



## SELECTIVE SUMMARY: FINANCE ACT, 2026 - KENYA



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<b>Income Tax Act (ITA)</b>			
<b>Royalty</b>	ITA s 2	The Act redefines what amounts to royalty, which includes payment made for use of intellectual property, plans, formula, process, equipment or information (industrial, commercial or scientific), or proprietary digital payment card network or platform.	Any entity benefiting from a payment classified as a royalty with experience a deduction ranging from 5% - 20% from the gross payment to a resident or non-resident respectively.
<b>Tax Treatment of Gratuity</b>	ITA s 5(4)	<p>The Act tightens the exemption for employer-paid gratuities to registered pension schemes by requiring a contract of service of at least three consecutive years.</p> <p>This caps the total contributions at 31% of the employee's basic salary, and further retains the exclusion for persons eligible for deductions under s 22A, ITA. Currently, the exemption is capped at KES. 360,000/- per annum.</p>	This amendment prevents abuse by tying the exemption to long-term employment and inserting a percentage cap, offering clarity while limiting flexibility for shorter contracts or larger employer contributions.
<b>Non-Resident Rental Income Tax</b>	ITA s 6B	<p>Non-resident landlords are targeted by the Act through introduction of a final Withholding Tax (WHT) regime on rental income from Kenyan property: 30% on gross rent, premium, or similar payments for immovable property, and 15% where the rent relates to property other than immovable property.</p> <p>They must register under a simplified framework prescribed by the Commissioner, file returns, and remit the tax by the 20th day of the following month, unless they appoint a resident agent to discharge these obligations on their behalf.</p>	This addition subjects non-resident landlords to an administrative burden, where they squarely fall into Kenya's tax net.
<b>Ship &amp; Air transport Carriage Income Tax</b>	ITA s 9	The Act introduces a requirement for tax on carriage income derived in Kenya to be paid within five (5)	By removing the WHT framework, the obligation shifts to recipients of carriage income to account

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		<p>days of the earlier of receipt of payment or the ship's departure from the port of lading.</p> <p>Correspondingly, the existing WHT requirement on carriage income under s 35(1)(u), ITA, is deleted.</p>	<p>for the tax directly rather than relying on withholding at source.</p> <p>The tight five (5) day timeline means that, for most sea shipments, the tax will have been settled by the time the vessel docks in Kenya, tightening collection and reducing the window for default.</p>
<b>Imposition of WHT on Scrap Metal Sales and Gambling Winnings</b>	ITA s 10, 35 & Third Schedule	Scrap metal sales and gambling winnings are brought within the WHT scope by the Act. WHT applies at 1.5% on the gross amount for scrap metal sales and 20% on winnings, applicable to both residents and non-residents.	Anchoring this obligation under s 10 gives purchasers a firm legal basis to deduct and remit tax, improve collection at source.
<b>Trust Income Deemed Income of Trustee</b>	ITA s 11	<p>s 11, ITA, is deleted and replaced with a provision deeming income received by a trustee, executor, or administrator to be that person's own income for tax purposes.</p> <p>Tax paid at this level relieves the beneficiary of any further liability on the same income, and where dividend or interest income forms part of what the trustee, executor, or administrator is taxed on, that tax is treated as final.</p>	By settling liability at the trustee, executor, or administrator level, rather than beneficiaries, this provision guards against double taxation on the beneficiaries.
<b>Exempting Lending and Leasing Businesses</b>	ITA s 16(2)(j)(iii)(E)	s 16(2)(j)(iii)(E), ITA, is amended by replacing " <b>involved in lending and leasing business</b> " with " <b>involved in lending or leasing; or both.</b> "	<p>The conjunctive "<b>and</b>" previously confined the interest restriction exemption to non-deposit-taking institutions engaged in both lending and leasing simultaneously.</p> <p>Swapping it for "<b>or both</b>" widens eligibility to institutions carrying on either activity alone, easing access to the exemption for a broader pool of lenders and lessors.</p>
<b>Country-by-Country Reporting (CbCR)</b>	ITA s 18D	The Act makes technical drafting amendments to subsections (1), (2), and (5) of s 18D, ITA, correcting statutory references to align with the 12-month CbCR	While the amendment is largely a clean-up separating CbCR provisions from the Master File and Local File requirements, ambiguity persists

