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Finance Bill, 2026 Kenya

Sector-by-Sector Impact & What You Need to Do Now

57
SECTIONS AMENDED

7
TAX ACTS AFFECTED

1 JULY 2026
PHASE 1 EFFECTIVE

31 DEC
AMNESTY DEADLINE

May 2026 | Proposed effective dates subject to parliamentary approval |

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Each sector slide follows the same structure

How to Read This Deck

All changes listed are proposed. They require parliamentary approval before becoming law and may be amended. Effective dates are those proposed in the Bill.

WHAT CHANGES

The specific Finance Bill provisions that affect your sector — withholding tax, VAT, excise, filing, or procedural changes.

ACTION REQUIRED NOW

The concrete steps your business should take before the July 2026 and January 2027 effective dates, and before the amnesty deadline of 31 December 2026.

HOW WE CAN HELP

Specific services from Tarra Agility that are relevant to your situation — drawn directly from our Tax, Legal and Accounting practice areas.

Changes That Apply to Every Business

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Regardless of sector — these affect all taxpayers

Return Deadlines Shortened

Annual income tax returns: 4 months after year-end (from 6). Nil returns: 1 month. Takes effect January 2027.

GAAR — Anti-Avoidance Rule

KRA gains statutory power to disregard arrangements that lack genuine commercial rationale. Effective July 2026.

KRA Origination of Assessments

New Section 29A allows KRA to raise assessments proactively using data from third parties and electronic systems — no taxpayer error required as trigger.

Tax Amnesty — Act Now

All interest and penalties on debts up to 31 Dec 2025 are waived. Principal tax must be paid by 31 December 2026. This is a finite window.

Pre-Populated Returns

KRA may generate returns from eTIMS/iTax data. Taxpayers remain responsible for accuracy before filing.

eTIMS Penalties Restructured

Non-compliance penalty: higher of 2× tax due or KES 100,000 (KES 10,000 for individuals). KRA system-error waiver up to KES 2 million.

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Financial Services, Banks & Payment Processors

Withholding tax on card fees · VAT on digital payment services · WHT on interchange

WHAT CHANGES

- Interchange and merchant service fees re-defined as management fees — WHT applies to non-resident recipients
- Payment network and card scheme fees (Visa, Mastercard etc.) re-classified as royalties — WHT applies
- Payment processing, merchant acquiring, gateway and aggregation services: VAT changes from exempt to 16%
- Loss of WHT payee relief provision introduced in Finance Act 2025 — double-collection risk returns
- Offset of credits against import VAT removed — cash-flow impact for import-intensive businesses

ACTION REQUIRED NOW

- Map all card-related fee flows to non-residents and quantify WHT exposure
- Review gross-up clauses in contracts with non-resident card networks and processors
- Assess which payment services cross the new 16% VAT threshold
- Reconfigure clearing systems to deduct WHT on high-volume automated flows
- Model cash-flow impact of losing the import VAT offset

HOW WE CAN HELP

- Tax health check — WHT and VAT exposure mapping
- Tax report & strategy — contract and fee restructuring
- International tax advisory — treaty relief analysis
- Tax compliance — VAT and WHT return filing
- Tax controversy — dispute support if assessments arise

Fintech & Virtual Asset Service Providers

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Mandatory KRA reporting · international information exchange · new definitions

WHAT CHANGES

- VASPs must file annual information returns with KRA on all reportable Kenyan users
- Applies to exchanges, trading platforms and intermediaries — including those based offshore with Kenyan users
- Penalties: KES 100K per false statement, KES 100K per omission, KES 1 million for non-filing
- Kenya to enter automatic information exchange agreements on virtual assets — aligns with OECD CARF
- Definitions of 'virtual asset' and 'virtual asset service provider' introduced into TPA and Excise Duty Act

ACTION REQUIRED NOW

- Assess immediately whether your platform has Kenyan users that trigger reporting obligations
- Build KYC/KYT data infrastructure capable of producing annual KRA information returns
- Review current compliance framework against incoming CARF-aligned requirements
- Ensure undisclosed crypto holdings are reviewed — detection risk has materially increased
- International platforms: take legal advice on Kenyan filing obligations before July 2026

HOW WE CAN HELP

- Legal & regulatory advisory — VASP licensing and compliance framework
- Tax compliance — information return preparation and filing
- International tax — CARF and cross-border reporting obligations
- Tax controversy — representation in case of KRA inquiries or penalties
- Corporate/commercial — contracts and data-sharing arrangements

Gambling, Betting & Gaming Operators

20% WHT on winnings · broadened excise base · alignment with Gambling Control Act 2025

