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Certified Public Accountants

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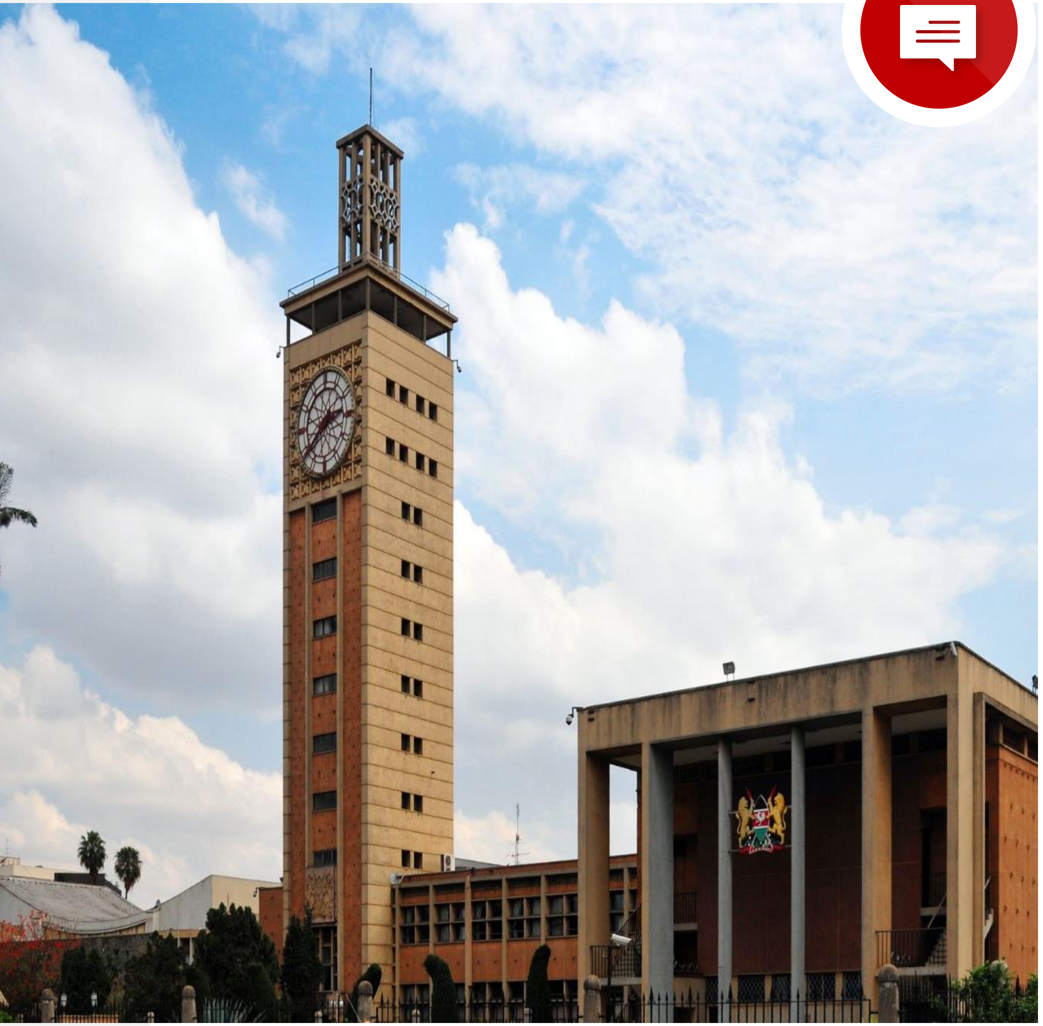
Key Highlights on The Finance Act, 2025

Introduction



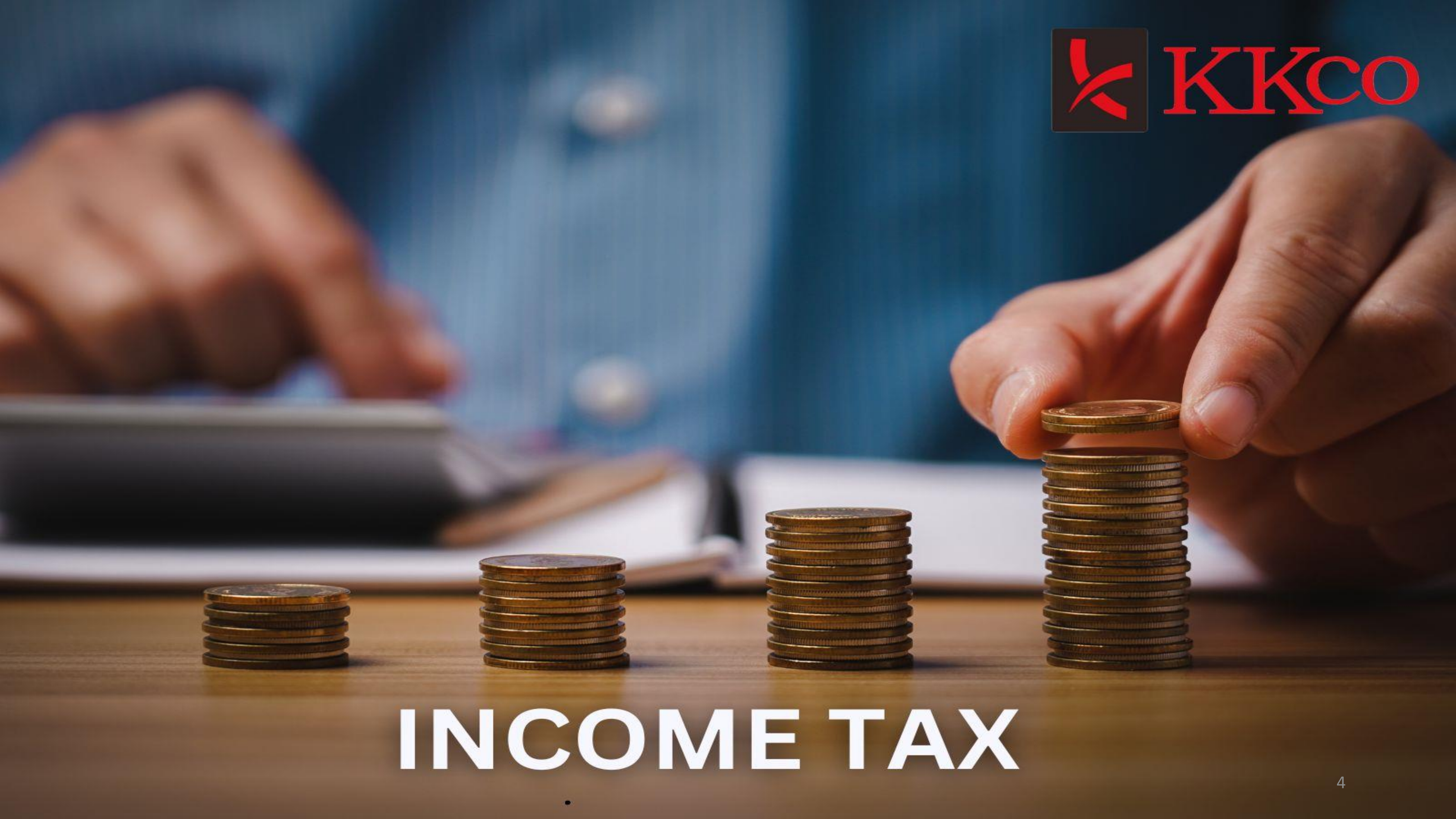
After the National Treasury's Cabinet Secretary read the 2025/2026 Budget Statement on June 13, 2025, the Finance Act, 2025 was assented into Law by The President of the Republic of Kenya H.E Dr. William Samoei Ruto E.G.H on 26th June 2025.
With estimated revenues and grants totaling KSh 3.35 trillion, of which KSh 2.94 trillion is anticipated to come from ordinary revenue, the government's proposed budget was KSh 4.2 trillion. The administration has proposed a combination of internal and external borrowing to close the KSh 718 billion budget deficit, or 3.9% of GDP.