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		<p>filing deadline and confirming that the obligation applies equally to Ultimate Parent Entities and constituent entities.</p>	<p>around s 18D(3), ITA, which obliges an ultimate parent entity or constituent entity to file a Master File and Local File without expressly importing the KES. 95 billion consolidated turnover threshold set under s 18D(1B), ITA, for CbCR.</p> <p>If left as drafted, this could be interpreted as extending Master File and Local File obligations to all multinational groups regardless of turnover.</p>
<b>Definition of Ultimate Parent Entity</b>	ITA s 18F	<p>The Act amends the definition of "<b>Ultimate Parent Entity</b>" in s 18F, ITA. Rather than simply requiring that the entity is not to be controlled by another and that it owns or control constituent entities, the new definition requires that the entity holds a sufficient direct or indirect interest in other constituent entities, be obliged to prepare consolidated financial statements under its jurisdiction's accounting principles, and that no other constituent entity in the group hold a comparable sufficient interest over it.</p>	<p>This amendment brings clarity regarding the entity in a multinational group which bears CbCR filing responsibility, reducing ambiguity in group structure with multiple ownership layers.</p>
<b>Tax Avoidance</b>	ITA s 23	<p>s 23, ITA, which empowers the Commissioner to adjust a taxpayer's liability where a transaction is primarily aimed at avoiding or reducing tax, is repealed.</p>	<p>The repeal eliminates duplication of laws, as comparable anti-avoidance powers already exist under the Tax Procedures Act, Cap. 469B.</p>
<b>Minimum Deemed Dividend on Undistributed Profits</b>	ITA s 24(1)	<p>s 24(1), ITA, is amended by replacing "<b>that part of the income</b>" with "<b>at least sixty percent of that part of the income,</b>" setting a defined floor for the proportion of undistributed income the Commissioner may recharacterize as a deemed dividend.</p>	<p>Previously, ITA's wording left the re-characterizable proportion undefined. With the same being set at 60%, deferring tax through profit retention is curbed.</p>
<b>Imposition of WHT on National Airline Carrier</b>	ITA s 35(1A)	<p>s 35(1)(a)(iii), ITA, is deleted, removing the existing WHT exemption on payments by the national carrier to non-resident providers of specialized technical, maintenance, compliance, training, or digital systems support services where such services are unavailable locally or the provider holds relevant international certification or accreditation.</p>	<p>Withdrawing this exemption brings such payments into the WHT net, likely raising the cost of sourcing essential foreign expertise unavailable domestically and adding to the national carrier's operational expenses.</p>

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<b>WHT Exemption on Ship and Aircraft Carriers</b>	ITA s 35(1u)	s 35(1)(u), ITA, which imposes WHT on gains from carriage income earned by ship owners or charterers, is deleted.  Affected parties will instead remit the tax directly within five (5) days of receiving payment or the vessel's departure from the port of lading.	Doing away with this WHT obligation eases the compliance burden on non-resident carriers and may enhance Kenya's appeal as a shipping and aviation hub. The tight five-day remittance window for direct payment is intended to offset this by ensuring prompt tax settlement.
<b>Income Tax Return Filing Timelines</b>	ITA s 52 & 52B	s 52 & s 52B, ITA, are amended to shorten the statutory deadline for filing income tax returns from six (6) months to four (4) months after the end of the year of income.  <b>Start date:</b> January 01, 2027	A tighter filing window intends to improve compliance and administrative efficiency for the Kenya Revenue Authority (KRA).  For taxpayers, this increases the risk of late-filing penalties for those slow to adjust. Further, ordinarily, many individual taxpayers are last-minute filers, and are likely to fall victim to this amendment.
<b>Imposition of Capital Gains Tax (CGT) on Indirect Transfers by Non-Residents</b>	ITA Eight Schedule	Paragraph 2 of the Eighth Schedule, ITA, is amended to correct an internal cross-reference in subparagraph (c) (now pointing to subparagraph (b) rather than (a)) and, more significantly, introduces a new subparagraph (d) taxing gains by non-residents from disposing of shares that derive their value from Kenya, or whose disposal alters group membership of a Kenyan resident company or ownership of Kenyan-situated property.	CGT is extended to indirect transfers of Kenyan assets, capturing offshore share sales and group restructurings, which shift control of Kenyan businesses or property without a direct local transaction. This amendment seeks to curb tax avoidance by non-residents.
<b>Value Added Tax Act (VAT Act)</b>			
<b>Hire Purchase Transactions</b>	VAT s 13(6)	The Act narrows what qualifies as " <b>financial charges payable in relation to the supply of credit</b> " by limiting this treatment to goods supplied by a person licensed to carry on hire purchase business under a hire purchase agreement registered pursuant to the Hire Purchase Act, Cap. 507.	This confines the VAT relief to licensed, regulated hire purchase arrangements. Informal financing structures mimicking hire purchase may now fall outside this treatment and attract VAT on the full transaction value.
<b>Unsold Taxable Supplies</b>	VAT s 17A	The Act introduces a new section requiring registered persons whose taxable supplies become exempt to account for input tax previously claimed on unsold	The Act seeks to close a revenue gap by clawing back input tax on goods that shift from taxable to exempt status before sale. Therefore,

