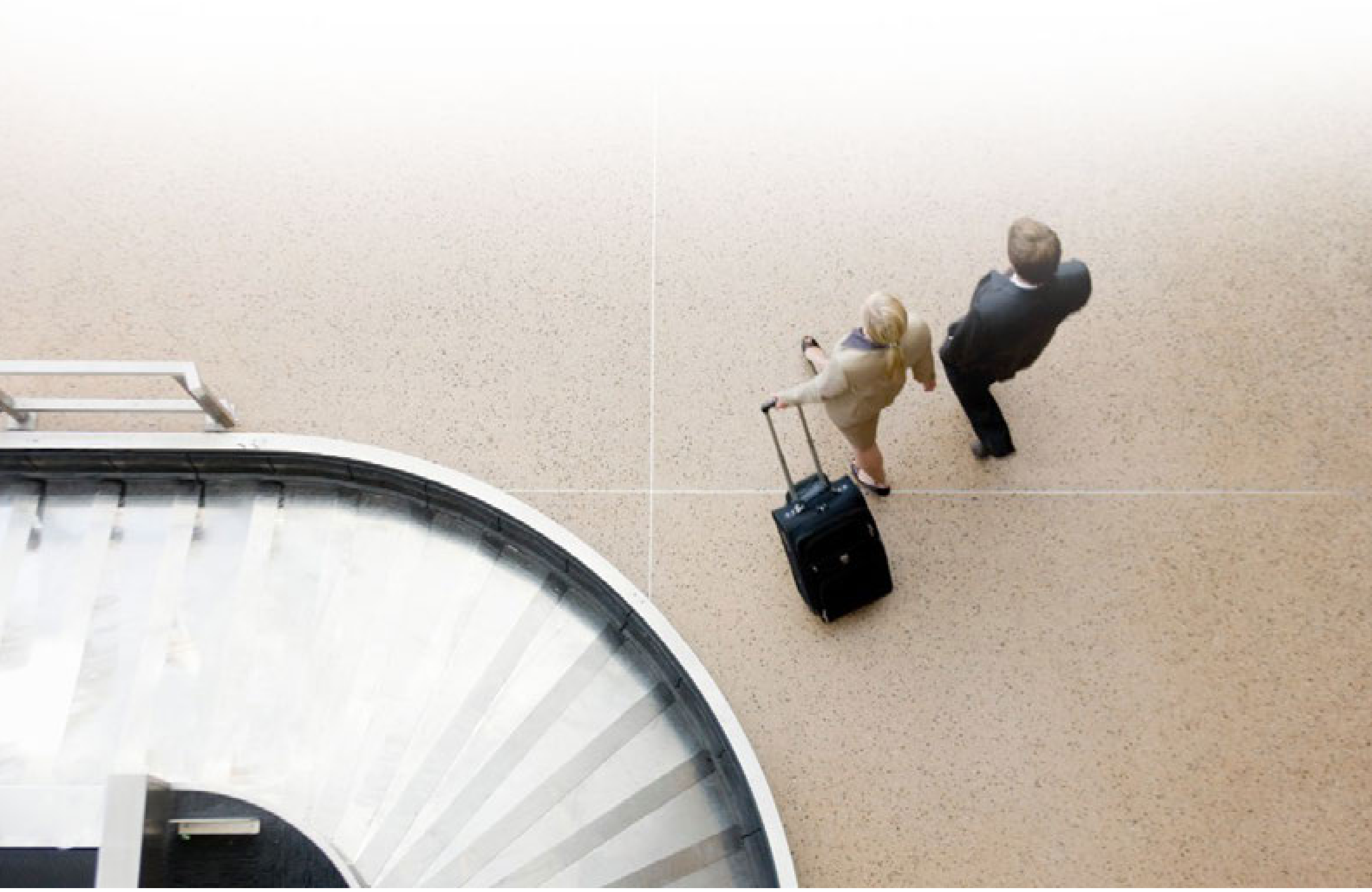
The amendment exempts VAT from loan collateral recovered from loan defaulters by lenders. The change is a cure for the long-running dispute between the tax authority and various taxpayers on taxation of loan collateral. Recently In KCB Bank vs Commissioner of Domestic Taxes the Tribunal had ruled that VAT should apply on auction of vehicles seized by the bank from loan defaulters.