WHAT CHANGES

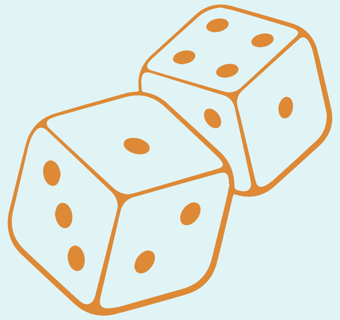
- WHT on winnings: 20% — final tax — applies to all payouts by licensed operators
- Excise duty base for betting/gaming widened: now includes chips, tokens, credits, virtual assets and operator-provided funds
- Horse racing carve-out from 5% excise proposed to be removed
- Definitions of 'withdrawals' and 'winnings' revised — winnings excludes the amount staked
- Alignment with Gambling Control Act, 2025 — licensing terminology updated throughout ITA

ACTION REQUIRED NOW

- Reconfigure systems to compute and withhold 20% on every payout — distinguishing stake from winnings
- Assess excise exposure on promotions: bonus credits and free-play tokens now in scope
- Review horse-racing product pricing following removal of excise carve-out
- Ensure systems can produce audit trail showing stake deducted before WHT applied
- Review licensing status under the Gambling Control Act, 2025

HOW WE CAN HELP

- Tax compliance — WHT filing on winnings; monthly excise returns
- Tax health check — historical excise and WHT exposure review
- Legal & regulatory — Gambling Control Act licensing advisory
- Corporate tax — review of overall tax position and structuring
- Payroll & accounting — management accounts aligned with new regime



Manufacturing, Distribution & Importers

VAT zero-to-exempt shifts · excise changes · EAC origin exemptions removed · scrap metal WHT

WHAT CHANGES

- Multiple inputs shift from zero-rated to exempt — pharma inputs, animal feed raw materials, sugarcane transport
- Suppliers lose input VAT recovery on reclassified goods: irrecoverable tax embeds in cost base
- Input VAT clawback: any unsold stock must be accounted for when exemption takes effect
- EAC origin exemptions removed — excise applies to glass, plastics, paper, packaging, printing ink and furniture from EAC states
- Scrap metal sales: 1.5% WHT applies — all purchasing entities must withhold on every purchase
- Sugar confectionery and plastic articles: excise extended to locally manufactured goods

ACTION REQUIRED NOW

- Model input VAT clawback on current inventory holdings in affected product lines
- Reassess pricing to account for irrecoverable VAT on previously zero-rated inputs
- Review EAC supply chain sourcing — quantify new excise cost on regional imports
- Build WHT deduction process for any scrap metal purchased as input
- Review contracts with regional suppliers regarding excise cost allocation

HOW WE CAN HELP

- Tax health check — VAT and excise position review
- Tax report & strategy — supply chain and procurement tax optimisation
- Tax compliance — excise, VAT and WHT return management
- Management accounting — cost impact modelling and financial planning
- Budgeting & financial planning — updated cost projections

Real Estate, Property Developers & REITs

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CGT and stamp duty exemptions for REITs · affordable housing VAT impact · non-resident rental tax

WHAT CHANGES

- CGT exemption: capital gains on transfer of property to a registered REIT are proposed exempt
- Stamp duty exemption extended: now covers both legal title and beneficial interest transfers into REITs
- Affordable housing construction inputs: lose VAT exemption — moves to standard 16% (residential sales remain exempt, so input VAT is irrecoverable)
- Tourism facilities and large recreational parks: goods and services VAT exemption removed — now 16%
- Non-resident rental income tax: new final tax regime for foreign-owned Kenyan property — monthly registration and filing
- PPP infrastructure: new VAT exemption for goods and services (CS approval required)

ACTION REQUIRED NOW

- Evaluate REIT structure as a tax-efficient vehicle for holding or exiting property assets
- Model impact of input VAT on affordable housing project costs — review project viability and pricing
- Non-resident clients holding Kenyan property: register with KRA and set up monthly payment process
- Review tourism and recreational park projects — budget for 16% VAT on construction inputs
- PPP developers: engage Cabinet Secretary approval process early to secure VAT exemption

HOW WE CAN HELP

- Legal & regulatory — REIT formation and structuring
- Real estate & finance — property transfer advisory; beneficial interest structures
- Tax report & strategy — REIT CGT and stamp duty planning
- Tax compliance — non-resident rental tax registration and monthly filing
- Corporate/commercial — PPP framework contracts and CS approval process

Extractive Industries — Mining, Oil & Gas

Non-resident rate cut to 30% · 15% repatriation tax introduced · takes effect Jan 2027

