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TAX POLICY BRIEFING | JULY 2026

# KENYA FINANCE ACT, 2026

A Sector-by-Sector Analysis of What Changed and Who It Touches

Assented 26 June 2026 | Most measures effective 01 July 2026

# The Shape of the Act

## KES 3.53T

**Revenue target underpinning the Act**

Ordinary revenue ~KES 2.90T plus appropriations-in-aid ~KES 632B. The Act's measures lean on base-widening and compliance, not new headline rates.

## 8

**Statuses amended**

Income Tax, VAT, Excise Duty, Tax Procedures, Miscellaneous Fees & Levies, Affordable Housing, Stamp Duty and Road Maintenance Levy Fund Acts.

## No Change

**To PAYE bands & corporate rate**

PAYE bands were left untouched  a widelynoted missed reform  and the anticipated cut of corporation tax from 30% to 25% did not materialise.

*Theme of the year: widen the base, tighten administration, and codify the digital and financial-services tax net — rather than raise the marquee rates.*

# Parliament Softened Some Edges and Sharpened Others

## Dropped from the Bill (relief)

- "Pay-to-play" tax dispute deposit requirement
- Deemed-dividend charge on undistributed profits
- 25% excise duty on cellular phones (stays at 10%)
- Activation as the excise trigger for phones
- Blanket removal of EAC excise duty preferences
- One-month deadline for nil-return filing
- Software distribution limb of the royalty definition

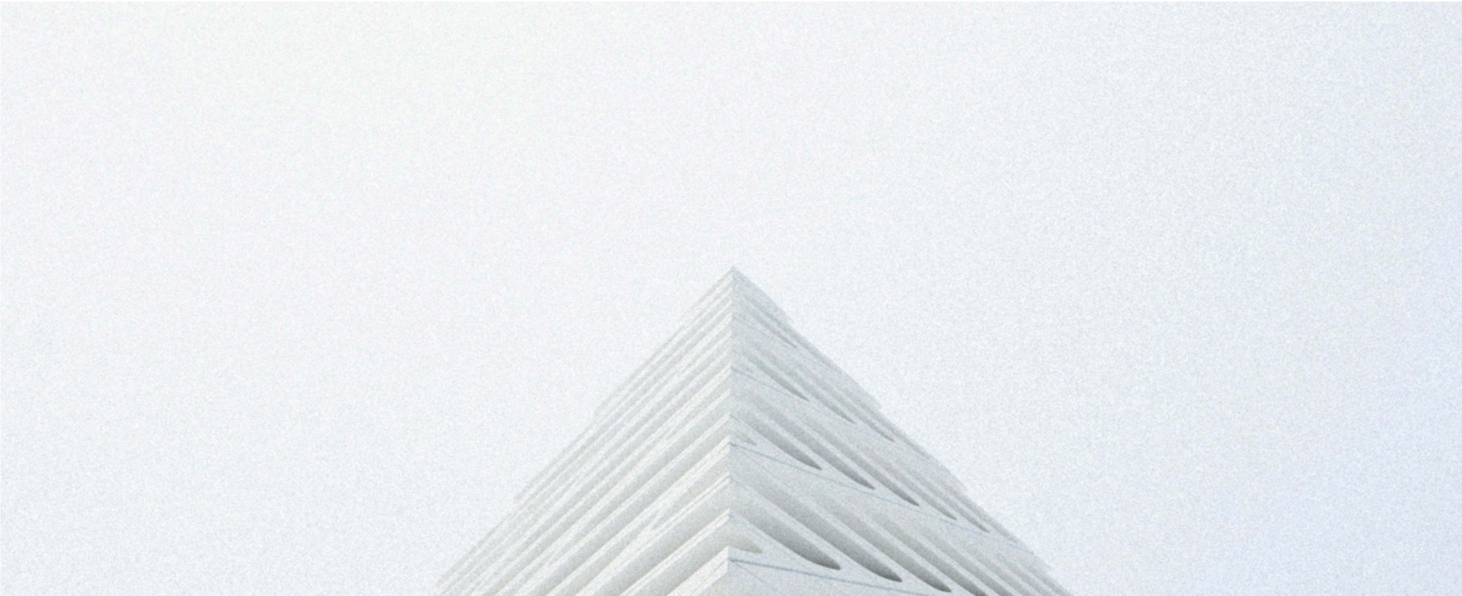
## New in the Act (added obligations)

- Mandatory export declaration regime for all importers (s.23B)
- VAT recharacterisation of outsourcing/staff placement costs
- Commissioner power to originate assessments (s.29A)
- Consolidated anti-avoidance rule in the TPA (s.18A)
- Indefinite loss carry forward for pre-2025 KES 10B+ investors
- 100% first year allowance for KES 10B+ petroleum/gas storage
- Excise on smokeless tobacco, wood, plastics & sanitary fittings

SECTOR 1

# Financial Services & Digital Payments

Banks, card networks, fintechs, payment service providers and lenders sit at the centre of this Act, with the withholding tax net widened in direct response to the Barclays/Absa Supreme Court decision.