You can review our analysis of the case ***https://taxnews.ey.com/news/2025-0535-kenya-tax-appeals-tribunal-rules-that-the-sale-of-repossessed-collateral-is-subject-to-vat***

Amendment of status of various supplies

Amendment of supplies to Standard Rate (16%)

Description	Previous rate	New rate	Sector
All goods and parts thereof of chapter 88 excluding aircraft parts imported by aircraft operators or persons engaged in the business of aircraft maintenance upon recommendation by the competent authority responsible for civil aviation	Exempt	16%	Airline Transport
Spare parts imported or purchased for direct and exclusive use in aid-funded projects provided that any exemption granted before 30 June 2026 shall apply until conclusion of the project	Exempt	16%	Government
Direction-finding compasses, instruments and appliances for aircraft	Exempt	16%	Airline Transport
Taxable goods/services for direct and exclusive use for the construction of tourism facilities, recreational parks of 50 acres or more, convention and conference facilities upon recommendation by the Cabinet Secretary responsible for matters relating to recreational parks	Exempt	16%	Tourism, Hospitality
Goods imported or purchased locally for 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	16%	Real Estate, Manufacturing (i.e., construction)



Exemption of supplies

Description	Previous rate	New rate	Sector
Such 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 **Shs 2 billion**. *It is worth noting that Finance Act 2025 had amended this provision to allow exemptions issued prior to 27th December 2024 to apply until 27th December 2025. Finance Act 2026 has nowreintroduced the exemption without a time-limitation.*	Exempt	Exempt	Manufacturing
Dialyzers of tariff number 8421.29.00	16%	Exempt	Health
Scrap metal	16%	Exempt	Manufacturing
Inputs or raw materials locally purchased or imported for the manufacture of pharmaceutical products upon recommendation of the Cabinet Secretary responsible for matters relating to health	0%	Exempt	Health
Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel)	0%	Exempt	Energy
Supply of goods andservices for direct and exclusive use in the implementation of infrastructure projects undertaken under a public private partnership framework, upon recommendation and approval of the Cabinet Secretary for the Ministry responsible for implementation of the project		Exempt	Government, Transport
The supply of goods andservices 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.		Exempt	Government
Plant, machinery, equipment and spare parts imported or purchased locally for use in a project whose total investment value is not less than **Shs 3 billion** as approved by the CS for the National Treasury upon recommendation by the CS for Trade and Investment Promotion.	16%	Exempt	Manufacturing
Taxable goods and services used in the construction of liquefied petroleum gas storage (LPG) tanks and related infrastructure provided that the investment in the construction of LPG storage tanks and related infrastructure in Kenya amounts to at least KES 5 billion and upon recommendation of the CS for matters relating to energy.	16%	Exempt	Energy

Clarification on zero-rating of certain supplies

Previous Description	New Description
The supply of electric bicycles	The supply of electric bicycles of Tariff Heading 8712.00.00
The supply of solar and lithium ion batteries	The supply of solar and lithium ion batteries of tariff heading 8507.60.00

This implies that zero-rating will only apply to items specified under the specific tariff heading for electric bicycles and lithium ion batteries.

The above changes are effective from 01 July 2026.

Excise Duty Act

Excise duty treatment of antique, vintage and classic vehicles

The Finance Act 2026 has amended the Excise Duty Act by defining antique, vintage and classic vehicles for excise duty purposes as motor vehicles first registered at least 30 years before purchase and valued at more than KES10m. An advalorem excise duty rate of 50% is proposed to apply to this category.

The amendment takes effect from 1 July 2026, increasing the tax burden on high value collectible vehicles.

Expansion of scope of excise refunds

The Act amends Section 29 of the Excise Duty Act to allow licensed or registered manufacturers to claim a refund of excise duty paid on inputs directly attributable to the manufacture of goods supplied to the Defence Forces Welfare Services and exempt under Paragraph 12 of Part A of the Second Schedule. The amendment seeks to eliminate embedded excise duty costs on exempt supplies, thereby ensuring that the benefit of the exemption is fully realize

Changes to the First Schedule

Excise Duty on imported gas cylinder

The Finance Act, 2026 clarifies the scope of excise duty on imported gas cylinders (35%) by introducing tariff specificity. The provision now expressly covers LPG cylinders classified under HS code 7311.00.10 - Liquefied petroleum gas cylinders (, potentially limiting the application of the duty to this category of goods and distinguishing it from other gas containers classified under 7311.00.90 ---other

> “The amendments refine the application of excise duty across luxury goods, manufacturing inputs and consumer products, while enhancing certainty, supporting compliant businesses and improving the effectiveness of targeted relief measures.

Excise duty rate change for fruit and vegetable juices

The Finance Act 2026 introduces a distinction between sweetened and unsweetened unfermented fruit and vegetable juices.

Unfermented fruit juices (including grape must) and vegetable juices containing added sugar or other sweetening matter, but with no added spirit, will now attract excise duty at KES 20 per litre, up from KES 14.14 per litre.