The Finance Act, 2025 brings significant changes to a number of tax laws, such as the Income Tax Act, the Value Added Tax Act, the Excise Duty Act, and the Tax Procedures Act. Additionally, policy reforms impacting individuals, corporations, and important economic sectors are introduced by the Finance Act, 2025, which places a heavy emphasis on improving domestic revenue mobilization, expanding the tax base, and fostering fiscal sustainability.

Key highlights

The Principal object is to amend the provisions of Acts of Parliament under:

1. INCOME TAX ACT
2. VALUE ADDED TAX
3. EMPLOYMENT TAX
4. EXCISE DUTY
5. TAX PROCEDURES ACT
6. OTHER ACTS



INCOME TAX

INCOME TAX ACT AMENDMENTS

Significant Economic Presence Tax (SEPT)

The Act expands the definition to include provision of services offered through the internet or an electronic network including through digital marketplace.

The Act also amends to delete the SEPT exemption to a non-resident person with an annual turnover of less than five million shillings.

Implication

More non-resident digital service providers such as streaming platforms, online consultancies, e-learning services, and app-based services will now fall under the Kenyan tax net, even if their annual turnover is less than KSh 5 million.

Minimum top-up tax

The minimum top-up tax shall be payable by the end of the fourth month after the end of the year of income.

Implication

It brings about certainty with regard to the due date for payment of minimum top-up tax.

INCOME TAX ACT PROPOSED AMENDMENTS

Deduction for Utensils (diminution)

The Act amends the provision relating to the deduction for implements, utensils, or **similar articles** used in the production of income.

The change eliminates this discretionary power and instead introduces a fixed deduction rate of 100% in the year of income.

Currently, the Commissioner determines what is "just and reasonable" as the allowable diminution in value.

Implication

Gives a clear, objective rule of full deduction (100%) in the year the item is used.

Abolition of One-Third Tax Relief for Non-Resident Employees of Regional Offices

The Act deleted the provision that previosly granted a tax deduction on one-third of employment income for non-citizen individuals working for approved regional offices of non-resident companies or partnerships.

To qualify, such individuals must be in Kenya solely to perform duties related to the regional office, be absent from Kenya for at least 120 days in the year, and their income must not be deductible against the employer's taxable income.

Implication

*Non-citizen employees working for regional offices will face **higher tax bills**, reducing their **net take-home pay**. This may also discourage multinationals from setting up their regional offices in Kenya.*

INCOME TAX ACT AMENDMENTS

Related person

The Act introduces a new definition of related persons to in the case of two persons, either of the persons who participates directly or indirectly in the management, control or capital of the business of the other person, and in the case of more than the two persons-

(a) any other person who participates directly or indirectly in the management, control or capital of the business of the two persons; or

(b) an individual who-

i participates directly or indirectly in the management, control or capital of the business of the two persons;

ii. is associated with the two persons by marriage, consanguinity or affinity; and

iii. the two persons participate in the management, control or capital of the business of the individual;

Related person cont…

Implication

This has widened the scope of related persons by introducing individuals associated by marriage, consanguinity or affinity.

INCOME TAX ACT PROPOSED AMENDMENTS

Loss Offset Provision for Gains under property, financial instruments

The Act deleted the provision that allowed taxpayers to deduct losses realized from the computation of gains chargeable to tax under section 3(2)(f)—which relates to gains from property, financial instruments, or other specified sources.

Previously, such losses could be offset against similar gains in the same year and carried forward to offset gains in future years.

Implication

Taxpayers would no longer be allowed to carry forward capital gain tax losses to reduce their tax future liability on such capital gains, potentially increasing their effective tax burden.

Mortgage Interest Deduction

The Act expanded the scope of the mortgage interest deduction by including "construction of residential premises". Currently, the law allows a deduction of up to KSh 300,000 annually for interest paid on loans used to purchase or improve a residential property occupied by the borrower.

Implication

*The amendment is **a positive step toward equitable housing tax policy**, aligning tax relief with **diverse paths to homeownership**. Encourages **housing ownership among low-to-middle income groups**, who may not afford upfront home purchases.*

INCOME TAX ACT PROPOSED AMENDMENTS

Limitation of Tax Loss Carryforward to Five Years

The Act **limits** the period for carrying forward tax losses. Currently, tax losses can be carried forward **indefinitely** to offset future taxable income.

Implication

*Industries such as infrastructure, manufacturing, and technology where profits may take many years to materialize will be **disproportionately affected**.*
*With this new law, businesses must **closely track loss utilization** by year, ensuring they are applied within the 5-year window.*

Discretionary Extension for Carrying Forward Tax Losses

The Act deleted the provision that allowed the Cabinet Secretary, upon recommendation by the Commissioner, to extend the period for carrying forward tax losses beyond **ten years** in cases where a taxpayer provides sufficient evidence of their inability to offset the losses within that timeframe.

Implication

This Impacts businesses with long gestation periods, such as infrastructure, energy, real estate, and manufacturing.

Companies will have to re-assess revenue recognition strategies, expense timing, and investment decisions to make full use of losses before expiry.

INCOME TAX ACT PROPOSED AMENDMENTS

Advance Pricing Agreements in Transfer Pricing Framework

The Act introduced new Section 18G, which empowers the Commissioner to enter into Advance Pricing Agreements (APAs) with taxpayers involved in transactions covered under Section 18(3) or 18A, which relate to transfer pricing.

