Finance Act 2026 Newsletter

Finance Act 2026 at a Glance

The Finance Act, 2026, which was assented to on 26 June 2026, introduces a number of amendments to Kenya's tax framework affecting the Income Tax Act, Value Added Tax (VAT) Act, Excise Duty Act, Tax Procedures Act, Miscellaneous Fees and Levies Act, Stamp Duty Act, and other related legislation. While most provisions took effect on 1 July 2026, selected amendments have later commencement dates.

The reforms are aimed at strengthening tax administration, broadening the tax base, encouraging strategic investments, enhancing compliance, and providing targeted tax reliefs across key sectors of the economy.

Key highlights of the Finance Act, 2026 include:

- Strengthening tax administration
- Introducing new tax rules for digital transactions, software payments, and virtual assets.
- Expanding tax incentives to support strategic investments in infrastructure, manufacturing, and energy.
- Broadening withholding tax obligations across selected transactions and industries.
- Extending the tax amnesty programme and introducing measures to simplify taxpayer compliance.

Businesses should assess the impact of the Finance Act, 2026 on their operations and implement any necessary changes before the relevant effective dates.

This newsletter summarises the key amendments introduced by the Finance Act, 2026 and provides practical insights into their implications for businesses, investors, employers, and taxpayers in Kenya.

Important Note

Part 1 of the Finance Act, 2026 sets out a staggered commencement schedule. Sections 17, 18 and 24 of the Income Tax Act amendments take effect on 1 January 2027; the amendment to section 43 (retention of export declarations) takes effect on 1 September 2026; and all other provisions of the Act took effect on 1 July 2026.

Income Tax Act Amendments

Summary of Income Tax Act Changes

Section Amended	Previous Position	Finance Act, 2026 Amendment	Practical Impact
Section 2 (Royalty)	Narrower royalty definition.	Expanded to cover software and digital payment card network fees.	More cross-border payments attract withholding tax as royalties.
Section 2 (Withdrawals/Winnings)	Definitions not aligned to gambling licensing regime.	New definitions tied to the Gambling Control Act, 2025.	Clearer basis for taxing betting, gaming and lottery pay-outs.
Section 6B	No bespoke regime for non-resident rental income.	New final non-resident rental income tax with simplified registration.	Non-resident landlords face a dedicated compliance process.
Section 5	Gratuity and national carrier crew income treatment unclear.	Tax-free gratuity up to 31% of emoluments; relief for national carrier crew.	Employers can structure tax-efficient long-term gratuities.
Sections 10 & 35, Third Schedule	No withholding tax on scrap metal or winnings.	New withholding tax: 1.5% on scrap metal, 20% on winnings.	Payers must withhold and remit tax on these transactions.
Section 11	Risk of double taxation of trust income.	Trustee-level tax is final; beneficiaries not taxed again.	Removes double taxation of trust income.
Sections 52 & 52B	Filing deadlines less uniformly expressed.	Individuals file by month 4; other persons by month 6, after year/period end.	Standardised compliance calendar across taxpayer categories.
Section 15, Second Schedule	Standard bad debt and carry-forward rules; no enhanced allowance.	Enhanced bad debt relief for lenders; extended deficit carry-forward and 100% first-year allowance for investments over KES 10 billion.	Improves cash flow for qualifying large investors and lenders.
Eighth Schedule	Indirect offshore transfers largely outside CGT net.	CGT extended to non-resident share transfers deriving value from Kenya.	Offshore restructurings may trigger Kenyan capital gains tax.
First & Ninth Schedules	REIT transfers could trigger CGT; 37.5% repatriation rate; no death benefit exemption.	REIT transfers CGT-exempt; death benefits exempt; repatriation rate cut to 30% (15% for section 7B licensees/contractors).	Lower tax costs for REIT restructurings, extractive sector repatriations and estates.

Detailed Analysis

1. Expanded Definition of "Royalty" to Capture Software and Digital Payment Systems (Section 2)

The Finance Act broadens the definition of "royalty" under section 2 of the Income Tax Act to expressly include payments for software (whether licensed, developed, maintained or supported) and payments for access to, or participation or usage rights in, a proprietary digital payment card network or platform, regardless of how the charge is described (service fee, transaction fee, network fee, assessment fee, processing fee or similar charge).

Previous Position

"Royalty" was narrower and did not expressly capture software payments or fees charged by proprietary card payment networks and platforms.

What this Means

Cross-border software licensing fees and card-network fees paid to non-residents will generally attract withholding tax as royalties, unless a specific exemption or treaty relief applies.

Our Comments

Businesses that license software or participate in international card payment schemes should review their contracts and withholding tax positions, particularly where payments are made to related non-resident entities.

2. New Definitions of "Withdrawals" and "Winnings" Linked to the Gambling Control Act (Section 2)

The Act redefines "withdrawals" as amounts paid or disbursed to a player's account by a person licensed under the Gambling Control Act, 2025, and introduces a new definition of "winnings" as a pay-out from a lottery or prize competition by a licensed operator.

Previous Position

The definitions of these terms were not aligned to the newly established gambling licensing regime under the Gambling Control Act, 2025.

What this Means

The definitions create a clearer statutory basis for taxing amounts paid out by licensed betting, gaming and lottery operators.