# Cards, Fintech & the Withholding-Tax Net

**EFFECTIVE 01 JUL 2026**

The Act pulls card-network and payment-platform charges into withholding tax — a legislative reversal of the Barclays/Absa interchange-fee ruling.

### Interchange & merchant-service fees now WHT-able

“Management or professional fee” is expanded to capture interchange and merchant-service fees on card transactions. Absent a statutory definition of merchant-service fee, WHT may apply to the discount/fee as a whole, raising the cost of card acceptance.

### Royalty definition broadened to card networks

Payments for use of a proprietary digital payment-card network are now royalties, however described (service, transaction, network, assessment or processing fee). The software-distribution limb was dropped, sparing distributors and resellers.

### Digital payment services carved out of VAT exemption

Payment processing, settlement, merchant acquiring, gateway and aggregation services by a payment service provider are now VAT-able. Core money transfer services stay exempt. A partial win versus the Bill.

### Bad-debt deduction clarified for lenders

For banks, microfinance and licensed lenders, a bad debt written off per the Commissioner's guidelines now expressly includes principal, interest and related amounts. Resolving long-running principal deductibility disputes.

### Interest deductibility & collateral realisation

“Lending or leasing, or both” fixes the conjunctive wording trap for non-deposit-takers. Separately, realising collateral / repossessed assets is now an exempt financial service for VAT, ending a frequent KRA dispute.

### Non-resident PIN & investment-bank access

Non-residents are exempt from the PIN requirement when opening an investment bank account, easing inbound portfolio investment onboarding and separating account opening from tax registration.

SECTOR 2

# Real Estate, Construction & Infrastructure

A distinctly pro-investment chapter for REITs and large projects set against a new final tax on non-resident landlords and the withdrawal of several construction stage VAT exemptions.

# REITs, Landlords & Project Incentives

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Incentives to pool assets into REITs and to build strategic infrastructure — balanced by a new non-resident rental regime and construction-VAT changes.

### REIT transfers: CGT & stamp duty relief

Capital gains on qualifying transfers of property into a Commissioner-registered REIT are exempt, and stamp duty relief now expressly covers transfers of beneficial interest. A facilitative framework for pooling real estate.

### Non-resident rental income — new final tax

A final tax regime on rent from Kenyan property, filed by the 20th of the following month via simplified registration. Key gap: the Third Schedule does not yet prescribe the rate, creating rate uncertainty until guidance issues.

### Indirect-transfer CGT widened

Non-resident share disposals deriving value from Kenya or triggering a change in group membership of a Kenyan company fall into the CGT net, with no value threshold or apportionment formula, raising double-tax risk.

### PPP & National Infrastructure Fund VAT relief

Goods and services for PPP projects, and goods funded by the National Infrastructure Fund, are VAT exempt — end-to-end relief supporting alternative financing of public infrastructure.

### KES 3B+ project & capital-goods exemptions

Plant, machinery and spare parts for projects above KES 3 billion are VAT-exempt, and a standing capital goods exemption (KES 2B+) for manufacturing investment supports the industrialisation / BETA agenda.

### Construction-stage exemptions withdrawn

VAT exemptions on goods and services for tourism facilities, large recreational parks and convention centres are deleted, shifting VAT into the construction phase, though input VAT becomes recoverable.

SECTOR 3

# Energy, Extractives & Manufacturing

Strategic energy storage and large capital projects win generous first year relief, while a wave of new excise duties on imported inputs signals a firm protectionist tilt toward local manufacturing.

# Storage Incentives & a Protectionist Excise Tilt

EFFECTIVE MIXED - see notes

Big incentives for LPG/petroleum storage and extractives, paired with new import excises designed to protect domestic manufacturing.

### 100% first-year allowance: petroleum/gas storage

Capital expenditure above KES 10 billion on petroleum or gas storage facilities earns a 100% first-year investment allowance — plus VAT/IDF/RDL relief on LPG storage-tank goods and services (KES 5B+ threshold).

### Extractives: lower contractor rate, repatriation tax

Non-resident contractor rate cut from 37.5% to 30%; a 15% tax on repatriated income of licensees and contractors preserves Kenya's taxing right. Effective 01 January 2027 — time to revisit stabilisation clauses.