The APA will determine the arm's length pricing expected if the transaction were conducted between independent parties. Such agreements will be valid for a maximum of **five** consecutive years. The Commissioner may void an APA if it was obtained through misrepresentation, with written notice issued to the taxpayer.

Implication:

This proposed section aims to enhance certainty, reduce disputes, and encourage compliance in complex transfer pricing matters, aligning Kenya's tax regime more closely with international best practices.

INCOME TAX ACT PROPOSED AMENDMENTS

Application for change of accounting period year ends

The Commissioner is now required to communicate a decision within three months (**down from six months)** of receiving an application for approval of accounting periods change. The Act further provides that the application will be deemed to be allowed if the Commissioner does not respond within the 3 months.

Implication

This amendment aims to streamline the approval process and prevent delays in decision-making by the Commissioner.

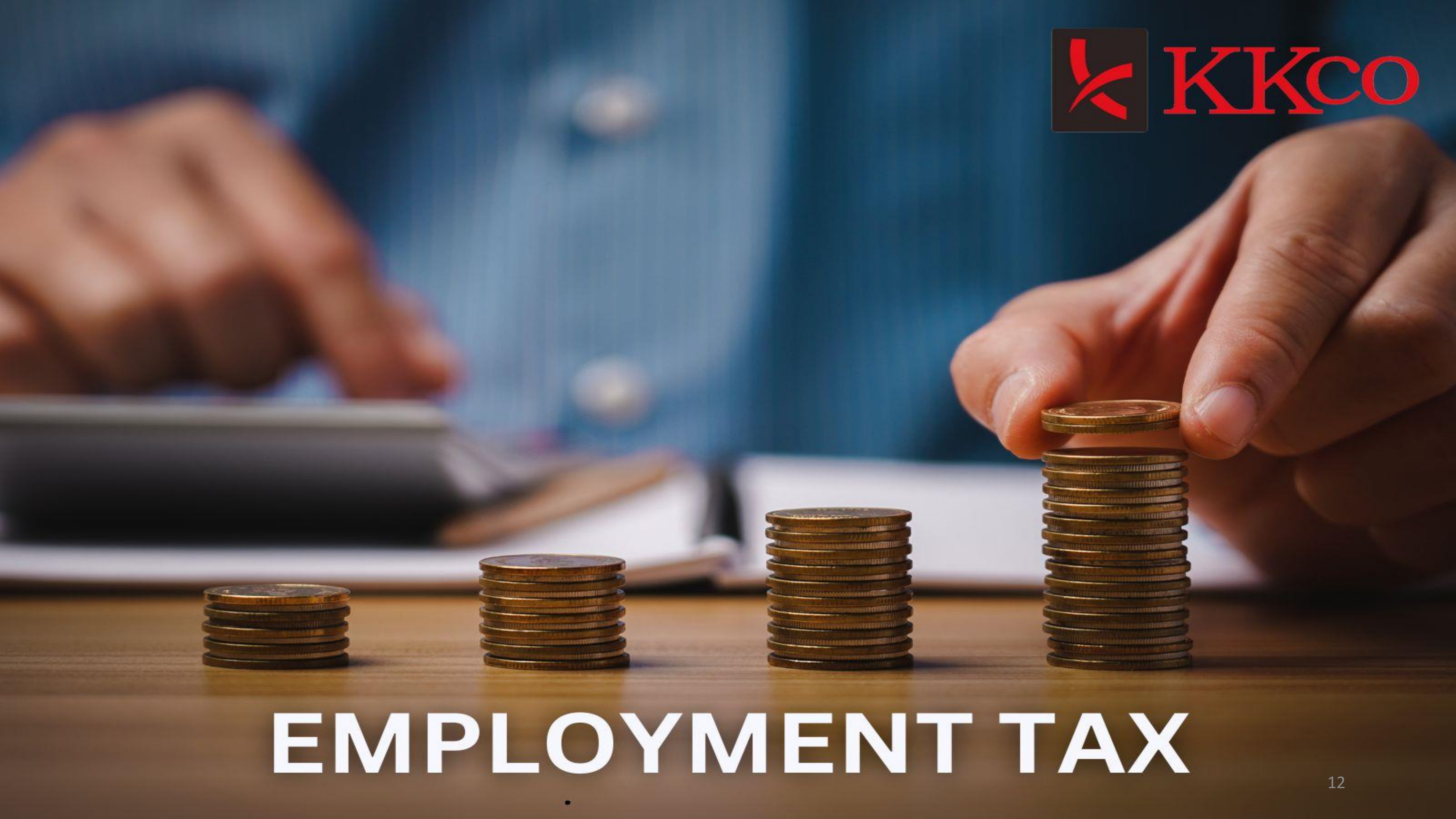
Definition for Transfer of Assets for the purpose of capital gain tax assessment

The Act expanded the provision on the transfer of assets **to a** company, where spouses or a spouse and immediate family hold 100% shareholding, **by including an individual**.

Implication

The clarification broadens the scope to include individual ownership in determining whether a transfer of asset is subject to capital gain tax.

This move will support Business Succession and Estate Planning since such transfer of property will not attract capital gain tax.



EMPLOYMENT TAX

CHANGES UNDER EMPLOYMENT TAX

Per diem

The Act amended to increase threshold for per diems to 10,000 shillings per day. The current provision is 2,000 shillings per day.

Implication

Employees will benefit from a higher tax-free daily travel allowance, improving their net take-home when on official duty.

Employers may be required to revise internal travel policies to align with the new threshold and avoid unnecessary payroll tax exposure.

CHANGES ON EMPLOYMENT TAX

Deductions, Reliefs, and Exemptions Before Tax Computation-

The Act mandates that an employer must grant an employee all applicable deductions, reliefs, and exemptions under the Income Tax Act before computing the tax deductible.

Implication

This change aims to ensure fair and accurate PAYE tax computation by recognizing entitlements upfront.

WITHOLDING TAX

WITHHOLDING TAX AMENDMENTS

New supplies and services subject to withholding taxes

The Act has amended Section 10 of the Income Tax Act to include the following as subject to withholding taxes

a) supply of goods to a public entity;
b) making or facilitating payment over a digital market place;

Implication

Will result in increased advance tax collection by the taxman.

Withholding Tax from Income of Ship Owners or Charterers

The Act proposes amend Section 35 of the Income Tax Act by introducing a new provision that introduces the deduction of tax on gains or profits derived from the business of a ship owner or charterer, which are chargeable to tax under section 9(1).

Implication

This may affect the competitiveness of the Kenyan ports resulting in ship owners docking at neighboring countries.

