Kenya Budget Review 2025/2026 Fiscal Year

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The Finance Act, 2025 was assented into law on 27 June 2025 by the President. The Act introduces significant tax changes, including adjustments to Value Added Tax (VAT), Income Tax, Excise Duty and Miscellaneous Provisions. Some of these provisions take effect from 1 July 2025, while others shall come into force on 1 January 2026.

Our team of tax and economic experts have analysed the Act, accompanied by an economic review that provides further insights into the current global, regional and local macroeconomic environment.

Economic Review

1. Global Gross Domestic Product Performance

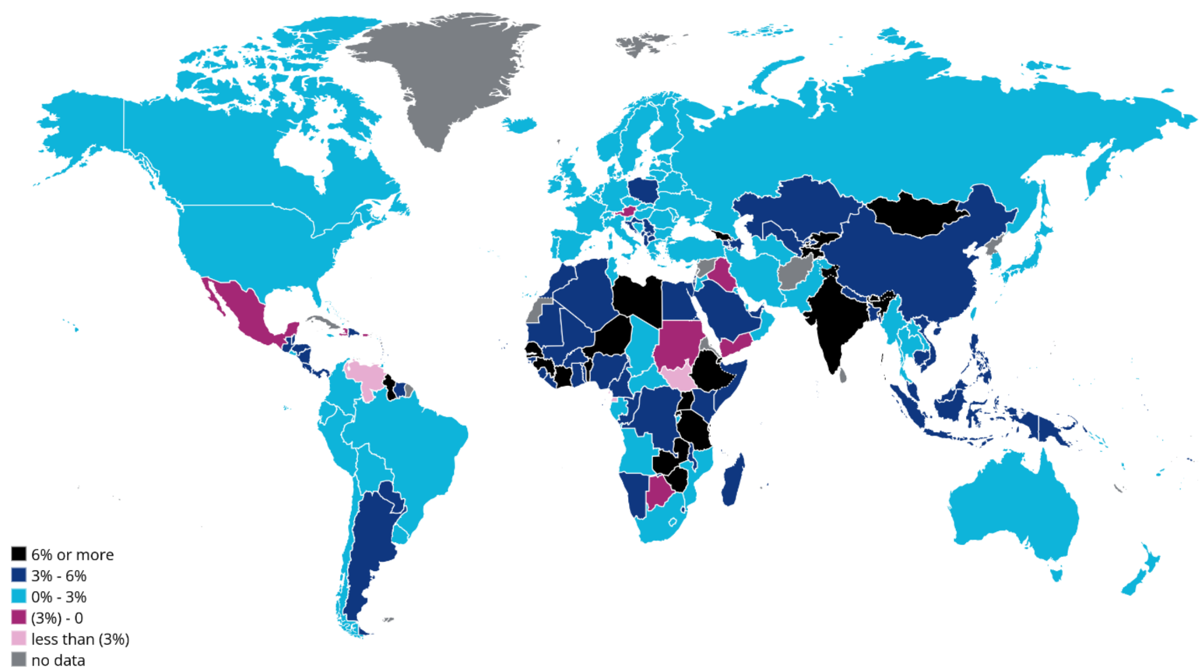
1.1 Overview

The global economy has undergone a volatile recovery trajectory following COVID-19, which triggered a global reaction to a pandemic. Each successive year brought in new challenges directly related to the pandemic. The year has been characterised by geopolitical conflicts, inflationary pressures and efforts by Central Banks to control money supply.

In the year 2024, global growth showed signs of stabilisation following a volatile 2023 where Gross Domestic Product dropped to 3.1% from 3.5% in the year 2022. The International Monetary Fund projected a recovery at 3.2%. However, growth remained below the pre-pandemic trend with the global growth forecast of 3.1% being the weakest in decades. Risks persisted due to ongoing global conflicts affecting trade routes and supplies, fragmented global trade and heightened sovereign debt levels.

1.2 Current global real Gross Domestic Product growth rates

The map below illustrates the estimated global real Gross Domestic Product growth rate for the year 2025.