However, unfermented fruit juices (including grape must) and vegetable juices with no added sugar, other sweetening matter, or added spirit will continue to attract excise duty at KES 14.14 per litre.

Overall, the change signals a return to excise on juices, with a higher rate for sugar sweetened products.

Amendment of description of non-alcoholic beverages

The Finance Act 2026 removes bottled and similarly packaged water from the scope of excisable non-alcoholic beverages. As a result, bottled and similarly packaged water is no longer subject to excise duty. Other non-alcoholic beverages remain excisable at KES 6.41 per litre, unless specifically provided for under separate excise duty provisions.

Excise duty reduction – extra neutral alcohol

Excise duty on spirits of undenatured extra neutral alcohol exceeding 90%, when purchased by licensed spirit manufacturers, has reduced from KES 500 to KES 80.

The reduction in excise duty on extra neutral alcohol lowers input excise costs for licensed manufacturers, which is expected to reduce downstream excise driven production costs on finished spirituous beverages.

Excise duty increase on cigars and other manufactured tobacco products

The Finance Act has adjusted upwards the excise duty rates on cigars and other manufactured tobacco products. Excise duty on cigars, cheroots and cigarillos containing tobacco or tobacco substitutes will increase from KES 16,260.29 per kg to KES 18,000 per kg. Similarly, excise duty on manufactured tobacco substitutes, homogenous and reconstituted tobacco, tobacco extracts and essences will increase from KES 11,382 per kg to KES 12,550 per kg.

The changes increase the excise duty burden on tobacco products.

Excise duty increase on imported sugar

The Act amends the excise duty rate applicable to imported sugar (excluding sugar imported by registered pharmaceutical manufacturers and raw sugar for licensed sugar refiners) by increasing the rate from KES 7.50 per kilogram to KES 40.00 per kilogram

Excise duty adjustment – imported ceramic sanitary fixtures (tariff heading 6910)

The Act amends the excise duty applicable to imported ceramic sanitary ware (including sinks, wash basins, baths and similar fixtures under tariff heading 6910) by prescribing a rate of 5% of the excisable value or KES 50 per kilogram, whichever is higher. Previously, the law referred to customs value as the basis for applying the ad valorem rate.

While the amendment aligns the legal provision to an excisable value basis, in practice, the system has historically been configured to apply the duty on excisable value. The change therefore formalises the existing administrative treatment rather than introducing a substantive shift in how the tax is computed excisable value declarations.

Excise duty change – imported ceramic items of (tariff heading 6907)

The Act amends the excise duty applicable to imported ceramic flags, paving, hearth or wall tiles, and unglazed ceramic mosaic tiles (tariff heading 6907).Previously, these products were subject to excise duty at 5% of the customs value or KES 300 per square metre, whichever is higher. The amendment revises this to 5% of the excisable value or KES 50 per kilogram, whichever is higher.

This represents a fundamental shift from an area based to a weight based taxation framework, while also changing the valuation base from customs value to excisable value. The impact on tax costs will depend on the size, thickness and weight of the tiles, and may significantly alter the duty payable

The Act has introduced excise duty on the following goods:

The Act introduces excise duty on specified imported goods, including wood products, plastics, construction materials and selected manufactured items, at rates ranging from 10% to 35% of the excisable value, and in some cases specific or hybrid rate

New Excise Duty Items

Description	Tariff Heading	Excise Duty Rate
Imported MDF	4411.12.00, 4411.13.00, 4411.14.00, 4411.92.00, 4411.93.00, 4411.94.00	30% of excisable value
Imported particle boards	4410.11.00, 4410.19.00, 4410.90.00	30% of excisable value
Imported block board	4412.51.00, 4412.52.00, 4412.59.00, 4412.91.00, 4412.92.00, 4412.99.00	30% of excisable value
Imported plywood	4412.10.00, 4412.31.00, 4412.33.00, 4412.34.00, 4412.39.00	30% of excisable value
Imported timber	4407.19.00	30% of excisable value
Unprinted banner/flex/PVC sheeting	3921.12.10, 3921.90.10	KES 200/kg or 35% of excisable value (whichever is higher)
Imported shower heads	8516.10	35% of excisable value
Heating elements for shower heads	8516.10	35% of excisable value
Oral smokeless tobacco (snus)	–	KES 2,000 per kg
Unprinted plastic sheets	3920.43.10	10% of excisable value
Pre-personal chip modules	8542.31.00	10% of excisable value

Changes under PART II, Excisable services

Expansion of the excise base for betting

The excise duty on betting remains unchanged at 5%. However, the Act replaces the wallet-based charging mechanism with a broader charge on amounts deposited for betting purposes, regardless of whether the funds are held in a betting wallet. In addition, the deletion of the proviso removes the previous exclusion for horse racing, bringing such transactions within the scope of excise duty.