INCOME TAX ACT PROPOSED AMENDMENTS

Sale of scrap

The Act now makes sale of scrap not subject to withholding tax.

Implication

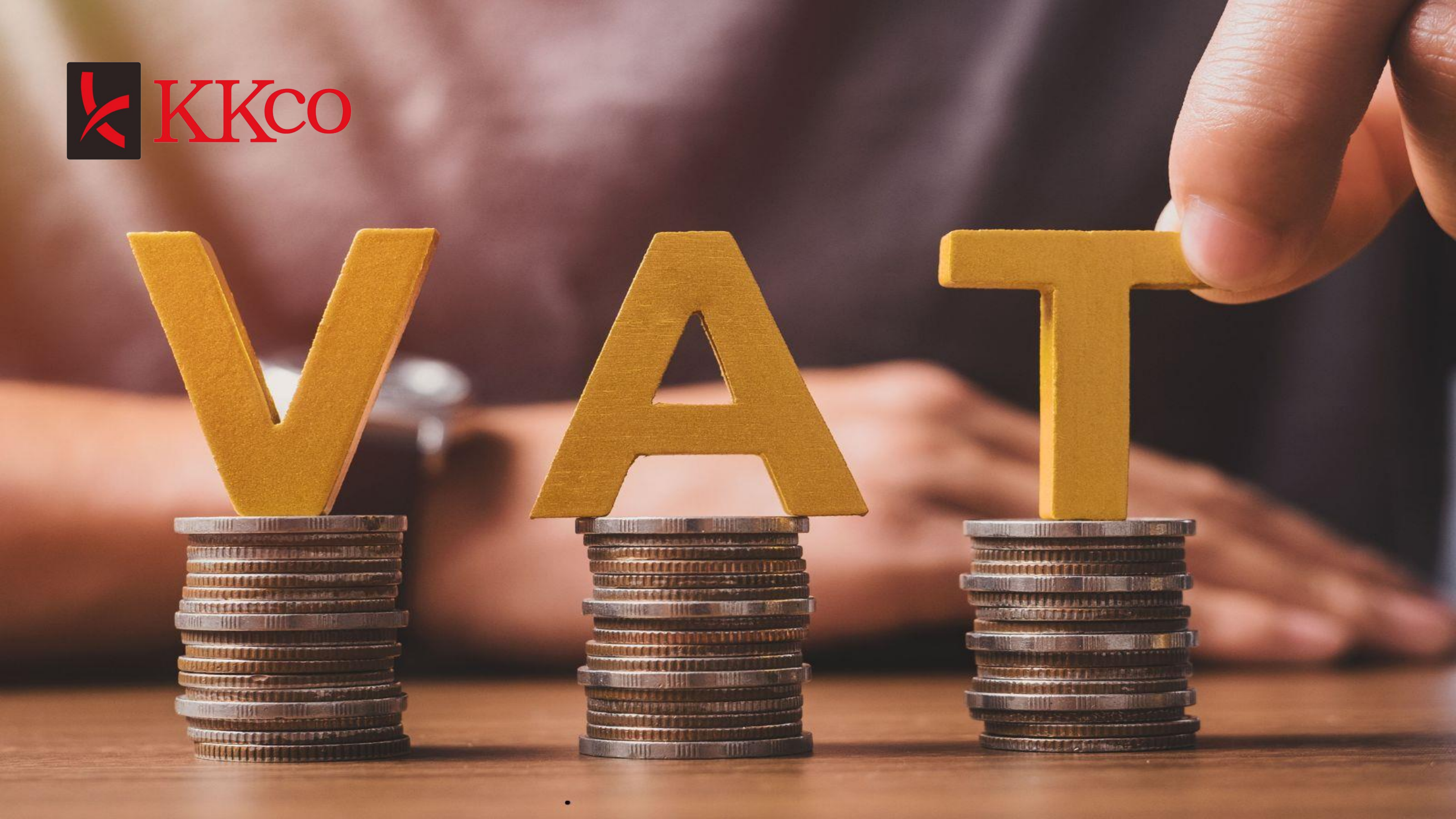
The new law provides relief to dealers in sale of scrap industry.

Withdrawals from Betting or Gaming Wallets

The Act makes clear that withholding tax is on withdrawal from betting or gaming wallet and NOT on the winnings.

Implication

It provides relieve to punters. Charging withholding tax on winnings led to double taxation.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VAT

VALUE ADDED TAX PROPOSED AMENDMENTS

Clarification of VAT Place of Supply Rules for Non-Resident Suppliers

The Act expanded the VAT provisions regarding the place of supply for non-resident suppliers.

This clarifies that the listed conditions apply to supplies made to both registered and **unregistered** persons in Kenya when the supplier is based outside Kenya.

Implication:

Non-resident suppliers may pass on the VAT cost to Kenyan consumers, resulting in higher prices for imported digital services or goods purchased online.

Definition of Electronic Services internet, radio

The Act amended the definition of "electronic services" by **repealing** the term "broadcast television" and substituting them with "internet, radio or television broadcasting services".

Implication: *This broadens the scope of electronic services to include various broadcasting methods beyond traditional television e.g Netflix, Hulu, Amazon Prime Video, Disney+, YouTube*

Burden of the added tax or regulatory costs could be shifted to consumers, potentially increasing the price of subscription-based or ad-supported digital media services.

VALUE ADDED TAX PROPOSED AMENDMENTS

Refund Provision for Historical VAT Credit Balances

The Finance Act, 2025 deletes the earlier provision allowing VAT refunds for excess input tax arising from historical credit positions due to rate changes prior to 1st July 2022. It is substituted with a new provision that allows for refunds of excess credit in respect of taxable supplies that became zero-rated on 1st July 2023.

Implication

This is not a positive move as taxpayers who have VAT withheld by appointed agents will ***no longer be able to offset excess input VAT against other tax liabilities*** *(e.g., PAYE, corporate income tax)*
This may lead to ***working capital constraints****, especially for businesses with consistent VAT credits.*

Refund Claim Period for Excess Input Tax

The bill proposes to reduce the period within which a registered person may lodge a claim for a refund of excess input tax from **24** months to **12** months from the date the tax becomes due and payable.

It also repeals the transitional provision that allowed claims for refunds on credits arising from withholding tax within 12 months from 1st July 2022.

Implication

Higher Risk of Expired Claims
May lead to ***increased operational costs- Refund verifications***

VALUE ADDED TAX PROPOSED AMENDMENTS

Reduction of Timeframe for Claiming Refund on Bad Debts

The Act amends the provision on tax refunds for bad debts by reducing the waiting period from **3** years to **2** years.

