



TAX INSIGHTS NEWS LETTER

Introduction

As we approach year-end, we would like to thank you for engaging with our tax updates and insights throughout the year. In this edition, we briefly re-emphasise several key tax changes and KRA operational reforms—some previously communicated and others recently clarified—that may affect your compliance position as you close the year.

Our focus is to help you stay compliant, manage risk, and prepare for a smooth year-end close with clear, practical guidance.



Reform	Impact on Taxpayers	Our Recommendation
Important Pre Year-End Tax Closure procedures	Weak tax filings reconciliations increase exposure to penalties and assessments.	Conduct a pre-year end PAYE, VAT, WHT, and income tax reconciliations to prevent non-compliance risks and where there are variances, amend returns accordingly
5-Year Limit on Tax Loss Carry-Forward	Losses incurred before 2020 cannot be claimed. Businesses may begin paying tax earlier than expected.	Reassess tax positions and update forecasts to account for earlier tax payments.
Advanced Pricing Agreements (APAs) — Jan 2026	Offers certainty on related-party pricing and reduces transfer pricing disputes.	Review TP documentation and prepare for APA engagement with KRA.
Enhanced TCC Requirements	TCC issuance tied to eTIMS/TIMS compliance, timely filing, and full payment of taxes	Ensure full eTIMS/TIMS rollout, up-to-date filings, and settle outstanding liabilities or activate APP.
Validation of Income & Expenses (from Jan 2026)	2025 returns will be matched against eTIMS, import, and WHT data. Unsupported expenses will be disallowed.	Reconcile revenue and expenses with eTIMS, WHT, and import data before filing returns.
Automated Payment Plan (APP)	Enables structured settlement of tax liabilities, easing cash flow management.	Apply early for APP where needed and adhere to payment schedules.
eRITS Rental Income System	Requires onboarding, property registration, and monthly rental income filings.	Register all properties on eRITS, begin monthly filings, and monitor transition from iTax.





Detailed Updates

1. Some important Tax Procedures Before Year-end

With December approaching, Organizations and tax payers with a 31 December year end should carry out focused checks on PAYE, VAT, withholding tax and a preliminary income tax assessment to ensure compliance and reduce the risk of penalties and interest. Some key areas to review include:

1. PAYE compliance - Reconcile payroll records with iTax submissions, ensuring employee details, gross pay, taxable benefits, and PAYE withheld are accurate. Where applicable, file any necessary amendments before year-end;
2. VAT Compliance - Reconcile VAT control accounts with the general ledger, VAT returns and eTIMs records. Any discrepancies should be documented and amended returns filed where necessary;
3. WHT Compliance - Reconcile WHT liabilities for suppliers, contractors and other payees with payments and certificates on i-tax. Ensure all WHT certificates are available on i-tax, follow up with relevant entities for missing certificates or remedial action; and
4. Pre Income Tax Assessment - Estimate taxable income and tax payable using year-to-date results and forecasted adjustments. Set a tax cash budget for the final payment and any expected instalments or top-ups.

Performing the above year-end checks will help minimize tax exposure, avoid penalties and ensure accurate reporting and accurate tax planning.

2. Limitation on Carry Forward of Tax Losses

The Finance Act, 2025 introduced a five-year limit on carrying forward tax losses, effective 1st July 2025. Previously, tax losses could be carried forward indefinitely to offset future profits.

Impact on Prior Losses

KRA has clarified that losses incurred prior to 2020 can no longer be carried forward. Taxpayers with unutilized losses from these years may now face tax liabilities sooner than anticipated.

Next Steps for Taxpayers

Affected taxpayers are encouraged to review their tax positions and plan accordingly



3. Advanced Pricing Agreements (APAs) – Effective January 2026

The Finance Act 2025 introduced Advanced Pricing Agreements (APAs), a mechanism designed to provide certainty on transfer pricing arrangements for multinational enterprises. APAs allow taxpayers and KRA to agree in advance on the appropriate transfer pricing methodology for related-party transactions, reducing the risk of disputes, audits, and double taxation.

The Commissioner of Domestic Taxes has also tabled draft APA guidelines, outlining the application process, eligibility criteria, documentation requirements, and procedures for negotiation and approval. These guidelines are intended to ensure transparency, consistency, and alignment with international best practices.

Implications for Taxpayers

From January 2026, eligible businesses engaged in cross-border transactions with related parties can apply for APAs to secure binding certainty on pricing methodologies. This presents an opportunity to mitigate transfer pricing risks, improve tax planning, and enhance compliance confidence. Taxpayers are encouraged to review their intercompany arrangements and consider early engagement with KRA once the APA framework is operational.



4. Enhancement of TCC Requirements

The Kenya Revenue Authority (KRA) has updated the Tax Compliance Certificate (TCC) application process, requiring taxpayers to demonstrate compliance with eTIMS/TIMS before a TCC can be issued. This move integrates real-time transaction reporting with tax compliance verification, enhancing transparency and accuracy in tax administration.

New Application Requirements

To obtain a TCC, taxpayers must be registered and compliant with eTIMS/TIMS, file all returns on time, settle taxes due, have no outstanding liabilities or have an approved payment plan, and maintain VAT compliance, including VAT (Special Table) where applicable. Applications continue to be submitted via iTax, and certificates can be verified through KRA's Certificate Checker.

