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A REVIEW OF THE FINANCE BILL, 2026

EXECUTIVE SUMMARY

The Finance Bill, 2026 (“the Bill”) seeks to introduce amendments to Kenya’s principal tax statutes, including the Income Tax Act, Tax Procedures Act, Value Added Tax Act, Excise Duty Act, and Stamp Duty Act.

The Bill forms part of the Government’s broader fiscal and economic policy framework

aimed at enhancing domestic revenue mobilization, broadening the tax base, strengthening tax administration, and aligning the tax regime with evolving business and digital economic models.

As with all legislative proposals, the Bill is expected to undergo parliamentary consideration and public participation in accordance with Article 118 of the Constitution of Kenya, which requires Parliament



to facilitate public involvement in the legislative process. Stakeholders, including taxpayers, industry players, professional bodies, and the general public, are therefore expected to review the proposals and submit comments before enactment.

The Bill Proposes;

- To amend the definition of management and professional fees to include interchange fees and merchant service fees arising from card-based payment transactions.
- To amend the definition of royalties to include payments relating to proprietary digital platforms, payment networks, and software distribution arrangements.
- To subject non-resident rental income to final withholding tax and to increase the residential rental income tax rate from 7.5% to 10%.
- To introduce a 5% tax on the customs value of imported second-hand clothing and footwear as part of measures aimed at expanding the tax base.
- To broaden the taxation framework applicable to insurance companies by shifting the basis of taxation from life insurance business to statutory funds in line with the Insurance Act.
- To revise the timelines for filing income tax returns by requiring submission by the last day of the fourth month following the end of the year of income, while requiring nil returns to be filed within one month after the end of the relevant year of income.
- To exempt pension benefits arising from death from income tax.
- To introduce enhanced reporting obligations for virtual asset service providers and facilitate the international exchange of digital asset information.
- To amend the VAT framework by requiring reversal of input VAT attributable to unsold supplies that subsequently become exempt and by extending the VAT refund claim period to three years.
- To increase the duty-free threshold for travelers from USD 300 to USD 2,000, thereby easing the tax burden on qualifying personal imports.
- To expand exempt supplies while removing various items from zero-rating, particularly in the

agriculture, energy, and manufacturing sectors, including imported mobile phones, motorcycles, electric bicycles and buses, solar products, and lithium-ion batteries.

- To expand the scope of excise duty by introducing a 50% excise duty on antique and vintage motor vehicles, increasing excise duty on telephones to 25%, and shifting the tax point for telephones to activation.
- To amend the provisions restricting the Commissioner from issuing agency notices where a taxpayer has appealed against an assessment.
- To exempt transfers relating to Real Estate Investment Trusts (REITs) from stamp duty.



Stakeholders, including taxpayers, industry players, professional bodies, and the general public, are therefore expected to review the proposals and submit comments before enactment.