WHAT CHANGES

- Income tax rate for non-resident contractors reduced from 37.5% to 30% — effective January 2027
- New 15% repatriation tax on income repatriated by petroleum licensees and contractors under Section 7B
- Overall effective tax burden must be modelled: benefit of 7.5pt rate reduction may be partly offset by 15% repatriation charge
- Third Schedule: new rate for repatriated income added for both licensees and contractors
- These changes have implications for existing contracts, feasibility models and investor returns

ACTION REQUIRED NOW

- Remodel project economics accounting for the combined 30% income tax and 15% repatriation tax
- Review existing PSA/MDA agreements — assess whether contractual rate-stabilisation provisions are engaged
- Non-resident contractors: reassess pricing and contract terms in light of new effective rate
- Plan for January 2027 implementation — update accounting systems and WHT processes
- Review transfer pricing arrangements within extractive group structures

HOW WE CAN HELP

- International tax & transfer pricing — extractive sector structuring
- Corporate tax — Ninth Schedule analysis and compliance
- Tax report & strategy — project economics and return modelling
- Legal & regulatory — PSA/MDA review and investor advisory
- Tax compliance — Ninth Schedule filing and repatriation tax returns

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Aviation, Transport & Logistics

National carrier WHT exemption removed · IDF scope narrowed · excise on phones at activation

What Changes

WHAT CHANGES

- WHT exemption for specialised technical, maintenance and compliance services paid by the national carrier to non-residents is proposed to be removed — standard 20% WHT applies
- IDF and RDL: Chapter 88 exemption narrowed — now limited to aircraft parts and large aircraft only; smaller aircraft no longer covered
- Aircraft parts (paragraph 89) exemption widened — now covers all aircraft goods, not just spare parts
- Ship owner tax: payment deadline shortened to 5 days from receipt or port departure (whichever earlier)
- VAT: direction-finding compasses and instruments move from exempt to 16%

Action Required Now

ACTION REQUIRED NOW

- National carrier: model additional WHT cost on non-resident specialised services — assess gross-up obligation
- Review aircraft import classification against the narrowed Chapter 88 IDF/RDL exemption
- Shipping operators: establish 5-day payment processes for income tax before vessel departure
- Logistics companies: review import sourcing for excise-exposed EAC-origin goods
- Review contracts with non-resident maintenance and compliance service providers

How We Can Help

HOW WE CAN HELP

- Tax health check — WHT exposure on aviation services contracts
- International tax — treaty relief availability for non-resident service providers
- Legal & regulatory — contract review and renegotiation support
- Tax compliance — WHT and ship owner tax return management
- Tax controversy — support if WHT assessments arise from prior non-deduction

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Healthcare, Pharmaceuticals & Medical Devices

Pharma inputs: zero-rated to exempt · dialyzers exempted · input VAT clawback risk

WHAT CHANGES

- Pharmaceutical manufacturing inputs: proposed move from zero-rated to exempt — suppliers lose input VAT recovery and refund rights
- Irrecoverable VAT on overheads and services increases production costs for medicaments
- Input VAT clawback: stock of previously zero-rated inputs held at effective date must be adjusted
- Dialyzers (HS 8421.29.00): new VAT exemption — positive for kidney dialysis and renal care providers
- Human and animal blood products for medical/diagnostic use: VAT exemption maintained

ACTION REQUIRED NOW

- Quantify input VAT that will become irrecoverable on pharma manufacturing inputs from July 2026
- Model the production cost increase and assess pricing impact across product lines
- Conduct inventory review at effective date to calculate and account for input VAT clawback
- Healthcare providers: capitalise on dialyzer exemption to review product procurement costs
- Review management accounts to reflect new tax cost base in forward projections

HOW WE CAN HELP

- Tax health check — VAT position on inputs and clawback exposure
- Tax compliance — VAT return management and adjustment accounting
- Management accounting — updated financial models reflecting new cost base
- Budgeting & financial planning — revised product cost projections
- Financial statement preparation — accurate P&L reflection of VAT changes

Agribusiness, Food Production & Sugar

Animal feed inputs: zero-to-exempt · sugarcane transport reclassified · excise on sweetened juices

WHAT CHANGES

- Animal feed raw materials: move from zero-rated to exempt — manufacturers lose input VAT recovery and refund rights
- Non-recoverable input VAT on overheads may increase final feed prices — risk of passing cost to consumers
- Sugarcane transport from farms to mills: moves from zero-rated to exempt — transport providers lose input VAT recovery
- Sweetened fruit juices (with added sugar): excise increases from KES 14.14 to KES 20 per litre
- Unsweetened fruit juices: excise maintained at KES 14.14 per litre — now a separate line item