Specifically, a registered person who has made a supply, accounted for, and paid tax but has not received payment may now claim a refund after two years from the date of supply, instead of the previous three-year period.

Implication *This is a good move as there will be Improved Cash Flow for businesses*

Offset on Refund of Tax on Bad Debts

The Act amends the refund of tax on bad debts by adding a provision that allows the refunded amount to be used to offset any other VAT liability, subject to the Commissioner's approval.

This change provides greater flexibility for taxpayers by allowing bad debt refunds to be applied against outstanding VAT obligations.

Implication *The change comes as a conditional Benefit Improved Cash Flow and Liquidity for Taxpayers*

VALUE ADDED TAX PROPOSED AMENDMENTS

Tax Invoice Requirement

The Act amends the requirement for issuing tax invoices by deleting the word **"taxable",** thereby requiring a registered person to furnish an invoice—regardless of whether the supply is taxable—at the time of supply, containing the prescribed details.

Impaction

Expanded Scope of Invoicing Obligations requires compliance by all Registered persons in ***all supplies****, including* ***exempt and zero-rated*** *transactions and non-VAT persons, not just taxable ones.*

Tax on Inconsistent Use of Exempt or Zero-Rated Supplies

The Act introduced a new Section 66A to the Value Added Tax Act, following the provisions on tax avoidance schemes.

The new section provides that where a person imports or purchases goods or services which are exempt or zero-rated, and subsequently **disposes** of or uses them in a manner inconsistent with the intended exempt or zero-rated purpose, the person shall be liable to pay VAT at the applicable rate at the time of disposal or inconsistent use.

VALUE ADDED TAX PROPOSED AMENDMENTS

Item	Old Rate	Current Rate	effective date
Taxable goods for direct and exclusive use for the construction of tourism facilities, recreational parks of fifty acres or more, convention and conference facilities upon recommendation by the Cabinet Secretary responsible for matters relating to recreational parks. Provided that an exemption that had been approved pursuant to paragraph 62 before the deletion of paragraph 62 came into effect shall continue to apply until the 30th June, 2026;	Exempt	16%	*1st July 2025*
Taxable goods for the **direct and exclusive use in the construction** and equipping of specialized **hospitals with a minimum bed capacity of fifty,** approved by the Cabinet Secretary upon recommendation by the Cabinet Secretary responsible for health who may issue guidelines for determining eligibility for the exemption. Provided that notwithstanding this subparagraph, any approval granted by the Cabinet Secretary before the commencement thereof in respect of the supply of taxable goods and which is in force at such commencement shall continue to apply until the supply of the exempted taxable goods is made in full Provided that an exemption that had been approved pursuant to paragraph 63 before the deletion of paragraph 63 came into effect shall continue to apply until the 30th June, 2026;	Exempt	16%	*1st July 2025*

VALUE ADDED TAX PROPOSED AMENDMENTS

STANDARD RATED 16% to EXEMPT	Old Rate	Current Rate	Effective date
Specially designed locally assembled motor vehicles for **transportation of tourists**, purchased before clearance through Customs by tour operators upon recommendation by the competent authority responsible for tourism promotion, provided the vehicles meet the following conditions— (i) the vehicles shall at all times be registered and operated by a company that is licenced under the Tourism Vehicle Regime; (ii) the vehicles shall be used exclusively for the transportation of tourists; (iii) the vehicles shall have provisions for camping, rescue and first aid equipment, luggage compartments and communication fittings; and (iv) any other condition the Commissioner may impose: Provided that tax shall become payable upon change of use or disposal of the vehicle for other use.	Exempt	16%	*1st July 2025*

VALUE ADDED TAX PROPOSED AMENDMENTS

STANDARD RATED 16% to EXEMPT	Old Rate	Current Rate	Effective date
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. Provided that an exemption that had been approved pursuant to paragraph 109 before the deletion of paragraph 109 came into effect shall continue to apply until the 30th June, 2026;	Exempt	16%	*1st July 2025*

VALUE ADDED TAX PROPOSED AMENDMENTS

STANDARD RATED 16% to EXEMPT	Old Rate	Current Rate	effective date
Specialized equipment for the development and generation of solar and wind energy, including photovoltaic modules, direct current charge controllers, direct current inverters and deep cycle batteries that use or store solar power, upon recommendation to the Commissioner by the Cabinet Secretary responsible for matters relating to energy. Provided that an exemption that had been approved pursuant to paragraph 113 before the deletion of paragraph 113 came into effect shall continue to apply until the 30th June, 2026;	Exempt	16%	*1st July 2025*

VALUE ADDED TAX PROPOSED AMENDMENTS

STANDARD RATED 16% to EXEMPT	Old Rate	Current Rate	effective date
Inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments as approved from time to time by the Cabinet Secretary in consultation with the Cabinet Secretary for the time being responsible for matters relating to health.	zero	Exempt	*1st July 2025*
Inputs or raw materials locally purchased or imported for the manufacture of animal feeds upon recommendation by the Cabinet Secretary for the time being responsible for agriculture.	zero	Exempt	*1st July 2025*
Transpo1tation of sugarcane from farms to milling factories.	zero	Exempt	*1st July 2025*
The supply of locally assembled and manufactured mobile phones.	zero	Exempt	*1st July 2025*
The supply of motorcycles of tariff heading 8711.60.00.	zero	Exempt	*1st July 2025*
The supply of electric bicycles.	zero	Exempt	*1st July 2025*

EXCISE DUTY

EXCISE DUTY ACT AMENDMENTS

New definition on ‘digital lender’

The Act amends to repeal the current definition of "digital lender" and substitute it with a broader scope. The new definition states that a "digital lender" means a person extending credit through an electronic medium, excluding banks licensed under the Banking Act, SACCOs registered under the Co-operative Societies Act, and microfinance institutions licensed under the Microfinance Act. This replaces the earlier definition, which limited digital lenders to those holding a valid digital credit provider’s license issued by the Central Bank of Kenya.

Definition of digital marketplace

The digital marketplace" means an online platform which enables users to sell goods or provide services to other users;

Classification of Goods under the Excise Duty Act

The Act amends the Act by introducing a new subsection which provides that, for purposes of the Act, goods shall be classified based on the tariff codes outlined in Annex 1 to the Protocol on the Establishment of the East African Community Customs Union. Additionally, the general rules of interpretation provided in that Annex shall apply when interpreting the tariff codes.