### Imported sugar excise: KES 7.50 → KES 40/kg

A steep rise in excise on imported sugar (refiners' raw-sugar imports excluded) pushes local sourcing — but raises input costs for manufacturers where local capacity cannot meet demand.

### New excises on wood, plastics, sanitary fittings

30% on imported MDF, particle/block board, plywood and timber; excise on imported PVC/banner sheeting and 35% on imported shower heads — a clear protectionist signal that raises construction and packaging input costs.

### ENA ethanol excise slashed: KES 500 → KES 80/L

Extra-neutral alcohol for licensed beverage manufacturers drops sharply, materially cutting input costs and helping curb illicit production — but the benefit stays restricted to licensed players.

### Reliefs retained: coal, small brewers, EAC inputs

Proposed 5% excise on coal was dropped; the KES 10/centilitre small-brewer rate survives; and the blanket removal of EAC excise preferences was rejected (only float glass affected) — protecting regional input costs.

SECTOR 4

# Digital Economy, Telecoms & Virtual Assets

Crypto and payments move squarely into the mainstream compliance architecture with VASP reporting, cross-border information exchange and a notable reprieve for mobile phone affordability.

# Crypto Reporting In, Phone Tax Hike Out

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Virtual asset activity is folded into mainstream tax reporting, echoing the OECD CARF while the threatened mobile phone tax rises were shelved.

### VASP information returns (TPA s.6C)

Virtual-asset service providers must file annual returns on reportable users, with a data protection safeguard limiting collection to what is necessary and proportionate. Penalties for false or omitted returns are significant.

### Cross-border exchange of crypto data (s.6D)

Kenya may enter automatic exchange agreements on virtual-asset transactions, subject to Data Protection Act safeguards and adequacy checks, aligning with the global CARF direction on crypto tax transparency.

### Virtual assets defined via the VASP Act, 2025

TPA and Excise definitions of “virtual asset” and “virtual asset service provider” now cross-reference the VASP Act, 2025, for consistent terminology across tax and financial regulation, reducing interpretational disputes.

### Mobile phone tax rises DROPPED

The proposed excise increase on imported phones (10% → 25%) and the shift of the excise trigger to activation were not enacted. Phones stay at 10% excise and remain subject to IDF/RDL, protecting affordability.

### Pre-personal chip modules: 10% excise

A new excise line brings selected electronic components (chip modules, tariff 8542.31.00) into the net at 10%, raising input costs across parts of the digital and telecoms value chain.

### Pre-populated returns & electronic systems

KRA will issue pre-populated returns by end of January with a two-month window to review, confirm or amend. A refined electronic compliance penalty regime applies (5% or KES 100,000 floor for companies).

SECTOR 5

# Trade, Imports & Cross-Border

The single largest new compliance burden lands here: every importer must now prove lawful export from the country of origin, while EAC investors lose a long-standing dividend preference.

# The Export-Declaration Regime Arrives

EFFECTIVE 23B: 01 SEP 2026

A mandatory documentary regime reshapes import compliance, alongside tighter levy enforcement and the removal of the EAC dividend preference.

### Export declaration for all imports (s.23B)

Every importer must obtain and retain, for 5 years, an export declaration or equivalent customs certificate from the country of origin. Failure lets KRA reject value/origin claims, redetermine liability and impose penalties.

### EAC dividend preference removed

The 5% preferential WHT on dividends to EAC-Partner-State citizens is deleted; the standard 15% non-resident rate applies. A step back from intra-EAC integration that may dampen regional individual investment.

### MFLA levies: EACCMA enforcement extended

EACCMA valuation, collection and enforcement mechanisms now apply across all Part III levies closing gaps on newer charges such as the Export & Investment Promotion Levy and anti-adulteration levy.

### Chapter 88 aviation reliefs narrowed

IDF and RDL exemptions on Chapter 88 goods are narrowed to aircraft parts and larger aircraft excluding smaller aeroplanes and helicopters, consistent with parallel VAT changes and curbing tax expenditure.

### Traveller baggage threshold raised

The VAT-free traveller-baggage threshold rises from USD 300 to USD 2,000, a welcome easing for returning passengers.

### IDF allocation & levy reversals avoided

Proposals to cut the IDF fund allocation (20% → 10%) and to restrict overpaid tax offsets against import VAT were dropped, preserving ring-fenced enforcement funding and taxpayers' offset rights.

SECTOR 6

# Employers, Labour & Outsourcing

A pragmatic VAT fix for the staffing industry and clearer gratuity rules. But no PAYE relief, and a pointed decision to keep CBK staff outside mortgage interest relief.