Our Comments

Operators in the betting and gaming industry should align their systems with the updated definitions, which also feed into the new withholding tax obligations discussed below.

3. Introduction of Non-Resident Rental Income Tax (New Section 6B)

The Finance Act introduces a new final tax, the non-resident rental income tax, payable by non-resident persons earning income from the use or occupation of property situated in Kenya. Affected persons must register through a simplified framework prescribed by the Commissioner and must file returns and remit the tax by the 20th day of the month following the month in which the rent is paid. The requirement does not apply where the rent is received by a resident agent who already accounts for withholding tax on behalf of the non-resident.

Previous Position

Non-resident landlords were taxed under the ordinary rental income tax framework without a bespoke, simplified compliance regime.

What this Means

Non-resident property owners now have a dedicated, simplified registration and filing process, with the tax applied as a final tax at the rate prescribed in the Third Schedule.

Our Comments

Property managers and agents collecting rent on behalf of non-resident landlords should confirm whether they, or the landlord directly, bear the registration and filing obligation.

Detailed Analysis

4. Tax Exemption for Employee Gratuity Contributions (Section 5)

A new proviso exempts gratuity paid in respect of a contract of service of at least three years (including renewals or extensions beyond three years), provided the gratuity does not exceed 31% of the employee's emoluments earned over the contract period. The Act also clarifies that income earned by non-resident crew of a Government-designated national air carrier is not deemed to accrue in Kenya to the extent it relates to duties performed outside Kenya in connection with the airline's international operations.

Previous Position

Gratuity payments on qualifying long-term contracts, and the treatment of non-resident airline staff income, were not expressly addressed in section 5.

What this Means

Employers offering long-term contract gratuities can structure payments to fall within the 31% threshold to obtain tax-free treatment, and national carriers gain clarity on the tax position of their non-resident crew.

Our Comments

Employers should review gratuity schemes and contract terms to ensure they meet the three-year minimum and the 31% cap needed to qualify for the exemption.

5. New Withholding Tax on Sale of Scrap Metal and Winnings (Sections 10, 35 and the Third Schedule)

The sale of scrap metal and winnings are added as new categories of income subject to withholding tax. The Third Schedule prescribes a rate of 1.5% of the gross amount for scrap metal sales and 20% for winnings.

Previous Position

Neither the sale of scrap metal nor winnings were subject to withholding tax under the Income Tax Act.

What this Means

Persons making payments for scrap metal or paying out winnings must now withhold and remit tax at the prescribed rates.

Our Comments

Scrap metal dealers, lottery and betting operators should update their payment systems to apply the correct withholding tax rates and issue the requisite withholding tax certificates.

6. Clarification of Trust Income Taxation (Section 11)

Section 11 is repealed and replaced to confirm that income received by a trustee, executor or administrator is deemed to be that person's own income for tax purposes. Qualifying dividends or interest already taxed at the trustee level are not taxed again, and beneficiaries are not separately taxed on income on which the trustee has already paid tax.

Previous Position

The interaction between trustee-level taxation and beneficiary-level taxation was less clearly delineated, creating a risk of double taxation.

What this Means

The amendment removes the risk of the same trust income being taxed twice, once at the trustee level and again at the beneficiary level.

Our Comments

Trustees, executors and administrators should review trust deeds and distribution policies to take advantage of the clarified single layer of taxation.

Detailed Analysis

7. Harmonised Return Filing Deadlines (Sections 52 and 52B)

The deadline for individuals to respond to a Commissioner's notice, and to file self-assessment returns, is aligned to the last day of the fourth month following the end of the year of income. Persons other than individuals (companies and other entities) must file self-assessment returns by the last day of the sixth month following the end of their accounting period.

Previous Position

Section 52 allowed a notice-response period of at least 30 days, and filing deadlines across taxpayer categories were less uniformly expressed.

What this Means

Taxpayers gain clearer, standardised filing timelines depending on whether they are individuals or other persons.

Our Comments

Businesses should update internal compliance calendars to reflect the confirmed four-month (individuals) and six-month (other persons) filing windows.

8. Enhanced Capital Allowances and Deficit Carry-Forward for Large Investors (Section 15 and the Second Schedule)

Banks and financial institutions carrying on money-lending business may now treat the principal, interest and other related amounts as part of a bad debt write-off, in line with Commissioner-issued guidelines. Persons who invested at least KES 10 billion in Kenya before 1 July 2025 and whose resulting deficit was ascertained before that date may carry forward the deficit beyond the ordinarily applicable period until it is extinguished. The Second Schedule also introduces a 100% first-year capital allowance for investments exceeding KES 10 billion.

Previous Position

Bad debt relief for lenders was narrower in scope, deficits from large investments were subject to standard carry-forward time limits, and there was no enhanced first-year allowance for very large capital investments.

What this Means

Large-scale investors and financial institutions benefit from more generous debt relief and capital allowance rules, improving after-tax investment returns.

Our Comments

Investors contemplating projects above the KES 10 billion threshold should model the cash-flow benefit of the accelerated allowance and confirm eligibility criteria with the Commissioner.

9. Capital Gains Tax on Indirect Transfers of Kenyan Assets (Eighth Schedule)

The Eighth Schedule is amended to bring within the scope of capital gains tax the alienation of shares by a non-resident person where the shares derive their value from Kenya, or where the alienation changes group membership of a Kenyan-resident company or ownership of, or title or interest in, Kenyan-located property.