Implications for Businesses

These enhancements underscore KRA's focus on compliance and traceability. Businesses are encouraged to review their tax positions, ensure eTIMS integration, and address any gaps to avoid delays or TCC rejections.



5. Validation of income against expenses

KRA has introduced a new system starting 1 January 2026 to automatically check the income and expenses reported in tax returns. For the 2025 tax year, KRA will compare what you report with information from third parties, such as eTIMs invoices, tax deducted at source (withholding tax) and import records.

The goal is to make tax reporting more accurate and reduce mistakes or tax evasion. Taxpayers must ensure that their returns match these records. This means checking that all sales and purchases are supported by valid eTIMs invoices, withholding tax entries are correct and import details are accurate before filing.

Discrepancies between revenue recorded in your financial records and the amounts declared in VAT returns or captured in eTIMS, as well as any unsupported expenses, may result in KRA issuing audit queries, disallowing such expenses and raising additional assessments with penalties and interest. Keeping accurate, up-to-date records is therefore essential.

6. Automated Payment Plan (APP)

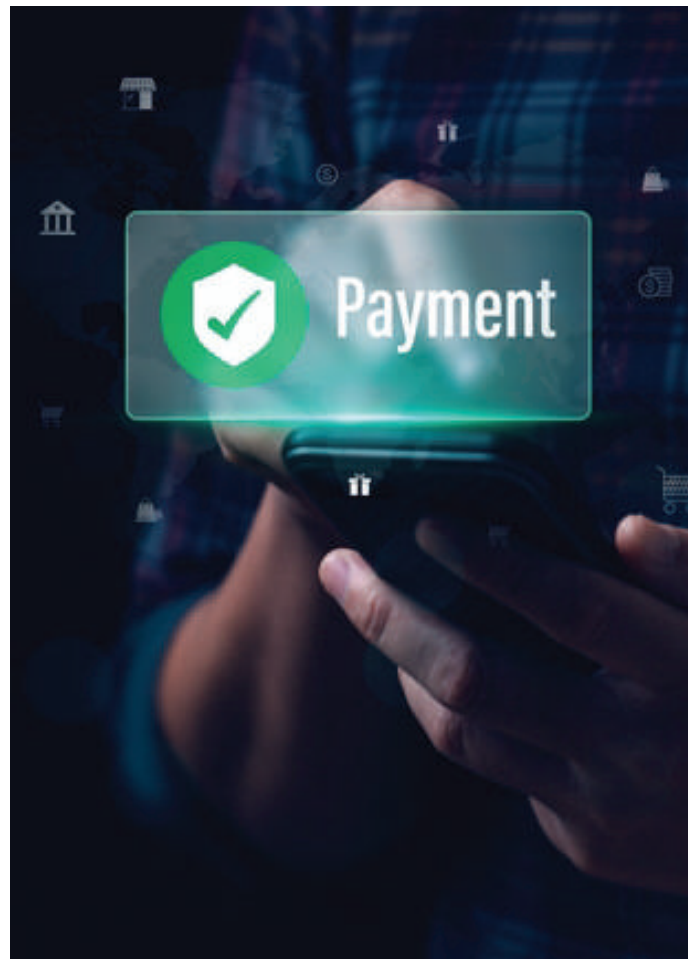
KRA rolled out the Automated Payment Plan (APP) to make it easier for taxpayers to settle outstanding liabilities. The APP allows eligible individuals and businesses to pay taxes, penalties, and interest in structured monthly instalments, ideal for those who cannot clear their full tax in one go.

Who Qualifies?

Taxpayers must have a valid KRA PIN, a confirmed liability not under appeal, and show difficulty paying in full. Instalment schedules are submitted via iTax for approval and cannot exceed six months. Strict adherence is required as missed payments may lead to plan termination, TCC revocation, or enforcement actions.

Why It Matters

The APP provides a convenient, predictable way to manage overdue taxes in difficult cash situations making it easier to stay compliant and stress free.





7. Introduction of eRITS for Simplified Rental Tax Compliance

The Kenya Revenue Authority (KRA) has launched the Electronic Rental Income Tax System (eRITS) to streamline the management of Monthly Rental Income (MRI) tax obligations. The platform allows taxpayers to register properties, file returns, and make payments conveniently.

For properties already registered on iTax, eRITS enables seamless onboarding without the need for re-registration. The system is accessible via <https://e-its.kra.go.ke> or through the eCitizen portal. It is not yet clear if iTax filings for MRI will continue alongside eRITS during the transition.

This initiative enhances compliance and supports fair contribution to national revenue. Taxpayers are encouraged to update their property details and begin filing via eRITS.

8. December 2025 Compliance

As the year draws to a close, businesses should be mindful of their tax reporting obligations, which include filing and making payments for VAT, PAYE, instalment taxes, and other applicable taxes. Timely compliance will help ensure a smooth year-end close while maintaining a strong compliance record.



9. Conclusion

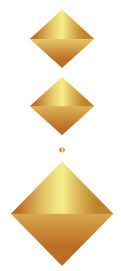
We trust this summary provides the clarity you need as you prepare for year-end. Our team remains available to support you with compliance reviews, year-end closure, transfer pricing, tax fillings, ADR support and other services.

As we wrap up the year, we also extend our warmest wishes to you and your loved ones this festive season. Thank you for engaging with our insights throughout 2025 and for the trust you continue to place in MGK.





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Merry
Christmas
& HAPPY NEW YEAR