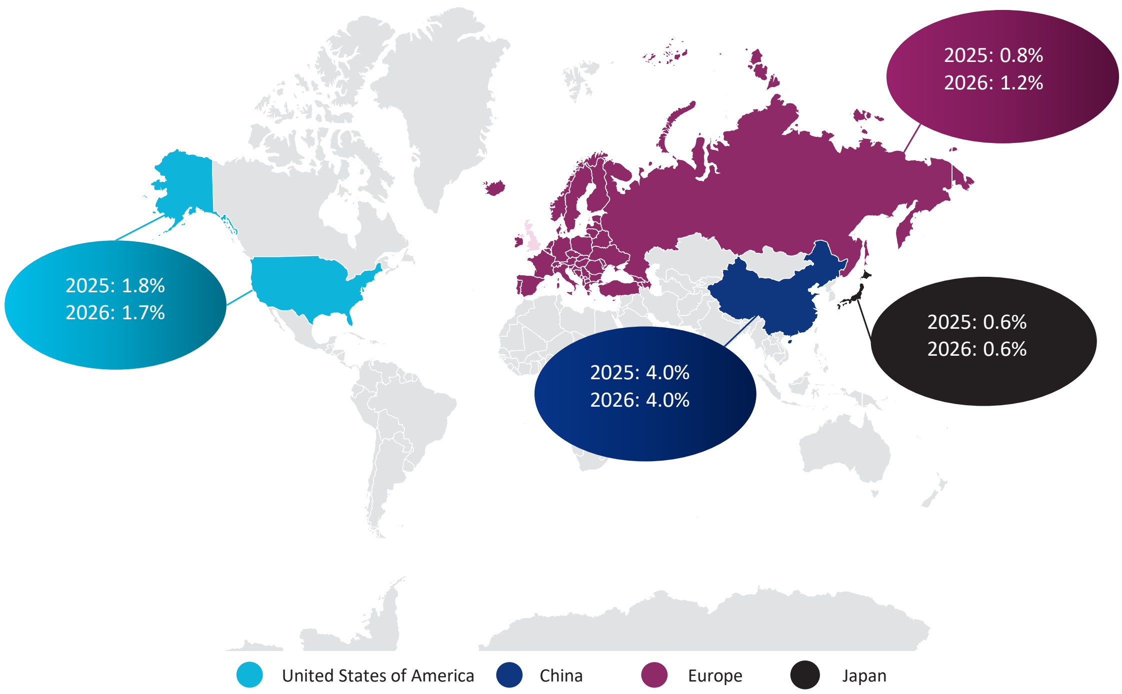
Source: International Monetary Fund

The global growth map by the International Monetary Fund for the year 2025 reflects a divergent recovery with emerging markets in Asia driving global growth. Sub-Saharan Africa remains varied, with robust growth in select economies but vulnerabilities in others. Latin America and the Middle East are also navigating global headwinds and domestic constraints. Advanced economies face subdued growth amid tighter financial conditions and aging demographics.

1.3 Advanced economies projected real Gross Domestic Product growth rates

Major economies refer to countries that have large influential economies on the global stage. This classification typically considers total Gross Domestic Product, trade volume, financial system size and global policy influence, rather than just income per capita or development status.

The chart below illustrates projected Gross Domestic Product Performance growth rates for the year 2025 and the year 2026 for selected advanced economies.



Source: International Monetary Fund World Economic Outlook

The World Economic Outlook Update by the International Monetary Fund in April 2025 reveals varied growth prospects for key economies. The growth in United States of America is driven by sustained consumer spending, continued strength in the labour market and monetary policy easing.