Previous Position

Indirect offshore transfers of interests deriving value from Kenyan assets were not expressly brought within the capital gains tax net.

What this Means

Offshore restructurings and share transfers involving groups with underlying Kenyan assets may now trigger Kenyan capital gains tax even though the shares transferred are not those of a Kenyan company.

Our Comments

Multinational groups should review planned offshore reorganisations and disposals for Kenyan capital gains tax exposure before completing such transactions.

Detailed Analysis

10. REIT Capital Gains Relief, Death Benefits Exemption and Reduced Withholding Tax on Repatriated Income (First and Ninth Schedules)

The First Schedule now exempts capital gains arising from the transfer of property to a registered real estate investment trust (REIT), and exempts benefits arising due to death. The Ninth Schedule reduces the non-resident company tax rate on repatriated income from 37.5% to 30%, and introduces a 15% rate for repatriated income of licensees and contractors under section 7B.

Previous Position

Transfers of property into a REIT could trigger capital gains tax, death benefits were not expressly exempt, and the non-resident company repatriated income rate stood at 37.5% with no specific 15% rate for section 7B licensees and contractors.

What this Means

Property owners can restructure into REITs without an immediate capital gains tax cost, beneficiaries of death benefits are shielded from tax, and extractive-sector licensees and contractors benefit from a materially lower repatriation tax rate.

Our Comments

Sponsors considering REIT structures, estates administering death benefits, and extractive sector licensees and contractors should factor these changes into their tax planning.

Value Added Tax (VAT) Amendments

Summary of VAT Changes

Section of VAT Act	Previous Position	Finance Act, 2026 Amendment	Practical Impact
First Schedule Part I	Limited VAT exemptions for strategic projects	Expanded VAT exemption to PPP infrastructure projects	Reduces project costs for qualifying PPP investments.
First Schedule Part I	No exemption	VAT exemption for National Infrastructure Fund projects	Encourages infrastructure investment.
First Schedule Part I	Limited investment incentives	VAT exemption for investments exceeding KES 3 billion	Lowers capital investment costs.
First Schedule Part I	Limited energy incentives	VAT exemption for LPG storage projects	Promotes investment in the energy sector.
First Schedule Part II	Broad exemption for financial services	Clarifies that payment processing and merchant acquiring services are taxable	Digital payment providers will charge VAT on these services.
First Schedule Part II	Tour operator provisions less defined	Introduces definitions of "tour operator" and "in-house supplies"	Provides certainty for the tourism industry.
Second Schedule	Various zero-rated supplies	Deletes selected zero-rated items and narrows scope of others	Businesses should reassess VAT treatment of affected goods.

Detailed Analysis

1. VAT Exemption for Public Private Partnership (PPP) Projects

The Finance Act introduces a new VAT exemption for the supply of goods and services used directly and exclusively in the implementation of infrastructure projects undertaken under a Public Private Partnership (PPP) framework, subject to approval by the Cabinet Secretary responsible for the National Treasury upon recommendation by the relevant implementing Ministry.

Previous Position

VAT exemptions were available for only a limited number of government projects and did not expressly cover all qualifying PPP infrastructure projects.

What the Amendment Means

The exemption lowers the overall cost of implementing large infrastructure projects by eliminating irrecoverable VAT on qualifying goods and services.

Our Comments

The amendment supports Kenya's continued reliance on PPPs to finance strategic infrastructure. Investors should ensure that the necessary approvals are obtained before claiming the exemption, as the relief is conditional rather than automatic.

2. VAT Exemption for National Infrastructure Fund Projects

The Finance Act exempts goods supplied directly and exclusively for projects undertaken and funded through the National Infrastructure Fund, subject to approval by the Cabinet Secretary responsible for the National Treasury.

Previous Position

Projects financed through the National Infrastructure Fund generally remained subject to normal VAT rules unless another exemption applied.

What the Amendment Means

Government-funded infrastructure projects financed through the Fund will benefit from lower implementation costs, thereby improving project viability.

Our Comments

Contractors participating in these projects should confirm whether the relevant approvals have been issued before invoicing supplies as VAT exempt.

3. VAT Exemption for Large Capital Investments

The First Schedule now exempts plant, machinery, equipment and spare parts imported or purchased locally for projects whose total investment value is not less than KES 3 billion, subject to approval by the Cabinet Secretary responsible for the National Treasury upon recommendation of the Cabinet Secretary responsible for Trade and Investment Promotion.

Previous Position

VAT incentives for large investments were available only for specified sectors and investment promotion arrangements.

What the Amendment Means

The amendment significantly reduces the capital cost of establishing qualifying manufacturing, industrial and infrastructure projects.

Our Comments

This incentive is expected to enhance Kenya's attractiveness as an investment destination. Investors should engage with the relevant government agencies early in the project planning stage to secure the required approvals.

4. VAT Exemption for LPG Storage Infrastructure

The Finance Act exempts taxable goods and taxable services used in the construction of liquefied petroleum gas (LPG) storage tanks and related infrastructure where the investment exceeds KES 5 billion and has been recommended by the Cabinet Secretary responsible for Energy.