INCOME TAX ACT

ISSUE	PROPOSED AMENDMENT	COMMENTARY
<p>Definition of Management Fees</p>	<p>The Bill proposes to amend the definition of “management or professional fees” under the Income Tax Act to expressly include interchange fees and merchant service fees arising from card-based payment transactions.</p>	<p>The proposed amendment appears intended to clarify the tax treatment of interchange and merchant service fees within the withholding tax framework. This follows the Supreme Court Decision in Petition No. 12 (E014) of 2022 Barclays Bank of Kenya Limited v Commissioner of Domestic Taxes case, where, the courts considered whether such payments constituted management or professional fees or royalties under the Income Tax Act. If enacted, the amendment will broaden withholding tax obligations within the banking, fintech, and digital payments sectors.</p>
<p>Imposition of non-resident rental income tax</p>	<p>The Bill proposes where the income of a non-resident person is accrued from the use or occupation of property situated in Kenya non-residential rental income tax shall be payable by the non-resident person which shall be a final tax.</p>	<p>The proposed amendment appears broadly drafted, as it refers generally to rental income derived from property situated in Kenya without expressly limiting its application to residential rental income. However, the corresponding rate provision references the 7.5% rate (proposed to increase to 10%), which is currently applicable to residential rental income tax. This creates uncertainty as to whether the proposal is intended to apply exclusively to residential rental income or to all forms of rental income earned by non-residents, including commercial property income. Clarification may therefore be necessary to avoid interpretational disputes and implementation challenges.</p>
<p>Trust income deemed income of trustee</p>	<p>The Bill proposes that income chargeable to tax and received by a person in the capacity of a trustee, executor and administrator shall be deemed to be income of that trustee. However, this does not include dividends or interest.</p>	<p>This is a good proposal as it eliminates previous provisions that charged tax on dividends or interest in the income of a trustee.</p>
<p>Tax on income from importation of worn clothing and other worn articles</p>	<p>The Bill proposes to impose tax on secondhand clothes and shoes imported to Kenya and the tax shall be 5% of the custom value of the imported goods.</p>	<p>This proposal aims to widen the tax base however it is likely to experience hostility.</p>
<p>Deductions not allowed</p>	<p>The Bill proposes to substitute the initial provision on exempting leasing and lending business and adding organizations that do both leasing and lending.</p>	<p>This is a good proposal as many non-deposits taking microfinancing businesses do both lending and leasing.</p>
<p>Ascertainment of income of insurance companies</p>	<p>The Bill proposes to substitute the provision on life insurance with statutory fund.</p>	<p>By having statutory fund this will result to a transfer of cost to the insurer because the scope is for the statutory fund is wider than the life insurance.</p>
<p>Return of income and notice of chargeability</p>	<p>The Bill proposes to amend the timelines for the submission of income tax returns by both individual and corporate taxpayers to the last day of the fourth month which is by 30 April for entities with a 31 December year-end and individuals since the financial year end for individuals is 31 December. It also proposes that taxpayers who intend to file nil returns to do so within one month following the end of the year of income to which the return relates.</p>	<p>The proposed amendment significantly shortens the tax compliance timeline and is likely to have substantial operational and administrative implications. Companies, financial institutions, and other entities will be required to finalize their financial reporting, tax computations, reconciliations, and audit processes considerably earlier than under the current framework. The proposal may also necessitate earlier completion of statutory audits to enable accurate preparation and filing of tax returns within the revised timelines.</p>

ISSUE	PROPOSED AMENDMENT	COMMENTARY
First Schedule (Exemption from Tax)	The Bill proposes the inclusion of benefits arising due to death to the income accrued in, derived from or received in Kenya which are exempt from tax.	This is a good proposal as it is likely to provide relief to beneficiaries by ensuring that such benefits are not subjected to taxation.
Third Schedule (Rates of Tax)	The Bill proposes to increase the rate of residential rental income tax from 7.5% to 10% of the gross rental receipts.	The proposed increase signals the Government's continued focus on enhancing revenue collection from the real estate sector. However, the increase may discourage voluntary compliance, particularly given concerns that the revised rate could be a precursor to future incremental increases.