Implication: The amendments expand the scope of transactions subject to excise duty by aligning taxation with the underlying economic activity rather than system design. Transactions relating to horse racing, which were previously excluded, will now fall within scope. Overall, this is likely to increase tax exposure, as well as compliance and operational costs for betting operators, given the broader interpretation of taxable deposits and removal of preferential treatment.

Expansion of the excise base for gaming

The excise duty on gaming services remains at 5%, but the Act has replaced the wallet based charging mechanism with a charge on amounts deposited for gambling purposes, regardless of whether the funds are held in a gaming wallet.

This amendment expands the scope of transactions subject to excise duty, enhances certainty by aligning taxation with economic reality rather than system design, and could increase compliance and operational costs for gaming operators.

Virtual asset transactions

The Act clarifies that excise duty at the rate of 10% applies on fees charged on virtual asset transactions by virtual asset service providers, including exchanges, trading platforms, brokers, and other intermediaries facilitating such transactions. This does not introduce a new tax but instead refines the scope by aligning the provision with the concept of virtual asset service providers.

Implication: The amendment enhances legal certainty by confirming that the tax applies to service-based intermediaries in the virtual asset sector, rather than broadly to all participants, thereby reducing ambiguity in interpretation and enforcement

Excise duty exemption by National Intelligence Service

The Act expands the scope of excise exemptions to include the National Intelligence Service, aligning its treatment with other national security agencies. This reduces the cost of procurement for official operations and ensures consistent tax treatment across key security institutions.

Miscellaneous Fees and Levies Act

Expansion of the scope of application of EACCMA (effective 1 July 2026)

Originally, the Act provided that the provisions of the East African Community Customs Management Act, 2004 (EACCMA) relating to valuation of imported goods, collection and enforcement of duty applied only for purposes of assessing, collecting and enforcing the IDF, Railway Development Levy (RDL) and Export Levy.

Previously, the Act limited the application of the relevant EACCMA provisions to the assessment, collection and enforcement of IDF, RDL and Export Levy only.

Implication: The amendment broadens the statutory framework governing the administration of fees and levies under Part III of the Act, extending the established customs valuation, assessment, collection and enforcement mechanisms under EACCMA to all applicable fees and levies administered under the Act.

The Finance Act has amended Section 9 of the Miscelaneous fees and Levies Act to expand this scope by providing that the same EACCMA provisions shall apply to the assessment, collection and enforcement of all fees and levies imposed under Part III, including the IDF, RDL, Export Investment and Promotion Levy, anti adulteration levy and processing fees on duty free motor vehicles, where applicable.

Reduction in scope of IDF and RDF exemptions (effective 1 July 2026)

Refinement of IDF and RDL exemption on aircraft

The Act refines the scope of IDF and Railway Development Levy (RDL) exemptions on aircraft by replacing the previous blanket exemption for all aircraft and related goods with a more targeted approach. Under the amendment, all aircraft parts remain exempt, while the exemption for complete aircraft is limited to:

- Aircraft with an unladen weight exceeding 2,000 kg but not exceeding 15,000 kg; and
- Aircraft with an unladen weight exceeding 15,000 kg.

The amendment narrows the scope of the exemption by restricting relief on complete aircraft to specified weight categories, while retaining full exemption for parts. This introduces a more targeted policy approach, supporting commercial and large-scale aviation operations, but bringing smaller aircraft into the IDF and RDL net, which may increase import costs for certain operators in the aviation sector.

Expansion in scope of IDF and RDL exemptions (effective 1 January 2027)

The Finance Act 2026 has introduced an exemption on the 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.

The exemption is expected to reduce the cost of importing goods used in the construction of LPG storage tanks. It will encourage investment into the sector.

Stamp Duty Act

The Act has amended section 96A of the Stamp Duty Act regarding an exemption on transfers relating to REITs. The change will exempt from stamp duty the conveyance or transfer of a beneficial interest in property from a person or persons to a REIT.

This amendment effectively broadens the scope of the stamp duty exemption by expressly covering transfers of beneficial interests in property to REITs. The prior exemption applicable to REIT transactions had lapsed on 31 December 2022. The enacted change will therefore reinstate the position that applied prior to that date.

This change was largely driven by stakeholders seeking to boost liquidity and funding in the real estate sector. This is expected to reduce transaction costs for businesses utilizing REIT structures to hold or restructure real estate assets, thereby enhancing the tax efficiency and commercial attractiveness of REITs. Consequently, the amendment seeks to promote increased participation by property owners and investors in the real estate and capital markets sectors.

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Our team is ready to assist you with any questions or clarifications

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