# Outsourcing VAT Fix, Gratuity Clarity, No PAYE Relief

**EFFECTIVE 01 JUL 2026**

Employee-related recharges are pulled out of the VAT base, gratuity exemption is codified, while PAYE bands stay frozen.

### Outsourcing / staff-placement VAT relief

Employee related costs (salaries, wages, statutory deductions) incurred by labour, outsourcing or placement suppliers are deemed disbursements. So VAT applies only to the service fee or margin. Resolves recent High Court uncertainty.

### Gratuity exemption codified

Gratuity contributions are exempt where the contract runs at least 3 years (including renewals) and the payment does not exceed 31% of emoluments. Standalone registered gratuity schemes sit outside pension relief caps.

### PAYE bands unchanged

No review of PAYE bands, widely flagged as a missed opportunity for relief on employment income amid cost of living pressure. Employees' primary tax position is unchanged.

### Instalment tax rationalised

Persons whose only chargeable income is employment income are excluded from instalment tax (collected via PAYE). But those with business, investment or professional income remain in scope despite also earning a salary.

### Aviation staff: national-carrier carve-out

Non-resident staff of a designated national carrier (Kenya Airways) are taxed only on income for duties performed in Kenya. Aligning with international aviation principles, though allocation rules are unprescribed.

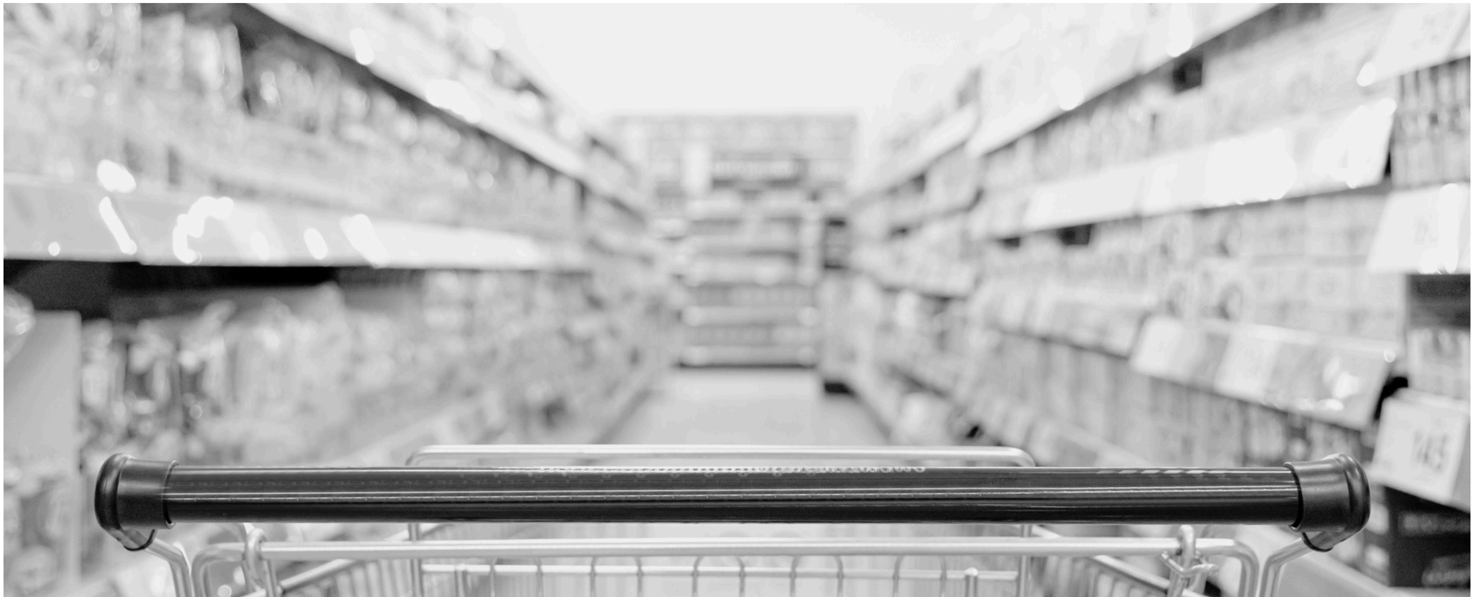
### CBK mortgage-interest relief rejected

The proposed deduction for interest on CBK housing loans (up to KES 360,000 p.a.) was dropped. Parliament held it would create inequity given CBK staff already enjoy preferential loan terms.