EXCISE DUTY ACT AMENDMENTS

Imposition of Excise Duty for Non-Resident Services

The Act amends to expand the provision on excise duty not to be limited to through a digital platform but to cover over the internet, an electronic network or through a digital marketplace. This expands the scope of excisable services offered in Kenya by non-resident persons beyond just digital platforms. ***Effective date is1st July 2025***

Definition of non-resident person

The Act introduces a new definition of a non-resident person to mean a person outside Kenya, providing clarity for the application of tax provisions to foreign entities.
Effective date is1st July 2025

Deemed Place of Supply for Imported Digital Services

The Act amends to expand the definition of the place of supply by stating that if the supplier's place of business is outside Kenya, the supply of services shall be deemed to be made in Kenya if the services are consumed by a person in Kenya through the internet, an electronic network, or a digital marketplace. ***Effective date is1st July 2025***

Timelines for Issuance of Licence

The Act amends the section on the issuance of licences by inserting a timeline, requiring that the Commissioner shall consider an application and grant or refuse to issue a licence within fourteen days of receipt of the required documents. ***Effective date is1st***

EXCISE DUTY ACT AMENDMENTS

Definition of micro distiller

It means a manufacturer of spirituous beverage through two fundamental processes of fermentation and distillation using a still(boiler) not excedding 1,800 litres and whose annual production volume does not exceed 100,000 litres per year.

Activities requiring a license

The importation, distribution, or handling of methanol in Kenya;
The importation, distribution, or handling of ethanol in Kenya;

Exemptions on Obligations of licensed manufacturer in relation to excisable goods under excise control

Notwithstanding subsection (1)(a), a licensed microdistiller shall be exempt from the requirement for automation, continuous piping, and the use of mass flow meters. (2B) The production volume of such a licensed microdistiller shall be ascertained and monitored through the use of excise stamps or such other mechanism as the Commissioner may prescribe by notice in the Gazette.

The Act introduces a new definition of the term to me**amount deposited into a customer's betting wallet** an the amount of money transferred by a customer into the customer wallet maintained by a licensed betting and gaming operator for betting and gaming purposes.

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported eggs of tariff heading 04.07 excluding fertilized eggs for incubation imported by licenced incubators	25%	N/A	1st July 2025
Imported onions of tariff heading 07.03;	25%	N/A	1st July 2025
Imported potatoes, potato crisps and potato chips of tariff heading 07.01;	25%	N/A	1st July 2025
Coal	2.5% of the custom value	2.5% of the excisable value	1st July 2025
Imported Selfadhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or sh. 75 per Kilogramme, whichever is higher	N/A	1st July 2025
Imported Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not othe1wise worked of tariff ~~7007~~ 7005 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	35% of custom value or KSh. 200 per kg	35% of excisable value or KSh.200 per kg, whichever is higher	1st July 2025

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EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Paitner States that meet the East African Community Rules of Origin	25% or KSh. 150 per kilogramme, whichever is higher	N/A	1st July 2025
Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KSh. 200 per kilogramme, whichever is higher	N/A	1st July 2025
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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Kshs. 200 per Kilogramme, whichever 1s higher.	1st July 2025
Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, suppmted or similarly combined with other materials of tariff number 3920.10.90, but excluding those originating from East African Community Pmtner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Kshs. 200 per Kilogramme, whichever 1s higher.	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported printed polymers of vinyl chloride containing by weight not less than 6% of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.43.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	1st July 2025
Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other polyesters of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, suppo1ted or similarly of tariff number 3920.62.90, but excluding those originating from East African Community Pa1tner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	1st July 2025
Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19 .90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Printed self-adhesive paper of tariff number 4811.41.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	1st July 2025
Gummed paper and paperboard of tariff number 4811.49 .00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	N/A	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	1st July 2025
Imported paper or paper board, labels of all kinds whether or not printed of tariff heading 4821.10.00 and 4821.90.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin"	25% or sh. 150 per kilogramme, whichever is higher	25% or Ksh 200 per kilogramme, whichever is higher	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
"Imported cartons, boxes and cases of corrugated paper or paper board and imported folding cartons, boxes and case of non-corrugated paper or paper board and imported skillets, free-hinge lid packets of tariff heading 4819.10.00, 4819.20.10 and 4819.20.90",	25%	25% or Ksh 200 per kilogramme whichever is higher"	1st July 2025
Imported Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% or KSh. 150 per kilogramme, whichever is higher	1st July 2025
Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KSh. 150 per kilogramme, whichever is higher	**	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported Glass bottles (excluding imported glass bottles for packaging of pharmaceutical products) Provided that it shall not apply to glass bottles imported from any of the countries within the East African Community	35%	35% or Ksh.40 per kg whichever is higher	1st July 2025
Imported Articles of plastic of tariff heading 3923.30.00" by inserting the word "Imported	**	10%	1st July 2025
Articles of plastic of tariff heading 3923.30.00 and 3923.90.90	10%	**	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics of tariff 6907	5% of custom value or KSh. 50 per kg	5% or Ksh 300 per square metre, whichever is higher	1st July 2025
Cosmetics and Beauty products of tariff heading No. 3303, 3304, 3305 and 3307	15%	**	1st July 2025
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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	**	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	**	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	1st July 2025
Imported printed polymers of vinyl chloride containing by weight not less than 6% of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.43.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	1st July 2025
Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters 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, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	**	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	1st July 2025