Previous Position

No comprehensive VAT exemption existed for large-scale LPG infrastructure projects.

What the Amendment Means

The amendment reduces the cost of strategic energy investments and supports the Government's objective of expanding LPG infrastructure across the country.

Our Comments

This incentive complements similar exemptions introduced under the Miscellaneous Fees and Levies Act and demonstrates the Government's focus on encouraging investment in the energy sector.

5. Clarification of Exempt Financial Services

The Finance Act amends Part II of the First Schedule by clarifying that while traditional financial services remain exempt, the exemption does not extend to:

- payment processing;
- settlement services;
- merchant acquiring services;
- payment gateway services; and
- aggregation services supplied over a software platform for a fee or commission by a payment service provider.

Previous Position

The exemption for financial services was broad, creating uncertainty regarding the VAT treatment of modern digital payment services.

What the Amendment Means

Fintech companies, payment gateways, merchant acquirers and payment aggregators will generally be required to charge VAT on qualifying services.

Our Comments

This amendment reflects the evolution of Kenya's digital economy and is likely to increase compliance obligations for fintech businesses. Businesses should review contracts, pricing models and invoicing systems to ensure VAT is correctly applied.

6. Clarification of Tour Operator Services

The Finance Act introduces definitions for:

- our operator
- In-house supplies

for purposes of the VAT Act.

Previous Position

The VAT Act did not define these terms, resulting in uncertainty when determining the VAT treatment of tourism packages.

What the Amendment Means

The amendment provides greater certainty for the tourism sector by distinguishing services supplied from a tour operator's own resources from those purchased from third parties and materially altered.

Our Comments

Tour operators should review package pricing and VAT accounting to ensure supplies are treated correctly under the revised definitions.

7. Amendments to Zero-Rated Supplies

The Finance Act amends the Second Schedule by:

- deleting selected zero-rated supplies;
- restricting the scope of zero-rating for certain bicycles and batteries by reference to specific tariff headings; and
- deleting certain zero-rated provisions entirely.

Previous Position

Certain supplies enjoyed broader zero-rating without tariff-specific limitations.

What the Amendment Means

Businesses importing or supplying affected goods should verify the applicable tariff classification before applying zero-rating.

Our Comments

Incorrect tariff classification may expose taxpayers to VAT assessments, penalties and interest. Businesses should work closely with customs specialists to ensure correct classification.

8. Adjustment of Input Tax Where Supplies Become Exempt (New Section 17A)

A new section 17A requires a registered person who has deducted input tax on supplies that subsequently become exempt, and which remain unsold, to account for an amount equal to that input tax in the return for the period in which the supply became exempt.

Previous Position

The VAT Act did not expressly require a clawback of input tax previously deducted on stock that later became exempt.

What the Amendment Means

Businesses holding unsold stock at the point a supply is reclassified as exempt must reverse the related input tax previously claimed.

Our Comments

Businesses should monitor changes in the VAT status of the goods they hold in stock and adjust their input tax accounts promptly when a supply becomes exempt.

9. Extension of the VAT Refund Claim Period and Restriction on Tax Invoices (Sections 31 and 42)

The period within which a person may claim a refund of VAT on bad debts is extended from two years to three years. Separately, section 42 is amended to confirm that an invoice showing an amount purporting to be tax may only be issued in respect of an actual taxable supply.

Previous Position

The bad debt refund claim window was two years, and the restriction on issuing invoices showing tax only for genuine taxable supplies was less explicit.

What the Amendment Means

Taxpayers have more time to claim bad debt relief, while the tightened invoicing rule reduces the risk of tax being charged on invoices unconnected to an actual supply.

Our Comments

Businesses should review debtor books for previously time-barred bad debt claims that may now fall within the extended three-year window.

10. Input Tax Deduction for Supplies to Security Agencies (Section 17)

Registered persons are now entitled to deduct input tax attributable to supplies made to the Kenya Defence Forces, the Defence Forces Welfare Services, the National Intelligence Service and the National Police Service, even where such supplies are treated as exempt, subject to prescribed documentation and to the deduction being limited to input tax directly attributable to those supplies.

Previous Position

Input tax attributable to exempt supplies made to security agencies was generally subject to apportionment restrictions like any other exempt supply.

What the Amendment Means

Suppliers to national security agencies can recover input tax directly linked to those supplies without it being subject to the standard apportionment rules.

Our Comments

Suppliers to these agencies should keep the documentation required to substantiate the direct attribution of input tax to qualifying supplies.

11. Additional VAT-Exempt Goods and Treatment of Outsourced Labour Costs (First Schedule and Section 13)

The First Schedule adds new VAT exemptions, including dialyzers, scrap metal, inputs and raw materials for pharmaceutical manufacturing (on Cabinet Secretary recommendation), bioethanol vapour cooking stoves, and goods used in advances, credit and the realisation of loan collateral. Separately, section 13 clarifies that employee-related costs incurred by a supplier of labour, outsourcing or employee placement services are treated as disbursements made on behalf of the client, rather than as part of the supplier's taxable value.

Previous Position

These goods were not specifically listed as exempt, and the VAT treatment of employee costs recovered by outsourcing and labour placement providers was less clear.