SECTOR 07

# Betting, Gaming & Consumer Goods

The gambling sector faces yet another redraw of the winnings and withdrawals machinery, while consumers see a mixed excise basket; cheaper water, pricier sugary juices and premium tobacco.



# Winnings Redrawn, a Mixed Excise Basket

EFFECTIVE 01 JUL 2026

Withholding tax returns to gambling winnings and the excise base broadens to deposits, while everyday consumer excise moves in several directions.

### WHT reinstated on gambling winnings

"Winnings" (20% WHT) is redefined without the Bill's stake-exclusion, creating uncertainty on whether tax applies to gross payout or net gain. Operators must update payout systems and expect increased scrutiny.

### Excise base widened to all betting deposits

The wallet-based trigger is removed: excise now bites on any value made available for betting or gaming — including operator-funded incentives and non-cash equivalents — closing structuring gaps.

### Scrap metal: 1.5% WHT + VAT exemption

A 1.5% withholding tax on scrap-metal sales creates a low-rate collection mechanism in a hard-to-monitor sector; the trade is also VAT-exempt (removing input recovery) to formalise recycling channels.

### Sugary juices taxed higher than plain

A two-tier juice excise: KES 20/L on sweetened versus KES 14.14/L on unsweetened — a health-driven signal likely to raise prices or prompt reformulation of sweetened products.

### Bottled water excise removed

Bottled and packaged drinking water leaves the excise net — treating water as an essential good, improving margins/pricing flexibility for producers.

### Tobacco up; smokeless snus taxed

Higher excise on cigars and manufactured tobacco, plus a new KES 2,000/kg rate on oral smokeless tobacco (snus) — extending the base to alternative nicotine products in line with public-health objectives.

SECTOR 08

# Cross-Cutting: Tax Administration

Every sector is touched by a decisive shift in KRA's posture. from reactive self-assessment toward proactive, data-led assessment, consolidated anti-avoidance powers and a reopened amnesty window.

# KRA's Powers Broaden; a Window to Regularise

**EFFECTIVE MIXED -see notes**

A structural tilt toward administrative, data-driven enforcement — with procedural safeguards attached and a fresh amnesty opportunity.

### Commissioner may originate assessments (s.29A)

KRA may raise assessments from available data: audits, third-party and system data, without a triggering taxpayer failure. Safeguards: 30-day pre-assessment information request and preserved objection rights (s.51).

### Consolidated anti-avoidance rule (s.18A)

A single general anti-avoidance provision in the TPA replaces ITA s.23 and VAT s.66. Broad definitions of “scheme” and “tax benefit”, balanced by written reasons within 30 days and access to private rulings.

### Tax amnesty reopened

Interest, penalties and fines are waived for tax debt up to 31 December 2025, provided the principal is settled by 31 December 2026. A valuable window to regularise legacy exposures across every sector.

### Faster, fixed filing deadlines

From 01 January 2027: individuals file by the 4th month after year-end; other persons by the 6th month. Notice-driven returns get a fixed statutory deadline, replacing the old “reasonable time”. Nil-return one month rule dropped.

### Summary recovery of non-tax debts (s.39B)

KRA may use tax recovery machinery for unpaid fees, levies and charges under other laws, with a summary process for amounts up to KES 100,000, elevating enforcement risk for all statutory payments.

### Taxpayer-friendly proposals rejected

Dropped: counting weekends/holidays into objection deadlines; agency notices while appeals are pending; deleting the Certificate-of-Origin requirement; and removing the s.39A double-payment relief for withholding agents.

ACTION CHECKLIST

# What to Do Before the Clocks Run

1 **Map your effective dates**

Split obligations across 01 Jul 2026, 01 Sep 2026 (export declarations) and 01 Jan 2027 (filing timelines, extractive repatriation rates).

2 **Re-paper payment flows**

Review card, interchange and merchant-fee arrangements, gross-up clauses and treaty positions for the widened WHT and royalty definitions.

3 **Secure export documentation**

Engage overseas suppliers now to obtain compliant export declarations and stand up 5-year retention before 01 September 2026.

4 **Stand up VASP & e-filing controls**

Build governance for virtual-asset reporting and validate pre-populated returns within the two-month confirmation window.

5 **Use the amnesty window**

Identify open principal-tax liabilities up to 31 Dec 2025 and settle by 31 Dec 2026 to extinguish interest and penalties.

6 **Claim the incentives**

Test eligibility for REIT reliefs, the 100% storage allowance, PPP/infrastructure VAT exemptions and pre-2025 loss carry-forward.

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*Prepared as general information only and does not constitute tax or legal advice. Confirm positions against the enacted text of the Finance Act, 2026 and obtain specific professional advice before acting.*

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