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		stock of those supplies, in the tax period the change takes effect. The adjustment uses the same method applied at original deduction, with any excess input tax payable to the Commissioner.	businesses will be required to track unsold stock at the point of transition and account for previously claimed input tax.
<b>Refund on Tax on Bad Debts</b>	VAT s 31	The period after which a taxpayer may apply for a VAT refund on bad debts is extended from two years to three years.	This reverses the Finance Act, 2025, reduction from three to two years, pushing the wait back by an additional year.
<b>Tax Invoice Requirement</b>	VAT s 42	This amendment extends the obligation to issue a tax invoice to every person supplying goods or services, not just registered persons, at the point of supply.	This aligns the VAT Act with the Tax Procedures Act and the Tax Procedures (Electronic Tax Invoice) Regulations, 2024, ensuring consistent invoicing obligations under the electronic tax invoice management framework regardless of VAT registration status.
<b>Tax Avoidance Schemes</b>	VAT s 66	The definition of tax avoidance under the VAT Act is deleted.	This eliminates duplication, as anti-avoidance provisions are already comprehensively addressed under the Tax Procedures Act, and aligns with the proposed introduction of section 18A to the TPA, which broadens the Commissioner's powers to counter tax avoidance.
<b>VAT-Free Allowance Threshold Imported Goods</b>	VAT Part I, First Schedule	The VAT-free allowance threshold for returning passengers is increased from USD. 300/- to USD. 2,000/-.	This eases the tax burden on travellers, aligning the threshold with inflation and current economic conditions.
<b>Standard-Rated VAT for Digital Payment Service Providers</b>	VAT Part II, First Schedule	The VAT Act is amended to standard-rate money transfer, payment processing, settlement, merchant acquiring, gateway services, and aggregation supplied via a software or platform for a fee or commission by a payment service provider.	This resolves uncertainty over the VAT treatment of fintech and digital payment services, affirming such services as exempt.
<b>PPP Infrastructure Projects</b>	VAT Part II, First Schedule	The VAT Act is amended to exempt supplies of services for direct and exclusive use in implementing PPP infrastructure projects, subject to Cabinet Secretary approval on the recommendation of the Cabinet Secretary for the implementing Ministry.	Project costs are lowered, and could improve returns for PPP investors. Through this, the National Treasury shifts towards PPP financing as an alternative to the traditional debt financing, easing pressure on Kenya's public debt.