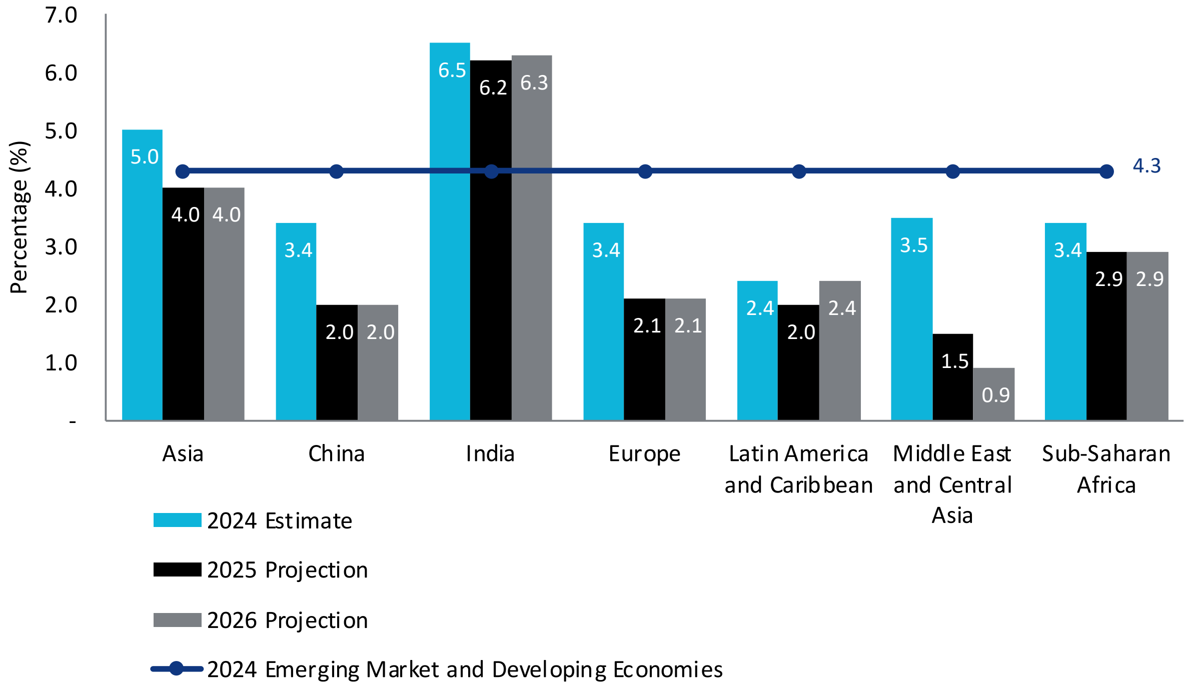
Although the United States of America's economy started the year 2025 on a strong note, challenges such as the anticipated normalisation of fiscal and monetary policy, with tighter financial conditions hindered business investment and consumer spending. Trade tariffs covered over USD 1.4 trillion in imports, including a universal 10% tariff and higher rates on specific countries. Long-term Gross Domestic Product in the United States of America is projected to be 6% lower due to these tariffs.

In Europe growth is projected to remain at 0.8% in the year 2025. An increase to 1.2% in the year 2026 has been predicated to domestic demand recovery, wage increases and increase in real incomes.

Major economies such as Japan are expected to experience 0.6% annual growth in both 2025 and 2026, supported by robust consumption and investments. China's growth is anticipated to be 4.0% in the year 2025 as well as in the year 2026, reflecting weakened consumer demand and property market challenges.

1.4 Emerging markets and developing economies

Emerging markets are countries with economies that are transitioning from developing to developed status. The World Economic Outlook Update by the International Monetary Fund in April 2025 presents real Gross Domestic Product projections for various regions as shown in the chart below.



Source: International Monetary Fund

Growth in emerging markets and developing economies is projected to decrease to 3.7% in the year 2025 from 4.3% in the year 2024, reflecting weaker external demand, tighter global financial conditions and persistent structural challenges. The medium-term outlook remains subdued relative to historical trends, underscoring the need for policy reforms to boost productivity and resilience.

Despite global headwinds and tighter financial conditions, India remains one of the fastest growing major economies globally, with growth supported by resilient domestic demand and a strong services sector.

Meanwhile in the Middle East and Central Asia, escalating global trade tensions and uncertain policy environments have dampened investor confidence and disrupted trade flows, adversely affecting economic growth in the region.

Growth in Sub-Saharan Africa is projected to slow to 2.9% in the year 2025, reflecting a combined impact of tighter global financial conditions, domestic macroeconomic challenges and persistent structural bottlenecks. Recovery will hinge on addressing debt vulnerabilities and creating a more conducive environment for private investment.