What the Amendment Means

The new exemptions reduce the VAT cost of qualifying medical, agro-processing, pharmaceutical and clean-cooking goods, while outsourcing and placement providers only charge VAT on their margin rather than on the full recovered employee cost.

Our Comments

Businesses in the affected sectors, and outsourcing or labour placement providers, should update their VAT treatment and invoicing to reflect these clarifications.

Excise Duty Act Amendments

Summary of Excise Duty Changes

Section of the Excise Duty Act	Previous Position	Finance Act, 2026 Amendment	Practical Impact
Section 2	No definition of antique, vintage or classic motor vehicles.	Introduces definitions of "Antique Vehicle", "Vintage Vehicle" and "Classic Vehicle".	Provides certainty on the excise treatment of imported collectible vehicles.
First Schedule Part I	Manufacturers could not claim relief for excise duty paid on inputs used in exempt excisable goods.	Introduces relief for excise duty paid on inputs used in manufacturing exempt excisable goods.	Eliminates cascading excise duty and reduces manufacturing costs.
First Schedule	Existing excise duty rates.	Revises excise duty rates for selected goods.	Increased tax burden on affected products.
First Schedule	No excise on certain imported products.	Introduces excise duty on selected imported goods including wood products and plastics.	Increased import costs and enhanced protection for local manufacturers.
Betting and Gaming	Existing definition of "amount deposited".	Revises the definition for purposes of excise duty.	Clarifies the tax base for betting transactions.

Detailed Analysis

1. . Definition of Antique, Vintage and Classic Vehicles

The Finance Act amends Section 2 of the Excise Duty Act by introducing statutory definitions for:

- Antique Vehicle
- Vintage Vehicle
- Classic Vehicle

These definitions establish objective criteria for classifying imported collectible motor vehicles for excise duty purposes.

Previous Position

The Excise Duty Act did not define these categories, resulting in uncertainty regarding the applicable excise treatment for imported collectible vehicles.

What the Amendment Means

The amendment provides certainty for importers, collectors, and customs officials when determining the applicable excise duty.

Our Comments

The amendment is expected to reduce disputes between taxpayers and the Kenya Revenue Authority (KRA) regarding the classification of collectible vehicles.

2. Excise Duty Refund for Manufacturers

The Finance Act amends Section 29 to allow manufacturers to obtain refund for excise duty paid on inputs used in the manufacture of exempt excisable goods under paragraph 12 of of part A of the second schedule (Alcoholic or non-alcoholic beverages supplied to the Kenya Defence Forces Canteen Organization.)

Previous Position

Manufacturers incurred excise duty on production inputs even where the finished products were exempt from excise duty under paragraph 12 of the second schedule, resulting in embedded tax costs.

What the Amendment Means

The amendment removes double taxation within the production process and reduces manufacturing costs.

Our Comments

This amendment is a welcome development for manufacturers as it promotes efficiency and aligns the excise regime with the principle that exempt goods should not bear hidden tax costs.

3. Increase in Excise Duty on Imported Sugar

The First Schedule has been amended to increase the excise duty on imported sugar to KES 40 per kilogram.

Previous Position

Imported sugar attracted a lower rate of excise duty.

What the Amendment Means

The higher duty is intended to discourage sugar imports while supporting domestic sugar production.

Our Comments

Businesses relying on imported sugar as a production input should review procurement strategies and consider sourcing locally where commercially viable.

4. Revision of Excise Duty on Tobacco Products

The Finance Act revises the excise duty rates applicable to cigarettes and other tobacco products.

Previous Position

The previous excise rates remained unchanged under the earlier legislation.

What the Amendment Means

Manufacturers and importers of tobacco products will face higher excise duty obligations, which are likely to increase retail prices.

Our Comments

The increase aligns with the Government's public health policy of discouraging tobacco consumption while raising additional revenue.

5. Introduction of Excise Duty on Selected Imported Goods

The Finance Act introduces excise duty on several imported products, including:

- Medium Density Fibreboard (MDF);
- Particle boards;
- Plywood;
- Timber products;
- Certain plastic products;
- Unprinted banner materials.

Previous Position

These products were generally not subject to excise duty.

What the Amendment Means

Importers will incur additional tax costs on these products, increasing the landed cost of imports.

Our Comments

The amendment is intended to protect local manufacturers by making imported products comparatively more expensive. Businesses should review supplier contracts and pricing strategies to manage the impact.

6. Changes Affecting the Betting and Gaming Industry

The Finance Act revises the definition of "amount deposited" for purposes of excise duty on betting and gaming transactions.

Previous Position

The definition gave rise to differing interpretations regarding the taxable amount.

What the Amendment Means

The revised definition clarifies the tax base upon which excise duty is calculated, thereby reducing ambiguity and promoting consistency in compliance.

Our Comments

Operators should review their betting platforms, accounting systems, and excise calculations to ensure compliance with the revised law.

7. Revision of Excise Duty Rates

The Finance Act revises excise duty rates for various excisable goods listed in the First Schedule to the Excise Duty Act. The changes affect both locally manufactured and imported products in selected categories.

Previous Position

The earlier rates continued to apply until the commencement of the Finance Act, 2026.

What the Amendment Means

Businesses manufacturing or importing excisable goods should update their pricing models, ERP systems, and excise accounting processes to reflect the revised rates.