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<b>Excise Duty Act (EDA)</b>			
<b>Virtual Asset Providers</b>	EDA s 2	The Act amends s 2, EDA, by inserting the definitions of " <b>virtual asset</b> " and " <b>virtual asset service provider</b> " as assigned under the Virtual Asset Service Providers Act, 2025.	The amendment aligns the EDA with the Virtual Asset Service Providers Act, 2025.
<b>Excise Duty on Mobile Phones</b>	EDA s 6 & 36	<p>The Act amends the EDA by inserting s 6(4A) and 6(4B) to provide that excise duty on locally manufactured or imported mobile phones becomes payable upon activation of the phone on a cellular or wireless network.</p> <p>Section 36 is amended to align with the new provisions, 6(4A) &amp; 7(4B), while the First Schedule is amended to impose excise duty on mobile phones at the rate of 25% of the excisable value.</p>	The amendment defers the payment of excise duty from importation or manufacture to network activation, improving cash flow for importers and manufacturers while ensuring tax is collected when the phone enters active use.
<b>Betting and Gaming</b>	EDA Part II & III, First Schedule	<p>The Act amends Parts II and III of the First Schedule by replacing references to amounts deposited "<b>into a customer's betting wallet</b>" with amounts deposited "<b>for betting</b>" or "<b>for gambling purposes</b>", under paragraph 4A &amp; 4B of Part II of first schedule.</p> <p>It also deletes the previous definition of "<b>amount deposited into a customer's betting wallet</b>" and inserts a broader definition of "<b>amount deposited</b>" covering all money or money's worth made available for betting or gambling, whether by a player or operator and regardless of the payment method or form, under Part III.</p>	The amendments broaden the excise duty base by shifting the focus from betting wallets to all amounts made available for betting or gambling.
<b>Exclusion of Exemption to EAC Partner States</b>	EDA First Schedule	The Act removes the excise duty exception for specified imported goods originating from East African Community partner states that satisfy the EAC Rules of Origin.	The amendment subjects the affected imports to excise duty irrespective of their EAC origin, increasing the cost of qualifying regional imports.
<b>Rates of Excise Duty:</b>	EDA First Schedule		

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<i>Beer, Cider, Perry, Mead, Opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages of alcoholic strength not exceeding 6%.</i>	Ksh. 22.50 per centiliter of pure alcohol	Ksh. 22.50 per centiliter of pure alcohol	The amendments generally increase excise duty on selected products and introduce excise duty on new categories.
<i>Cigars, cheroots, cigarillos, containing tobacco or tobacco substitutes.</i>	Ksh. 16,260.29 per kg	Ksh. 18,000 per kg	
<i>Other manufactured tobacco and manufactured tobacco substitutes; "homogenous" and "reconstituted tobacco"; tobacco extracts and essences.</i>	Ksh. 11,382.48 per kg	Ksh. 12,550 per kg	
<i>Imported Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of tariff heading 6910.</i>	5% of customs value or Ksh. 50 per kg	5% of the excisable value or Ksh. 50 per kg, whichever is higher	
<i>Articles of plastic of tariff heading 3923.30.00 and 3923.90.90.</i>	-	10%	
<i>Coal.</i>	-	5% of the excisable value	
<i>Antique, vintage and classic vehicles.</i>	-	50% of the excisable value	

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<b>Tax Procedures Act (TPA)</b>			
<b>Certificate of Origin</b>	TPA s 3(1)	The Act deletes the definition of "certificate of origin" under section 3(1), leaving its interpretation to the East African Community customs framework.	The amendment aligns the Tax Procedures Act with the East African Community customs framework and avoids duplication of definitions.
<b>Filing Obligation for Virtual Asset Providers</b>	TPA s 6C	<p>The Act inserts section 6C requiring Virtual Asset Service Providers (VASPs) to file annual information returns in respect of reportable virtual asset users and controlling persons.</p> <p>The section sets out reporting obligations, due diligence requirements and penalties for false statements, omissions and failure to file information or nil returns, including penalties of KES. 1,000,000 for each failure.</p>	The amendment introduces a tax reporting framework for VASPs, enhancing KRA's oversight of virtual asset transactions and strengthening compliance within the digital asset sector.
<b>Automatic Exchange of Virtual Asset Information</b>	TPA s 6D	<p>The Act inserts s 6D, TPA, permitting Kenya to enter into agreements with other jurisdictions for the automatic exchange of information relating to virtual asset transactions.</p> <p>The provision provides for the exchange of information returns, due diligence information and related compliance records, and empowers the Cabinet Secretary to make implementing regulations.</p>	The amendment strengthens international tax cooperation and enhances KRA's ability to monitor cross-border virtual asset transactions.
<b>Registration and Re-Instatement of Tax PIN</b>	TPA s 10	The Act amends s 10, TPA, to require persons whose PINs have been deregistered and who subsequently qualify for registration under section 8 to apply for reinstatement. Upon being satisfied that the person is liable for tax, the Commissioner shall reinstate the person's previous PIN.	The amendment promotes continuity of taxpayer records and strengthens tax administration by preserving a single taxpayer identification number.
<b>PIN Exemption for Non-Residents</b>	TPA s 12(5B)	The Act inserts s 12(5B), TPA, exempting non-resident persons from obtaining a PIN when opening an account with an investment bank.	The amendment removes an administrative requirement for non-resident investors, facilitating investment into Kenya.