2. Gross Domestic Product Performance in Africa

2.1 Overall Growth Trends

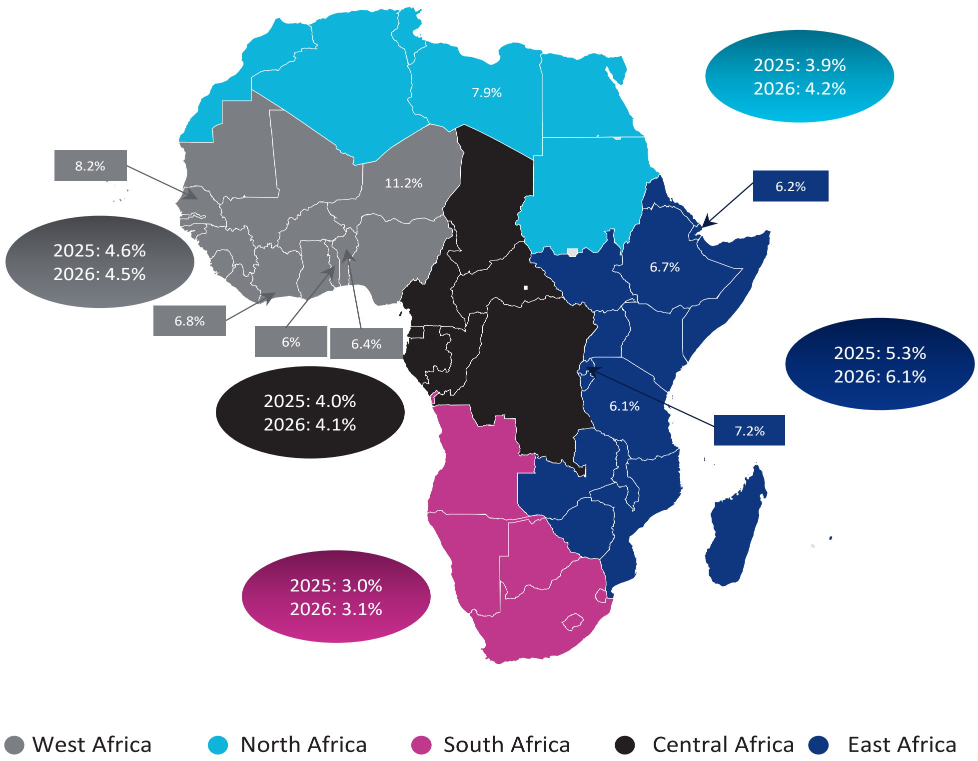
2.1.1 Historical Background

According to a report by World Bank, Africa's economic growth experienced a notable deceleration from the year 2010 to the year 2019, with Gross Domestic Product growth rates declining from 5.8% to 2.9%. The onset of the COVID-19 pandemic in the year 2020, followed by the Russian invasion of Ukraine, further disrupted global supply chains, impacting economic activities across the continent. Despite these challenges, the African Development Bank still recorded that 53 out of 54 African countries recorded positive growths in their Gross Domestic Product.

2.1.2 Current Trends

According to the African Development Bank's Report, Africa's Macroeconomic Performance and Outlook for January 2025, Africa is expected to account for 12 of the world's top 20 fastest growing economies. Growth in Sub-Saharan Africa is projected to increase from 3.3% in the year 2024 to 3.5% in the year 2025 and further accelerate to 4.3% in both 2026 and 2027.

The following map shows regional Gross Domestic Product growth and countries with highest expected Gross Domestic Product growth in Africa.



Source: Africa Development Fund

Key drivers in the East Africa region's expected high growth include rising private investment in Energy and Mining, increased public spending on infrastructure and ongoing efforts to modernise agriculture and enhance productivity in services and manufacturing.

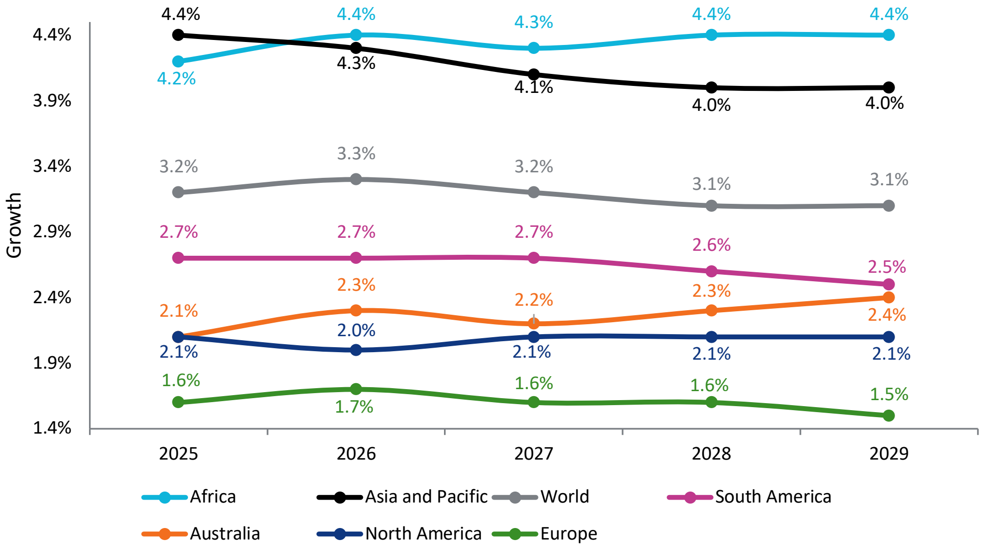
In the year 2025, strong domestic demand and continued infrastructure investment will drive growth in West Africa, supporting agro-industry, value-added agriculture and expanding transit trade through the Region's emerging logistics hubs.