Practical Example

A beverage manufacturer will need to review excise computations immediately upon the effective date to avoid underpayment of excise duty.

Our Comments

Businesses should monitor future annual adjustments to excise duty rates, particularly where rates are subject to inflationary indexation under the Excise Duty Act.

Tax Procedures Act Amendments

Summary of Tax Procedures Act Changes

Section Amended	Previous Position	Finance Act, 2026 Amendment	Practical Impact
Section 6C	No reporting obligations for Virtual Asset Service Providers (VASPs).	Introduces mandatory annual reporting by VASPs.	Cryptocurrency exchanges and digital asset platforms will have new compliance obligations.
Section 6D	No legal framework for automatic exchange of virtual asset information.	Introduces exchange of information agreements with foreign jurisdic-tions.	Enhances international tax cooperation.
Section 10	Deregistered taxpayers had limited avenues for reinstatement.	Commissioner empowered to reinstate deregistered taxpayers upon application.	Simplifies restoration of tax registration.
Section 18A	Limited statutory framework on tax avoidance.	Introduces comprehensive General Anti-Avoidance Rule (GAAR).	KRA may disregard artificial tax avoidance arrangements.
Section 23B	Limited customs documentation requirements.	Importers required to retain export declarations and supporting customs documents.	Increased customs compliance obligations.
Section 29A	Commissioner relied mainly on taxpayer declarations.	Commissioner empowered to issue assessments using third-party information.	Increased data-driven tax assessments.
Section 37E	Tax amnesty expired on 30 June 2025.	Amnesty extended to 31 December 2026 for qualifying liabilities.	Taxpayers have additional time to obtain waiver of penalties and interest.
Section 75	Manual tax return preparation.	Introduction of pre-populated tax returns.	Simplifies return preparation while increasing reconciliation requirements.
Section 86	Existing electronic compliance penalties.	New penalties relating to electronic tax systems.	Increased penalties for non-compliance.
Section 89	No specific waiver for system-generated penalties.	Commissioner may waive penalties arising from KRA system failures.	Relief for taxpayers affected by technical issues.

Detailed Analysis

1. Introduction of Reporting Obligations for Virtual Asset Service Providers (Section 6C)

The Finance Act introduces Section 6C, requiring every Virtual Asset Service Provider (VASP) to file annual information returns with the Commissioner. The returns must contain prescribed information relating to reportable users, controlling persons and virtual asset transactions.

The Commissioner may prescribe the format, timelines and manner of submission.

Previous Position

The Tax Procedures Act did not impose statutory reporting obligations on cryptocurrency exchanges or other virtual asset service providers.

What the Amendment Means

Kenya joins a growing number of jurisdictions implementing reporting requirements for digital assets. VASPs will need to establish systems capable of collecting, verifying and reporting customer information to KRA.

2. Automatic Exchange of Information on Virtual Assets (Section 6D)

The Finance Act introduces Section 6D, enabling Kenya to enter into agreements with foreign jurisdictions for the automatic exchange of information relating to virtual asset transactions.

The Commissioner may exchange information where adequate safeguards exist to protect confidentiality.

Previous Position

There was no specific legislative framework governing the exchange of virtual asset information.

What the Amendment Means

The amendment aligns Kenya with international transparency initiatives such as the OECD Crypto-Asset Reporting Framework (CARF).

3. Reinstatement of Deregistered Taxpayers (Section 10)

The Finance Act empowers the Commissioner to reinstate a taxpayer whose PIN has been deregistered, subject to the prescribed conditions.

Previous Position

The legislation provided no/limited guidance on reinstatement procedures.

What the Amendment Means

Businesses that have been deregistered due to inactivity or administrative reasons may apply for reinstatement without undergoing a completely new registration process.

4. General Anti-Avoidance Rule (Section 18A)

The Finance Act introduces a comprehensive General Anti-Avoidance Rule (GAAR) empowering the Commissioner to disregard arrangements entered into primarily to obtain a tax benefit.

In determining whether an arrangement constitutes tax avoidance, the Commissioner may consider:

- commercial substance;
- economic effect;
- manner in which the arrangement was carried out;
- financial consequences; and
- surrounding circumstances.

Previous Position

Although anti-avoidance provisions existed, there was no detailed administrative framework under the Tax Procedures Act.

What the Amendment Means

KRA may disregard transactions that lack commercial substance and reconstruct them to determine the correct tax liability.

5. Retention of Export Declarations (Section 23B)

Importers are now required to retain export declarations and prescribed customs documentation relating to imported goods.

Previous Position

The record-keeping requirements focused primarily on import documentation.

6. Commissioner May Use Third-Party Information (Section 29A)

The Commissioner is empowered to issue assessments based on third-party information where taxpayer records are incomplete or inconsistent.

Such information may include:

- eTIMS data;
- customs records;
- withholding tax returns;
- banking information;
- employer returns; and
- information received from foreign tax authorities.

Previous Position

Assessments relied primarily on taxpayer declarations.

What the Amendment Means

Businesses should expect increased use of data analytics and cross-matching of information during compliance reviews and audits.

7. Extension of the Tax Amnesty Programme (Section 37E)

The Finance Act extends the tax amnesty programme to 31 December 2026.