TAX PROCEDURES ACT

ISSUE	PROPOSED AMENDMENT	COMMENTARY
Reporting obligations and definitions for virtual asset service providers	The Bill proposes to introduce two new provisions into the Tax Procedures Act. First virtual asset service providers operating in and from Kenya would be required to file annual information returns with the KRA disclosing all the virtual assets users who they maintain a relationship with every year. The virtual assets provider shall file the returns if they provide a service that enables the exchange or makes available a trading platform on behalf of the virtual assets' user. Failure to comply will attract penalties of KES 100 000 for each false statement or omission and KES 1 million for failure to file altogether. Secondly, the amendment would empower Kenya to enter into international agreements for the automatic exchange of information relating to virtual asset transactions.	The proposal aligns with global regulatory requirements that require digital asset intermediaries to share transaction and user information with tax authorities. While the proposals are likely to enhance tax compliance and international cooperation in the regulation of virtual assets, they may also raise data protection and compliance concerns for service providers, particularly with regard to the handling, reporting, and cross-border transfer of user information.
De-registration of tax payers	The Bill proposes that where a person qualifies for de-registration they also qualify for to be registered as a taxpayer upon application to the commissioner for reinstatement of the registration. Where the Commissioner assesses that the person may have taxes that are due, the Commissioner person will reinstate the taxpayers initial pin before de-registration.	This is a good proposal as it will simplify and streamline taxpayer administration by maintaining continuity in taxpayer identification records.
Issue of a PIN	The Bill proposes that a non-resident person shall be exempt from the requirement of a PIN when opening an account with an investment bank.	The objective of this proposal is aimed at facilitating foreign investment and improving ease of access to Kenya's capital markets. Requiring non-resident investors to obtain a PIN before opening an investment account may present administrative hurdles and discourage participation in local investment opportunities.
Tax Avoidance	The Bill proposes where the commissioner finds that a person has entered into a tax avoidance scheme or obtained a benefit in connection with the scheme he or she may determine the tax liability of the person who obtained the tax benefit as if the scheme had not been obtained. The Commissioner shall issue an assessment within five years from the last day of the tax period to which the tax liability relates	This amendment is aimed at strengthening the anti-avoidance framework within Kenya's tax administration by giving KRA clearer powers to disregard arrangements that are structured primarily to reduce or eliminate tax obligations.

ISSUE	PROPOSED AMENDMENT	COMMENTARY
Assessment	The Bill proposes that the commissioner, in accordance with the listed sources of information available to them issue an assessment on the income of a person as he may deem necessary.	This proposal appears to strengthen the administrative powers of KRA by allowing the Commissioner to determine a taxpayer's liability even in circumstances where the taxpayer may have failed to provide complete information, failed to file returns, or where the available records are insufficient.
Tax Amnesty	The Bill proposes to extend the tax amnesty date from 31 December 2023 to 31 December 2025, meaning the amnesty will apply on penalties and interest on principal taxes accrued up to 31 December 2025. The deadline for payment of all outstanding principal taxes under the amnesty is extended to 31 December 2026.	This is a good proposal. However, the Bill proposes that the among other sections this section will come in force on 1st July 2027 of which the tax amnesty will have already lapsed. This might need to be revised to 1st July 2026 so that the tax amnesty may be effective
Failure to deduct withholding tax	The Bill proposes to delete the subsection that offered the protection under which a person who fails to deduct, withhold or remit tax is not required to pay the principal tax where the recipient has already paid and accounted for the full amount, including the tax that should have been deducted or withheld.	The deletion of this provision suggests greater responsibility on withholding agents to strictly comply with withholding tax obligations. If enacted it may raise concerns regarding double taxation or unfair financial exposure for withholding agents, particularly in situations where the tax has already been fully accounted for by the recipient.
Application of an electronic tax system	The Bill proposes that the commissioner generate prepopulated tax returns on behalf of taxpayers using its information technology systems. A taxpayer may rely on the prepopulated return to submit or lodge the return.	The effectiveness of the electronic tax system will depend on the accuracy and completeness of the information used to populate the returns. Taxpayers may still need to carefully review the pre-populated information to ensure it correctly reflects their income before filing. Adequate safeguards and clear procedures will therefore be necessary to allow taxpayers to amend or correct inaccuracies where the pre-populated information is incomplete or incorrect.
Penalty for failing to comply with electronic tax system	The Bill proposes where the commissioner determines that a taxpayer has failed to comply with the requirement under a tax law to issue an electronic tax invoice the commissioner shall issue a notice in writing to the taxpayer requiring the taxpayer to provide reasons for non-compliance. If the commissioner is not satisfied with the reason by the taxpayer for non-compliance that taxpayer shall be liable to pay the higher of the penalties two times the value of the tax, Kes.100,000/= or for an individual to pay 10,000/=	The proposal improves the previous position by introducing a requirement for the KRA to first issue a written notice to the taxpayer, giving them an opportunity to explain the reasons for non-compliance. It further requires the Commissioner to consider whether the failure to issue an electronic tax invoice was genuinely within the taxpayer's control before imposing any penalty
Due date for submission and payment	The Bill proposes to delete the current rule that excludes Saturdays, Sundays and public holidays when computing the time for lodging objections and appeals in relation to tax law.	This proposal will shorten the time for filing an objection and an appeal with the commissioner denying the objector sufficient time to prepare their Objections and Appeals.