ACTION REQUIRED NOW

- Animal feed manufacturers: quantify loss of input VAT refunds — model cost increase on every production run
- Conduct input VAT clawback calculation on raw material stock held at effective date
- Sugar producers and transporters: review supply chain contracts for cost allocation on lost VAT recovery
- Beverage producers: separate sweetened and unsweetened juice production for excise accounting
- Review pricing strategy — consider whether cost increase is absorbable or must pass to customers

HOW WE CAN HELP

- Tax health check — VAT and excise position review
- Tax compliance — VAT and excise return management
- Management accounting — cost impact modelling
- Budgeting & financial planning — updated production cost models
- Bookkeeping — accurate accounting for reclassified inputs

Multinational Groups & Cross-Border Investors

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Offshore CGT · GAAR · CbCR amendments · expanded WHT on royalties and management fees

WHAT CHANGES

- Offshore CGT: gains on alienation of shares by non-residents now taxable where shares derive value from Kenya — no minimum Kenyan value threshold specified in proposed paragraph (d)
- UPE definition updated to OECD BEPS Action 13 consolidation-based test — verify group's UPE classification
- CbCR cross-references corrected — confirm filings reference correct subsections
- Royalty definition expanded to include digital platform and payment network payments — WHT exposure on cross-border flows
- Deemed dividend: Commissioner may now direct at least 60% of distributable income to be treated as a dividend

ACTION REQUIRED NOW

- Run Kenya CGT analysis on any offshore transaction involving groups with Kenyan entities
- Verify UPE classification under the new consolidation-based three-part test
- Map all cross-border royalty and payment fee flows — assess WHT under expanded definitions
- Document commercial rationale for all group structures in light of the codified GAAR
- Review transfer pricing documentation and CbCR filing completeness

HOW WE CAN HELP

- International tax & transfer pricing — offshore CGT and WHT analysis
- Transfer pricing — documentation, benchmarking and CbCR compliance
- Tax report & strategy — group structure review
- M&A advisory — deal structuring and Kenya CGT due diligence
- Tax controversy — dispute support on cross-border assessments

Telecoms, Technology & Digital Businesses

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Phones: VAT-exempt + excise at activation · software royalties · IDF/RDL exemption added

WHAT CHANGES

- Telephones: proposed VAT-exempt from January 2027 — but suppliers lose input VAT recovery (currently zero-rated)
- Excise duty on phones: deferred from importation/manufacture to point of activation — cash flow benefit for importers, compliance challenge for mobile operators
- Excise rate on phones: increases from 10% to 25% of excisable value
- IDF and RDL: new exemption for imported telephones
- Software royalties: expanded definition captures software distribution arrangements where regular payments are made through a distributor — WHT implications

ACTION REQUIRED NOW

- Handset importers: model cash flow impact of excise deferral to activation and the 25% rate increase
- Mobile operators: assess systems needed to track activation events and account for excise at point of activation
- Review software distribution agreements — assess WHT exposure under expanded royalty definition
- Suppliers: quantify lost input VAT recovery from zero-rated to VAT-exempt reclassification
- Prepare for January 2027 implementation with adequate lead time for systems changes

HOW WE CAN HELP

- Tax health check — WHT exposure on software and royalty payments
- International tax — treaty relief for non-resident software and IP payments
- Tax compliance — excise, VAT and WHT return management
- Tax report & strategy — technology product tax structure review
- Legal & regulatory — distribution agreement review

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HNWI Families, Private Wealth & Individual Taxpayers

Offshore property · trusts · CGT · pension · filing deadlines · tax amnesty

FILING & COMPLIANCE

Annual return deadline: last day of 4th month after year-end (Jan 2027). Nil returns: within 1 month. KRA may pre-populate returns from iTax data — you remain responsible for accuracy. Review all income sources: employment, rental, dividends, foreign income, investment gains.

TAX AMNESTY — PERSONAL OPPORTUNITY

If you have outstanding KRA liabilities (income tax, VAT, PAYE from any business) incurred up to 31 December 2025, the proposed amnesty waives all interest and penalties on those debts. You must settle the principal tax by 31 December 2026. Review your KRA ledger immediately.

TRUSTS, ESTATES & SUCCESSION

Trust income is now taxed once — at the trustee level only. Beneficiaries are not separately taxed on income already taxed in the trust. Death benefits from registered pension funds are proposed to be tax-exempt. Trust and estate planning is more tax-efficient than before.

OFFSHORE ASSETS & PROPERTY

Non-residents owning Kenyan property must register with KRA and file monthly rental tax returns. CGT on offshore share sales now applies where shares derive value from Kenya — affects family investments in offshore holding structures. Crypto holdings face international data exchange exposure.