Taxpayers with tax liabilities due on or before 31 December 2025 may qualify for a waiver of penalties and interest upon payment of the principal tax.

Previous Position

The previous amnesty expired on 30 June 2025.

What the Amendment Means

The extension provides businesses with a valuable opportunity to regularise historical tax liabilities without incurring additional penalties and interest.

8. Introduction of Pre-Populated Tax Returns (Section 75)

The Commissioner may generate pre-populated tax returns using information available in KRA systems.

Previous Position

While reducing compliance costs, taxpayers remain responsible for verifying the accuracy of pre-filled information before submission.

9. Reinstatement of Deregistered Taxpayers (Section 10)

The Finance Act introduces penalties for failure to comply with electronic tax administration requirements, including the use of prescribed digital platforms.

Previous Position

Penalties focused mainly on late filing and late payment.

What the Amendment Means

Businesses failing to comply with electronic tax system requirements may be subject to significant administrative penalties.

10. Waiver of Penalties Arising from System Errors (Section 89)

Amendment

The Commissioner may waive penalties and interest where they arise due to failures or errors attributable to KRA's electronic systems rather than the taxpayer.

Previous Position

Taxpayers often had to apply administratively for relief where penalties arose from system failures.

What the Amendment Means

The amendment provides certainty and fairness where taxpayers are unable to comply because of technical issues beyond their control.

Miscellaneous Fees and Levies Act Amendments

Summary of Excise Duty Changes

Section / Schedule Amended	Previous Position	Finance Act, 2026 Amendment	Practical Impact
First Schedule – Part A	Limited exemptions from Import Declaration Fee (IDF).	Introduces definitions of "Antique Vehicle", "Vintage Vehicle" and "Classic Vehicle".	Reduces the cost of importing qualifying goods.
First Schedule – Part B	Limited exemptions from Railway Development Levy (RDL).	Introduces relief for excise duty paid on inputs used in manufacturing exempt excisable goods.	Reduces project implementation costs for qualifying investors.
Goods used in LPG infrastructure	No specific exemption.	Introduces exemption for goods used in the construction of LPG storage tanks and related infrastructure where the investment is at least KES 5 billion and approved by the Cabinet Secretary responsible for Energy.	Promotes investment in Kenya's energy sector.

Detailed Analysis

1. Expansion of Import Declaration Fee (IDF) Exemptions

The Finance Act amends Part A of the First Schedule to expand the list of goods exempt from the Import Declaration Fee (IDF).

The amendments include expanding the exemption to cover all parts under Chapter 88, including goods under tariff headings 8802.30.00 and 8802.40.00; and introducing a new exemption for goods used in the construction of Liquefied Petroleum Gas (LPG) storage tanks and related infrastructure, provided the total investment is at least KES 5 billion; and the project has been recommended by the Cabinet Secretary responsible for Energy.

Previous Position

Only specified aircraft parts qualified for exemption, while goods imported for LPG infrastructure projects remained subject to IDF.

What the Amendment Means

The amendment lowers the cost of importing qualifying capital goods by eliminating the 2.5% Import Declaration Fee. This is expected to improve the viability of large-scale aviation and energy infrastructure projects.

2. Expansion of Railway Development Levy (RDL) Exemptions

The Finance Act similarly amends Part B of the First Schedule to expand the list of goods exempt from the Railway Development Levy (RDL).

The amendments include:

- Extending the exemption to all parts under Chapter 88, including goods classified under tariff headings 8802.30.00 and 8802.40.00; and
- Introducing an exemption for goods imported for the construction of LPG storage tanks and related infrastructure where the investment is not less than KES 5 billion; and project has been recommended by the Cabinet Secretary responsible for Energy.

Previous Position

Qualifying aviation goods were limited, and imports for LPG storage projects attracted Railway Development Levy.

What the Amendment Means

Eligible investors will no longer incur the 1.5% Railway Development Levy on qualifying imports, reducing the overall cost of strategic investment projects.

3. Reinstatement of Deregistered Taxpayers (Section 10)

The Finance Act introduces a coordinated package of tax incentives across multiple tax statutes for investments in Liquefied Petroleum Gas (LPG) storage tanks and related infrastructure.

Under the Miscellaneous Fees and Levies Act, qualifying imports are exempt from both the Import Declaration Fee and the Railway Development Levy, provided that:

- the total investment is at least KES 5 billion; and
- the investment has been recommended by the Cabinet Secretary responsible for Energy.

Previous Position

There were no specific customs levy incentives for large-scale LPG infrastructure projects.

What the Amendment Means

The amendment forms part of a broader Government strategy to promote investment in energy infrastructure by reducing the tax cost of importing specialised equipment.

Comparison of the Incentives Introduced

Incentive	Previous Position	Finance Act, 2026 Amendment	Practical Impact
Import Declaration Fee (IDF)	Payable on qualifying imports unless specifically exempt.	Exemption expanded to aviation parts and qualifying LPG infrastructure projects.	Reduces import costs by eliminating IDF.
Railway Development Levy (RDL)	Payable on qualifying imports unless specifically exempt.	Exemption expanded to aviation parts and qualifying LPG infrastructure projects.	Reduces project implementation costs.
Combined Incentive	Limited relief available.	Qualifying investors may benefit from exemption from VAT, IDF and RDL on eligible imports.	Significantly lowers the overall capital cost of strategic investments.