In North Africa, real Gross Domestic Product growth is projected to increase, from an estimated 2.7% in the year 2024 to 3.9% in the year 2025 and 4.2% in the year 2026, boosted by growth rebounds in Libya, Egypt and Morocco.

The Democratic Republic of Congo will remain Central Africa region's fastest-growing economy, supported by continued recovery in private consumption expenditure, increased investment in infrastructure and strong Mining industry performance.

Improvement in Southern Africa region marks the first time since the year 2021 that the region's growth has exceeded 2% and heavily reflects robust performance in Eswatini, Zambia and Zimbabwe, where growth is expected to be 5% or more.

The International Monetary Fund projections as shown below indicate that Africa will surpass other regions in real Gross Domestic Product growth from the year 2026 to the year 2029.



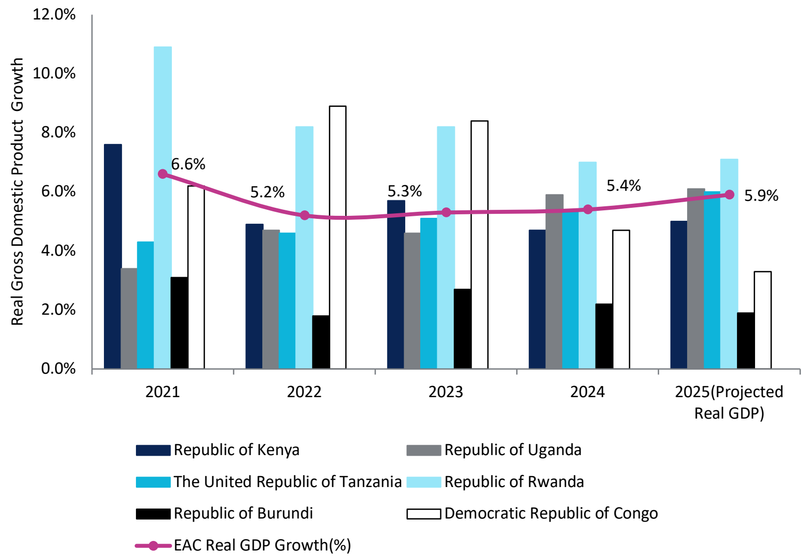
The source: International Monetary Fund

3. East Africa Gross Domestic Product Performance

Projections from the Kenya National Bureau of Statistics, Economic Survey 2025 and International Monetary Fund Regional Economic Outlook (April 2025) indicate that growth in Gross Domestic Product for East Africa is set to strengthen, rising from an estimated 5.4% in the year 2024 to 5.9% in the year 2025. This growth is driven by robust performances in agriculture, services and manufacturing sectors, alongside increased Foreign Direct Investment. The region also benefited from favourable global commodity prices and a rebound in tourism, contributing to the overall economic expansion.

The following chart shows the actual growth rates in Gross Domestic Product from the year 2021 to 2024, and projected performance for the year 2025 for selected Eastern Africa Countries.

The Republic of South Sudan's economy showed significant volatility between the year 2021 and the year 2024 reflecting persistent political and economic instability. The Federal Republic of Somalia however maintained steady growth, recording 4% growth in Gross Domestic Product in both the year 2024 and is expected to maintain the growth in the year 2025 indicating gradual progress in rebuilding its economy despite ongoing challenges.