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<b>Tax Avoidance Schemes</b>	TPA s 18	<p>The Act inserts s 18A, TPA, empowering the Commissioner to disregard tax avoidance schemes entered into primarily to obtain a tax benefit and to assess tax as though the scheme had not been implemented. The section authorises the Commissioner to rely on information obtained under various tax laws. The amendment also defines "<b>scheme</b>" and "<b>tax benefit</b>" broadly.</p> <p>The Commissioner may issue an assessment of the tax liability within five years from the end of the relevant tax period.</p>	The amendment significantly strengthens KRA's anti-avoidance powers by expanding the Commissioner's ability to challenge artificial tax arrangements and reassess tax liabilities.
<b>Production of Export Declaration for Imported Goods</b>	TPA s 23B	<p>The Act inserts s 23B, TPA, requiring importers to obtain, retain for five years and produce, upon request, export declarations or equivalent documents issued by the exporting country's authorities.</p> <p>Failure to produce the documents empowers the Commissioner to reject related claims, determine tax liability using available information and impose administrative penalties.</p> <p><b>Start Date:</b> September 01, 2026</p>	The amendment imposes stricter record-keeping requirements on importers and strengthens KRA's verification powers, exposing non-compliant importers to reassessments, denial of tax and customs claims, and administrative penalties.
<b>Tax Assessment</b>	TPA s 29A	<p>The Act inserts s 29A, TPA, empowering the Commissioner to issue tax assessments using information obtained from various statutory sources.</p> <p>Before issuing an assessment, the Commissioner may require the taxpayer to provide information within at least 30 days, after which the taxpayer may object in accordance with s 51, TPA.</p>	The amendment broadens KRA's powers to issue assessments where tax returns are absent, incomplete or unreliable.
<b>Tax Amnesty</b>	TPA s 37E	The Act amends s 37E, TPA by extending the tax amnesty programme. The qualifying period for unpaid taxes and the deadline for filing returns are extended to December 31, 2025, while the deadline	The moves incentives timely payment of the principal amount.

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		for payment of principal tax is extended to December 31, 2026.	
<b>Pre-populated Tax Returns &amp; Electronic Tax Obligations</b>	TPA s 75 & 86	<p>The Act amends s 75, TPA, to empower the Commissioner to generate pre-populated tax returns using information available to KRA, which taxpayers may confirm or amend before filing.</p> <p>It also amends s 86, TPA, by introducing a compliance framework for electronic invoicing, filing and payment, with penalties for unjustified non-compliance, equal to the higher of 5% of the tax due, KES. 100,000 for a company, or KES. 10,000 for an individual.</p>	The amendments promote digital tax administration by simplifying return filing while strengthening compliance with electronic tax obligations.
<b>Miscellaneous Fees and Levies Act (MFLA)</b>			
<b>Good exempt from Import Declaration Fee (IDF) and Railway Development Levy (RDL)</b>	MFLA Second Schedule	<p>The Act amends Part A &amp; B of the Second Schedule, MFLA by expanding the list of goods exempt from the IDF and RDL to include goods classified under tariff headings 8802.30.00 and 8802.40.00.</p> <p>The Act also exempts goods used in the construction of liquefied petroleum gas storage tanks and related infrastructure provided that the investment in the construction of liquefied petroleum gas storage tanks and related infrastructure in Kenya amounts to at least five billion shillings and has been recommended by the Cabinet Secretary for energy.</p>	The exemption lowers import costs for qualifying goods, thereby encouraging investment in the aviation and LPG sectors.
<b>Stamp Duty Act (SDA)</b>			
<b>Exemption of Stamp Duty on transfers to Real Estate Investment Trusts (REITs)</b>	SDA s 96A	The Act amends s 96A, SDA, by inserting a new s 96A(1)(c), SDA, extending the stamp duty exemption applicable to transfers involving Real Estate Investment Trusts (REITs) to include the transfer of a beneficial interest in property from one or more persons to a REIT.	The exemption is expected to stimulate the growth of the REIT market by facilitating the transfer of property interests into REITs, thereby enhancing market liquidity and making REITs a more attractive investment vehicle.



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