Stamp Duty Act Amendments

Summary of Stamp Duty Change

Section Amended	Finance Act, 2026 Amendment
Section 96A(1)	Introduces a new paragraph clarifying that the exemption applies where the effect of the transaction is to convey or transfer a beneficial interest in property from a person or persons to a REIT. (Finance Act, 2026, section 54)

Detailed Analysis

1. Clarification of REIT Transfers (Section 96A)

The Finance Act amends Section 96A(1) of the Stamp Duty Act by inserting a new paragraph providing that the relevant stamp duty exemption applies where:

"the effect thereof is to convey or transfer a beneficial interest in property from a person or persons to the real estate investment trust."

Previous Position

Section 96A provided exemptions relating to certain REIT transactions, but there was uncertainty as to whether transfers involving only a beneficial interest in property, rather than direct legal title, qualified for the exemption.

What the Amendment Means

The amendment clarifies that the exemption extends to transactions where the economic or beneficial ownership of property is transferred into a REIT structure. This removes ambiguity and provides greater certainty for sponsors, property owners and REIT managers undertaking property securitisation transactions.

Comparison of the Position

Incentive	Finance Act, 2026 Amendment	Practical Impact
Transfer of beneficial interest to a REIT	Unclear whether exemption applied.	Expressly covered by the exemption provision.
Stamp duty certainty for REIT transactions	Potential interpretational disputes.	Greater legal and tax certainty.
Transaction costs	Potential exposure to stamp duty.	Reduced where exemption conditions are satisfied.

Affordable Housing Levy Amendment

Detailed Analysis

1. . Increase in Collector's Commission for Affordable Housing Levy (Section 11)

The Finance Act amends section 11(4)(a) of the Affordable Housing Act to fix the portion of Affordable Housing Levy collections payable to the collector, for the collection of the levy, at up to two percent (2%), as may be approved by the Cabinet Secretary for the National Treasury on the recommendation of the Cabinet Secretary responsible for housing.

Previous Position

Section 11(4)(a) did not fix a fee cap for the collector's commission in the same terms.

What the Amendment Means

The collector (the Kenya Revenue Authority) is now entitled to a defined, capped commission of up to 2% of the amounts it collects on behalf of the Affordable Housing Fund.

Our Comments

The amendment provides clarity on the cost of administering the levy and should be monitored alongside future Cabinet Secretary approvals that fix the exact commission rate within the 2% cap.

Road Maintenance Levy Amendment
Detailed Analysis

1. Reduction of the Road Maintenance Levy (Section 3)

The Finance Act amends section 3(2) of the Road Maintenance Levy Fund Act to reduce the Road Maintenance Levy charged per litre of petrol and diesel from KES 3.00 to KES 1.50.

Previous Position

e Road Maintenance Levy was charged at KES 3.00 per litre of petrol and diesel.

What this Means

The reduction lowers the levy component of the pump price of petrol and diesel, easing fuel costs for consumers, transporters and other fuel-dependent businesses.

Our Comments

While the reduction offers welcome relief amid the high cost of living and transport costs, businesses and Government should monitor its impact on the funding available for road maintenance and infrastructure programmes financed through the Road Maintenance Levy Fund.

Our Comments

The Finance Act, 2026 introduces a wide range of tax and regulatory changes that will affect businesses across multiple sectors. While some amendments provide welcome tax incentives and compliance relief, others introduce new obligations that require businesses to review their tax positions, accounting systems, contractual arrangements, and internal processes.

In particular, businesses and individuals with historical tax liabilities should consider taking advantage of the extended Tax Amnesty Programme, which provides a limited opportunity to regularise qualifying tax liabilities and obtain a waiver of penalties and interest before 31 December 2026. Early action is recommended to allow sufficient time for assessing eligibility, quantifying outstanding liabilities, and completing the application process.

Timely assessment and implementation of these changes will be essential not only to ensure compliance but also to minimise tax risks and take advantage of the opportunities introduced by the new legislation.

How MGK Can Help

MGK Consulting is committed to helping clients navigate the changing tax landscape with practical, commercially focused advice. Our Tax Advisory team can assist with:

- Finance Act 2026 impact assessments
- Tax health checks and compliance reviews
- Tax Amnesty eligibility assessments and application support
- KRA engagements and tax dispute resolution
- ERP and accounting system tax configuration reviews
- Payroll tax reviews
- Transfer pricing advisory and support
- Transaction and contract reviews
- Tax planning and advisory opinions
- Tax compliance support
- Finance Act implementation workshops and staff training

Whether you are assessing the impact of the Finance Act, implementing the new requirements, or exploring the benefits of the Tax Amnesty Programme, our team is available to provide practical guidance tailored to your business.

If you would like to understand how the Finance Act, 2026 affects your business, require assistance with implementation, explore the Tax Amnesty Programme, or discuss any other tax matters, our Tax Advisory Team would be pleased to assist. Please contact us at enquiries@mgkconsult.co.ke

Disclaimer

This newsletter has been prepared for general information purposes only and provides a summary of selected provisions of the Finance Act, 2026. It does not constitute legal, tax, accounting, or other professional advice and should not be relied upon as a substitute for advice tailored to your specific circumstances.

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