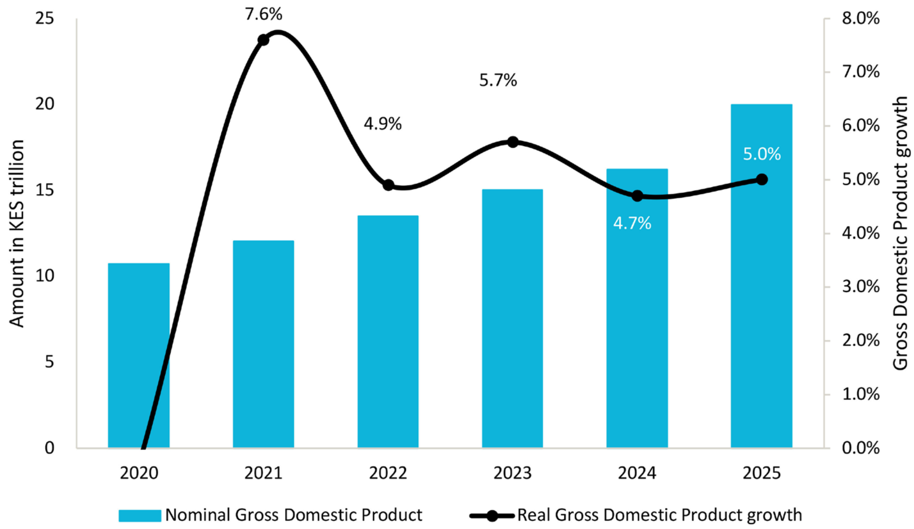


Source: Kenya National Bureau of Statistics, International Monetary fund-Regional Economic Outlook: Sub-Saharan Africa Recovery Interrupted April 2025 and World Bank-29 Kenya Economic Update, June 2024.

4. Kenya Gross Domestic Product Performance

According to the Kenya National Bureau of Statistics, Kenya's growth in the year 2024 was driven by growth in key sectors, including agriculture, forestry and fishing, financial and insurance activities. Other sectors included transportation and storage, and real estate. Despite the slower growth compared to the year 2023, the economy showed resilience, supported by steady sectoral expansions. The Gross Domestic Product performance of 5.7% in the year 2023 marked a robust recovery from challenges arising on account of COVID-19 and was attributed to a rebound in Agriculture and Service sectors.

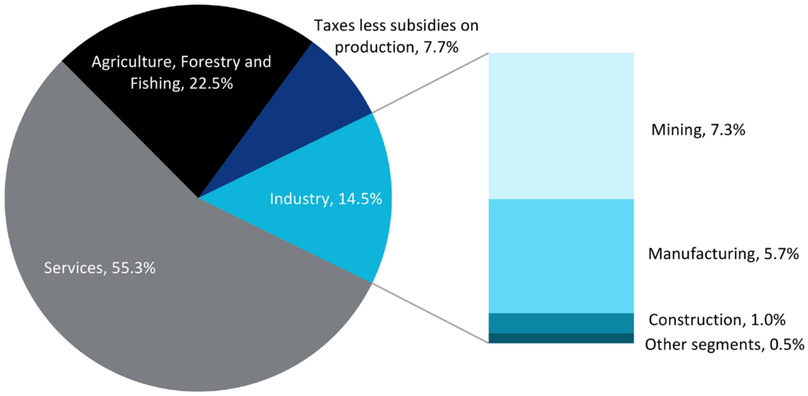
Kenya's Real Gross Domestic Product is projected to grow by 5.0% in the year 2025. This optimistic forecast reflects the Government's ongoing efforts to stimulate economic growth through targeted interventions and favourable external conditions.