EXCISE DUTY ACT AMENDMENTS

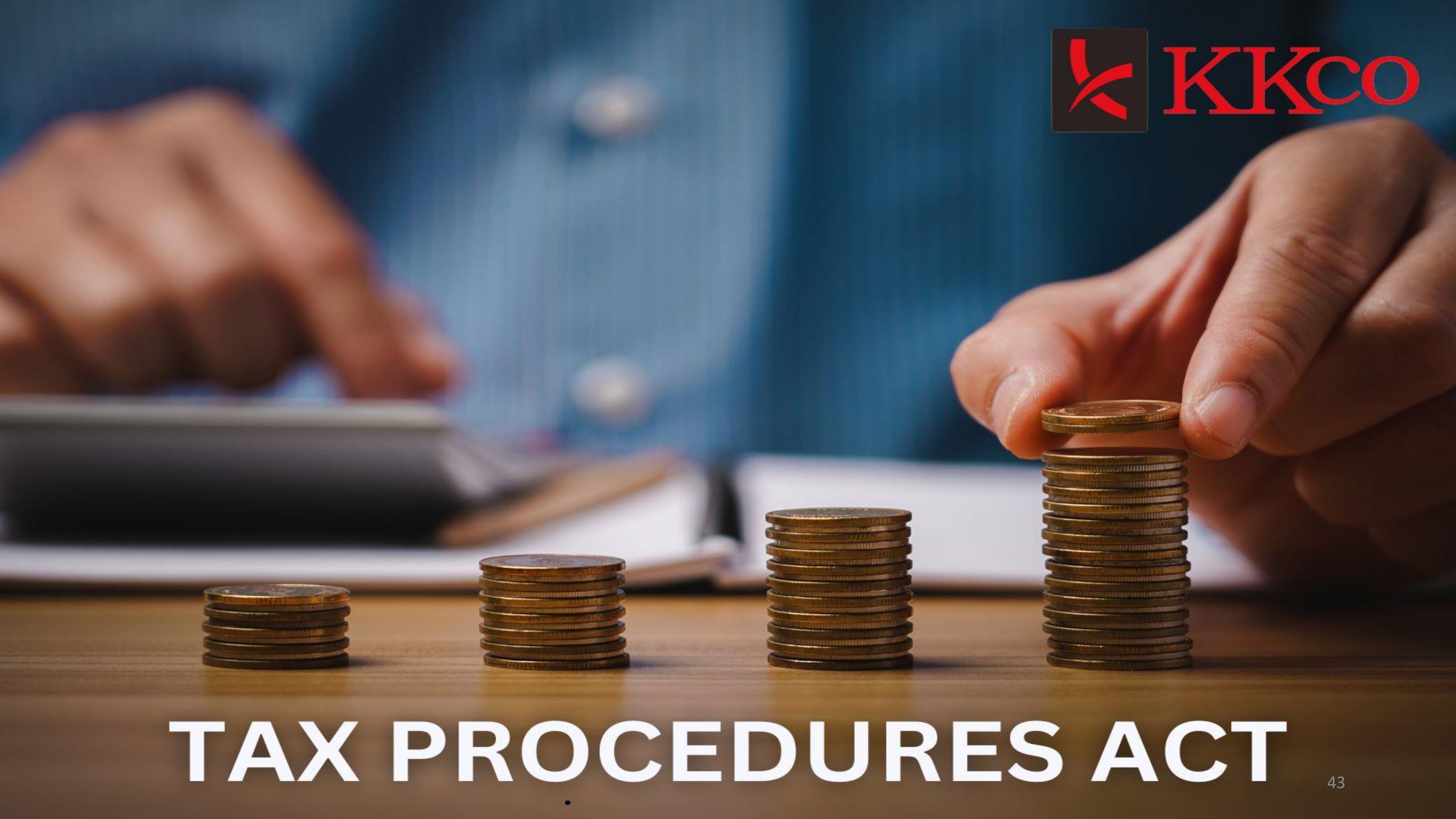
OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% of excisable value or Kshs. 200 per Kilogramme, whichever is higher.	1st July 2025
Printed self-adhesive paper of tariff number 4811.41.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	**	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	1st July 2025
Gummed paper and paperboard of tariff number 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	**	25% of excisable value or Ksh. 200 per Kilogramme, whichever is higher.	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported tea whether or not flavored.	**	25% of excisable value	1st July 2025
Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; unbleached of tariff number 4804.11.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% of excisable value or kshs.50 per kilogramme, whichever is higher.	1st July 2025
Imported other kraft paper or paperboard weighing 150g/m² or less, in rolls or sheets; unbleached of tariff number 4804.31.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% of excisable value or kshs.50 per Kilogram, whichever is higher.	1st July 2025
Imported other kraft paper or paperboard weighing more than 150g/m² but less than 225 g/m², in rolls or sheets; unbleached of tariff number 4804.41.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% of excisable value or kshs.50 per Kilogram, whichever is higher.	1st July 2025

EXCISE DUTY ACT AMENDMENTS

OTHER CHANGES ON EXCISE DUTY RATES	Old Rates	New Rates	Effective date
Imported other kraft paper or paperboard weighing 225 g/m² or more others in rolls or sheets; unbleached of tariff number 4804.51.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	**	25% of excisable value or kshs.50 per Kilogram, whichever is higher.	1st July 2025
Imported Glass of heading 70.03, 70.04 or 70.05, bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials, of Tariff Heading 70.06, but excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin.	**	35% of excisable value or Kshs. 500 per square metre, whichever is higher	1st July 2025
Imported safety glass of tariff numbers 7007.19.00 and 7007.29.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin.	**	35% of excisable value or Kshs. 500 per square metre, whichever is higher	1st July 2025
Imported Multiple-walled insulating units of glass of Tariff Heading 70.08, but excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin	**	35% of excisable value or Kshs. 500 per square metre, whichever is higher	1st July 2025



TAX PROCEDURES ACT

TAX PROCEDURES ACT PROPOSED AMENDMENTS

Penalty for Failure to Deduct or Withhold Tax

The Act added a new subsection providing that a person who fails to deduct, withhold, or remit tax will not be liable for the principal tax if the recipient of the payment has fully paid and accounted for both the principal tax and the amount not deducted, withheld, or remitted.

Implication

This is good move as it prevents double taxation Iin a situation where both the payer and the recipient are held liable for the same tax.

Recovery of Tax Through Property Disposal

The Act amends the recovery process by providing that where a payment plan is agreed, the taxpayer must settle the liability before the commissioner’s notification is lifted, and the transfer of the property shall be exempt from stamp duty.

Implication

The move gives a clear path for taxpayer to retain or recover their property by complying with an agreed payment plan, rather than facing immediate forced sale or disposal.

The exemption from stamp duty lowers the total cost of compliance and settlement for the taxpayer.

TAX PROCEDURES ACT AMENDMENTS

Offset or Refund of Overpaid Tax against Input VAT and VAT Payable on Imports

The Act amends to repeal the provision that allows a taxpayer to offset overpaid tax against future input VAT and allows offset on VAT payable on imports, thereby limiting the offset to outstanding tax debts and future tax liabilities,.

Implication

*Is to the businesses that frequently import goods or incur large input VAT may **experience tighter cash flows**, as they can no longer use overpaid taxes to immediately reduce these recurring VAT obligations.*

Decision timeline for Late objection

The Act amends that where the Commissioner allows a late objection and the objection is validly lodged, the period for making an objection decision shall be calculated from the date the objection is lodged.

Implication

The move is accommodating taxpayers whose late objections are submited and accepted and not disadvantaged by shortened timelines after late objection.

TAX PROCEDURES ACT AMENDMENTS

Extension of Timeframe for Determining Refund Applications

The Act amends to extend the period within which the Commissioner must ascertain and determine a refund application for overpaid tax from 90 days to one 120 days. Additionally, where such an application is subjected to an audit, the timeframe for determination is also extended from 120 days to 180 days, after which the application will be deemed ascertained and approved if no determination is made.

Implication

The refund audits may now take up to six months, and taxpayers should anticipate more documentation requirements and plan accordingly, especially for high-value claims.

Refusal of Private Ruling Applications

The Act amends the grounds upon which the Commissioner may refuse an application for a private ruling by repealing the reference to section 69, which was repealed in 2020.