How We Can Help: Personal Tax & Expatriate Services · Tax Compliance — Individual Returns · Tax Health Check · Legal — Global Mobility & Succession · Trust & Estate Advisory · International Tax — Offshore Structures

Employers, HR Teams & Payroll Managers

Gratuity conditions tightened · CBK housing loan relief added · accelerated nil returns

WHAT CHANGES

- Gratuity exemption: employer contributions to a registered pension scheme exempt from PAYE where service is ≥3 years and contributions ≤31% of employee's basic salary
- CBK employee housing loan interest: employees can now deduct up to KES 360,000 p.a. — on par with commercial bank borrowers
- Pension death benefits: tax-exempt — dependants of deceased members benefit
- National carrier employees: review impact of removed WHT exemption on non-resident specialist service contracts
- Filing deadlines: nil return filing window for individuals now only 1 month after year-end

ACTION REQUIRED NOW

- Review all current gratuity schemes: check service length and contribution rate against new ≥3 year / ≤31% conditions
- Update payroll calculations for CBK housing loan interest relief for eligible employees
- Communicate new nil return deadline to employees who file their own returns
- Review employment contracts for any non-resident service providers engaged by the business
- Ensure PAYE, NSSF, SHIF and Housing Levy compliance remains current for all staff

HOW WE CAN HELP

- Payroll services — PAYE compliance and gratuity treatment
- Tax compliance — PAYE, PAYE reconciliation and employer returns
- Personal tax & expatriate services — employee tax planning
- Legal — employment contracts and benefit scheme review
- Employer of Record — statutory compliance management

Tax Amnesty — A Finite Opportunity

All interest and penalties waived on debts incurred up to 31 December 2025 · settle principal by 31 December 2026

Bill Enacted
(Mid-2026)

July 2026
Deadline: register with KRA

31 Dec 2026
Settle all principal tax to qualify

Post-Jan 2027
Penalties resume on new debts

Who Qualifies

Any taxpayer — individual or company — with unpaid tax debts that were incurred for tax periods ending on or before 31 December 2025. Covers income tax, VAT, PAYE, excise duty and other KRA-administered taxes.

What Is Waived

All accrued interest and penalties on qualifying principal tax. The principal tax itself must be paid in full — there is no reduction in the underlying tax owed.

Deadline to Act

Settlement must be completed by 31 December 2026. This is a firm deadline: amounts remaining unpaid after that date will attract interest and penalties, for which no further amnesty will be available.

Tarra Agility can help you: review your KRA ledger · calculate qualifying principal tax · prepare an amnesty application · negotiate a payment plan where needed

How Tarra Agility Can Help

Our core service areas and how they apply to the Finance Bill 2026 changes

TAX

- Tax Health Checks — diagnose exposure before KRA does
- Tax Report & Strategy — structuring response to new rules
- Tax Compliance — returns filing (WHT, VAT, excise, PAYE, CIT)
- Tax Controversy & Dispute Resolution — KRA audit and TAT support
- Tax Litigation — High Court and appeal support
- International Tax & Transfer Pricing — cross-border WHT, CbCR, treaty analysis
- Tax Assurance — pre-audit readiness and controls review
- Personal Tax & Expatriate Services — individual returns and planning

LEGAL

- Legal & Regulatory — VASP licensing; regulatory advisory
- Real Estate & Finance — REIT structuring; conveyancing
- M&A Advisory — deal structuring; CGT due diligence
- Corporate/Commercial — contract review; non-resident agreements
- Global Mobility — expatriate and immigration advisory
- Corporate Secretarial — company administration and compliance

ACCOUNTING

- Management Accounting — VAT/excise impact modelling
- Budgeting & Financial Planning — revised cost projections
- Financial Statement Preparation — accurate P&L under new regime
- Bookkeeping — accounting for new tax charges and reclassifications
- Payroll Services — PAYE, NSSF, SHIF, Housing Levy compliance
- Employer of Record — statutory compliance management

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Suggested Next Steps

01

Book a Sector Briefing

Arrange a focused 60-minute session with our team to walk through the changes specific to your business.

02

Commission a Tax Health Check

An independent review of your current exposure across WHT, VAT, excise and filing obligations — before July 2026.

03

Review Your KRA Ledger

Identify any historical balances that qualify for the amnesty. Settling principal by 31 December 2026 eliminates all interest and penalties.

04

Assess Contract & Structure Exposure

Map cross-border fee flows, group structures and supply chains against the new WHT, royalty and CGT definitions.

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