EXCISE DUTY ACT

ISSUE	PROPOSED AMENDMENT	COMMENTARY
Rate of excise duty on classic/vintage or antique cars	The bill introduces 50% excise duty on classic/vintage or antique cars.	The introduction of a 50% excise duty on classic, vintage, or antique cars represents a substantial expansion of the excise tax base into a niche but high-value segment of the motor vehicle market. This measure is likely aimed at enhancing revenue collection from luxury and non-essential goods. However, the high rate signals a strong tax policy stance that treats these vehicles as premium consumption items rather than heritage or collector assets.
Excise duty on locally purchased or imported telephones for cellular and wireless networks	The bill proposes the addition of Section 6(4A) which will now require that the liability of an importer or licensed manufacturer for excise duty on locally purchased or imported telephones be at the time of activation of the phone.	This is a good proposal as it will simplify and streamline taxpayer administration by maintaining continuity in taxpayer identification records.
Rate of excise duty on Telephones for cellular networks and wireless networks.	The bill proposes amendments remove the term “imported telephones” and replace it with “telephones for cellular and wireless networks,” while also increasing the applicable excise duty rate from 10% to 25%.	Consumers should expect a noticeable rise in the cost of mobile phones. The excise duty forms part of the final price, in addition to Value Added Tax. A jump to 25% significantly increases the tax component, making both entry-level and high-end devices more expensive.

VALUE ADDED TAX

ISSUE	PROPOSED AMENDMENT	COMMENTARY
Adjustment of input tax after taxable supplies become exempt	The bill introduces section 17A which provides that where on the date taxable supplies by a registered person becomes exempt and the person has already deducted input VAT and the supplies remain unsold, the person shall be required to account for an amount equal to the input tax relating to the supplies which remain unsold in the tax return period when the taxable supply became exempt.	The provision enables the Commissioner to recover any excess input VAT claimed in respect of unsold supplies. This is linked to the broader amendment introducing changes to the First and Second Schedules, which reclassify certain supplies from zero-rated to taxable. These measures ensure that input VAT claims are adjusted to reflect the revised tax status of such supplies, particularly where goods remain unsold at the point of transition.
Good imported by a traveler in an accompanying baggage	The bill proposes an amendment to the First Schedule thereby introducing an increase from the USD 300 dollars previous threshold to USD 2000.	This is a positive development as it raises the duty-free threshold, allowing citizens to bring in higher-value goods from their travels abroad without incurring tax liability, thereby easing the tax burden on personal imports and improving compliance by reducing disputes at the border entry points.
VAT refunds window	The bill proposes an amendment to Section 31 of the Value Added Tax Act by providing that where a registered person has made a taxable supply, accounted for and remitted the tax due, but has not received payment from the recipient, a refund may be sought from the Commissioner within three years from the date of supply departing from the earlier provision of 2 years.	This is a significant move as the amendment appears to tighten the conditions for accessing VAT refunds by effectively delaying the point at which relief can be claimed. While this may support revenue retention in the short term, it shifts the financing burden onto businesses, which will now be required to carry the VAT cost for a longer period.