This amendment seeks to align the law with current legislative provisions by removing obsolete references.

Implication

The amendment eliminates reliance on repealed sections, making it easier for the Commissioner to apply valid legal grounds when determining whether to accept or reject a private ruling application

TAX PROCEDURES ACT AMENDMENTS

Penalty for Failure to Submit Returns

The Act amends to broaden the scope of the penalty provision to explicitly cover not only late submissions of tax returns but also instances where a person completely fails to submit a return.

Implication

This Clear legal basis for penalizing non-filers as the previously provision primarily focused on late submissions, creating ambiguity around enforcement against complete non-filers. This amendment closes that gap, giving the Commissioner clear authority to impose penalties on those who fail to file returns at all.

Penalty and Interest Waiver for iTax/eTims system-related errors

The Act amends to empower the Cabinet Secretary, on the recommendation of the Commissioner, to waive wholly or partially any penalty or interest imposed where the liability arose due to:

- ❑ an error generated by an electronic tax system;
- ❑ a delay in updating the electronic tax system;
- ❑ duplication of a penalty or interest due to a system malfunction; or
- ❑ incorrect registration of a taxpayer's tax obligations.

Implication

Taxpayers will no longer be penalized for errors or delays beyond their control, such as system malfunctions, delayed updates, or incorrect taxpayer registration caused by KRA's systems.

TAX PROCEDURES ACT AMENDMENTS

Mandatory Certificate of Origin Requirement for All Imports

The Finance Act, 2025 introduces a new section requiring all importers to present a valid Certificate of Origin for goods imported into Kenya. The certificate must disclose the exporter and importer's names and addresses, port of origin, an accurate description and quantity of goods, and the country of origin and destination. The Commissioner or an authorised officer shall not process import documentation or clear goods for entry without the certificate and supporting documents. Failure to comply constitutes an offence, and the goods shall be subject to seizure or forfeiture

MISCELLANEOUS FEES AND LEVIES AMENDMENTS

Alignment of Imposition of Levies and Fees with Tax Procedures Act

This Act amends the handling of refunds of fees and levies paid erroneously with the general framework of the Tax Procedures Act. This is to promote consistency, ensure streamlined administration, and eliminate redundancy across tax laws.

Railway Development Levy and Import Declaration Fees exemption

The Act amends to repeal the provision that exempts all goods and parts thereof classified under Chapter 88 (which relates to aircraft, spacecraft, and parts thereof) from the payment of Import Declaration Fee (IDF) and Railway Development Levy (RDL) when imported or purchased before clearance through customs.

The Act further amends the Import Declaration Fee (IDF) and Railway Development Levy(RDL) exemption by replacing the current provision that limits the exemption to certain aircraft spare parts imported upon recommendation by the civil aviation authority. The new amendment seeks to exempt all goods under Chapter 88, including those under tariff headings 8802.30.00 and 8802.40.00, thereby broadening the scope of RDL & IDF exemption and removing the requirement for prior approval from the aviation authority.

MISCELLANEOUS FEES AND LEVIES AMENDMENTS

Adjustment of Import Declaration Fee Allocations and Usage

This Act amends Section 7 of the Miscellaneous Fees and Levies Act to revise the allocation and use of revenue collected from the Import Declaration Fee (IDF). While the fee remains at 2.5% of the customs value of goods imported for home use, the amendment increases the portion allocated to a Fund under the Public Finance Management Act from 10% to 20%. Additionally, it introduces a new framework for utilization of the Fund: 10% of the Fund shall be used to pay Kenya's contributions to the African Union and other international obligations, and another 10% shall be directed towards revenue enforcement initiatives. The requirement for importers to complete and present the import declaration form at the time of entry remains in force.

Effective date is1st January 2026

MISCELLANEOUS FEES AND LEVIES AMENDMENTS

Tariff No.	Tariff Description	Current Export and investment promotion levy rate	Old Export and investment promotion levy rate	Effective date
69.07	Ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics.	3% of the customs value	**	1st July 2025
69.10	Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures.	3% of the customs value	**	1st July 2025
72.06	Iron and non-alloy steel in ingots or other primary forms (excluding iron of heading 72.03).	17.5% of the customs value	**	1st July 2025
72.07	Semi-finished products of iron or non-alloy steel	17.5% of the customs value	**	1st July 2025
72.13	Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel;	17.5% of the customs value		1st July 2025

MISCELLANEOUS FEES AND LEVIES AMENDMENTS

Tariff No.	Tariff Description	Current Export and investment promotion levy rate	Old Export and investment promotion levy rate	Effective date
72.14	Other bars and rods of iron or non-alloy steel, not further worked than forged, hotrolled, hot-drawn or hot-extruded, but including those twisted after rolling.	17.5% of the customs value	**	1st July 2025
72.24	Other alloy steel in ingots or other primary forms; semifinished products of other alloy steel.	17.5% of the customs value	**	1st July 2025

MISCELLANEOUS FEES AND LEVIES AMENDMENTS

Tariff Description	Old Export and investment promotion levy rate	Current Export and investment promotion levy rate	effective date
Goods of Chapter 5407 and Chapter 6309 imported as raw materials for manufacture of textile products in Kenya upon recommendation of the Cabinet Secretary responsible for industry	Exempt	**	1st July 2025
Inputs, raw materials and machinery used in the manufacture of mosquito repellents upon recommendation by the Cabinet Secretary responsible for matters relating to health;	**	Exempt	1st July 2025
goods of chapter 5407 and chapter 6309 imported as raw materials for manufacture of textile products in Kenya upon recommendation of the Cabinet Secretary responsible for investment, trade and industry.	Exempt		1st July 2025
inputs, raw materials and machinery used in the manufacture of mosquito	**	repellents upon recommendation by the Cabinet Secretary responsible for matters relating to health;	

CONCLUSION

This alert offers a critical summary of the primary tax and regulatory reforms brought about by the Finance Act 2025, their compatibility with the government's economic goals, and the anticipated effects on taxpayers and the overall state of the economy.

The Act represents a significant shift in Kenya’s tax policy framework, emphasizing digital compliance, widened tax enforcement, and modernization of existing laws to match evolving economic realities. While the measures aim to boost revenue and enhance administrative efficiency, they also introduce strict obligations for taxpayers—both resident and non-resident—and reduce certain reliefs previously available.

As these changes may increase the compliance burden and affect operational costs for individuals and businesses, it is essential for stakeholders to thoroughly assess the implications and engage constructively with policymakers. A balanced and inclusive implementation will be critical to achieving The Act’s objectives without stifling economic activity or overburdening compliant taxpayers.

DISCLAIMER

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