ISSUE	PROPOSED AMENDMENT	COMMENTARY
<p>Exempt Supplies</p>	<p>The Bill proposes to expand the list of exempt supplies by introducing several new categories. These include scrap metal; inputs or raw materials, whether locally sourced or imported, used in the manufacture of animal feeds and pharmaceutical products, subject to approval by the relevant Cabinet Secretaries for agriculture and health respectively; and the transportation of sugarcane from farms to milling factories.</p> <p>The proposed exemptions also extend to the supply of telephones for cellular and wireless networks, motorcycles, electric bicycles, solar and lithium-ion batteries, electric buses, and bioethanol vapor (BEV) stoves classified under the relevant tariff heading. In addition, worn clothing and similar articles will be exempt, except at the point of importation.</p> <p>Further, the Bill provides for the exemption of goods and services supplied exclusively for use in the implementation of infrastructure projects undertaken under a public-private partnership framework, subject to approval by the Cabinet Secretary upon recommendation from the ministry responsible for the project.</p>	<p>Exempting items such as animal feed inputs, pharmaceutical raw materials, and transport of sugarcane is likely to reduce production costs in agriculture and healthcare. This may translate into a decrease in prices of goods and services thus increasing the purchasing power and the access to health care.</p> <p>Exempting goods used in public-private partnership (PPP) projects lowers project costs, making infrastructure investments more viable and attractive to private investors.</p>
<p>Zero Rated Supplies</p>	<p>The Bill proposes to remove several items from the zero-rated category. These include inputs or raw materials, whether locally sourced or imported, used in the manufacture of animal feeds subject to approval by the Cabinet Secretary for Agriculture; the transportation of sugarcane from farms to milling factories; and the supply of locally assembled telephones for cellular and wireless networks. It also covers the supply of motorcycles, electric bicycles, solar and lithium-ion batteries, electric buses, and bioethanol vapor (BEV) stoves, all of which will no longer qualify for zero-rating.</p>	<p>The amendment may provide short-term pricing benefits where the affected supplies are reclassified as exempt, potentially reducing the VAT cost passed on to consumers. However, the reclassification from zero-rated to exempt status has significant implications for businesses, as suppliers will no longer be entitled to claim input VAT incurred on related purchases and operational costs.</p>

MISCELLANEOUS FEES AND LEVIES ACT

ISSUE	PROPOSED AMENDMENT	COMMENTARY
<p>Definition of East African Community Partner States</p>	<p>The Bill proposes to replace the current definition of East African Community Partner States with a treaty-aligned definition that automatically covers any country granted membership under the EAC Treaty.</p>	<p>This is a contentious proposal, as it narrows the scope to the Republic of Uganda, and Tanzania, together with any other country admitted as a member under the EAC Treaty, whereas Rwanda and Burundi were previously expressly included.</p>

STAMP DUTY ACT

ISSUE	PROPOSED AMENDMENT	COMMENTARY
<p>Exemption of stamp duty on transfers relating to real estate investment trust</p>	<p>The proposed amendment seeks to add an exemption to tax on the transfer of beneficial interest in property from persons to the real estate investment trust</p>	<p>The exemption allows investors to participate in large-scale property investments that would otherwise be inaccessible individually. In turn, this could stimulate investment in the property sector and support the development of income-generating real estate projects.</p>

CONCLUSION

In conclusion, the Finance Bill 2026 proposes a broad restructuring of Kenya's tax framework across the Income Tax Act, Tax Procedures Act, Value Added Tax Act, Excise Duty Act, and Stamp Duty Act, with a discernible emphasis on broadening the tax base, strengthening compliance mechanisms, and enhancing revenue mobilization.

The income tax proposals target both domestic and cross-border income streams, while introducing measures that affect investment structures, filing obligations, deductibility thresholds, and sector-specific taxation.

The amendments to the Tax Procedures Act further expand the administrative and enforcement powers, enhance regulatory oversight, particularly in emerging areas such as virtual assets, and place increased compliance and record keeping obligations on taxpayers.

On indirect taxation, the VAT proposals signal a notable policy shift, particularly through the reclassification of certain supplies from zero-rated to exempt status, the introduction of input VAT apportionment and reversal mechanisms, and adjustments to refund administration timelines, all of which may have significant cash flow and operational implications for businesses.

Similarly, the excise duty amendments broaden the scope of excisable products and services while revising applicable rates across sectors such as telecommunications, energy, and consumer goods, reflecting the Government's continued focus on revenue generation and fiscal consolidation.



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