Source: Kenya National Bureau of Statistics

4.1 Sectoral contribution

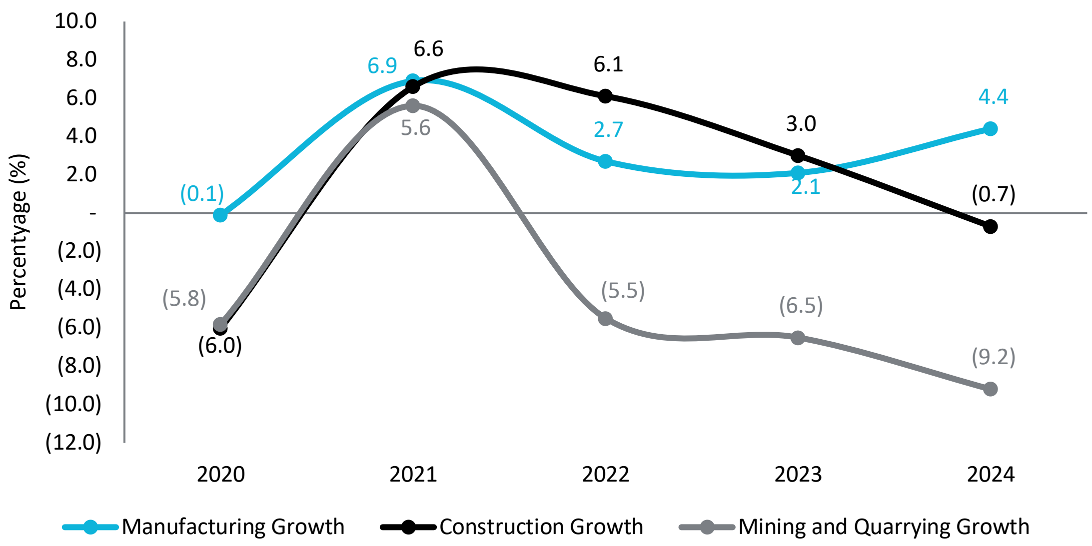
The following chart shows contribution of different sectors in Kenya to the Gross Domestic Product.



The services sector is the major contributor of Gross Domestic Product for the 2024/2025 financial period. The industry sector comprises of mining at 7.3%, manufacturing at 5.7%, construction at 1% and other segments at 0.5%.

4.2 Sectoral contribution trajectory

The following chart shows growth of different sectors that contributed to the Gross Domestic Product of Kenya from the year 2020 to the year 2024.



Manufacturing shows a positive recovery in the year 2021 after a dip in the year 2020. Construction rebounded post-pandemic but contracted in the year 2024. Mining and quarrying remains in persistent decline.

5. Kenya sectoral contribution to Gross Domestic Product Performance

5.1 Construction

The construction sector contracted by 0.7% in the year 2024, down from a 3.0% growth in the year 2023, driven by declines in key inputs and reduced activity in public housing. Cement consumption dropped from 9.2 to 8.5 million metric tonnes per year, iron and steel imports fell by 8.9% to 1.1 million tonnes and completed residential units declined from 3,357 units to 1,655 units. Credit to construction sector declined from Kenyan Shilling (KES) 147.1 billion to KES 126.7 billion. However, growth in road infrastructure partially offset these declines, with the 2025 Economic Survey projecting increased Government spending in this area, signalling continued investment despite broader sectoral slowdowns.

Government expenditure on housing for the fiscal year 2024/2025 is estimated at KES 86.5 billion, a 10.6% increase from the previous year, reflecting ongoing support for the Affordable Housing Programme introduced by the Government. However, budget absorption dropped to 32.6% in fiscal year 2023/2024 from 86.8% in the fiscal year 2022/2023, highlighting implementation challenges.

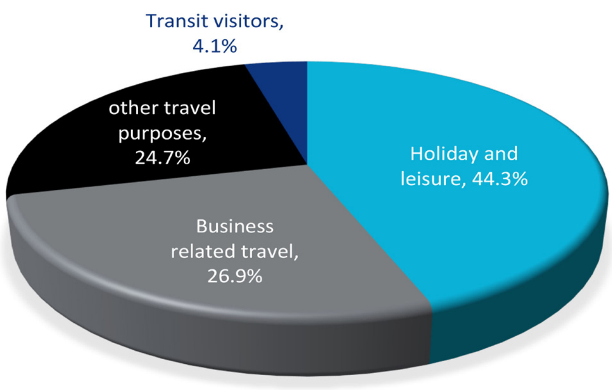
Kenya has prioritised road infrastructure by focusing on upgrades, improvements and maintenance. In the fiscal year 2024/2025, the roads budget is projected to rise by 29.1% to KES 171.9 billion, with development spending increasing to KES 102.4 billion and maintenance rising by 4.5% to KES 69.5 billion.

5.2 Tourism

According to the 2024 Annual Tourism Sector Performance Report, Kenya's tourism earnings grew by 19.79% in the year 2024 to KES 452.20 billion, up from KES 377.49 billion in the year 2023. This signalled not only post-pandemic recovery but strong expansion across key segments, from wilderness safaris to urban conferences.

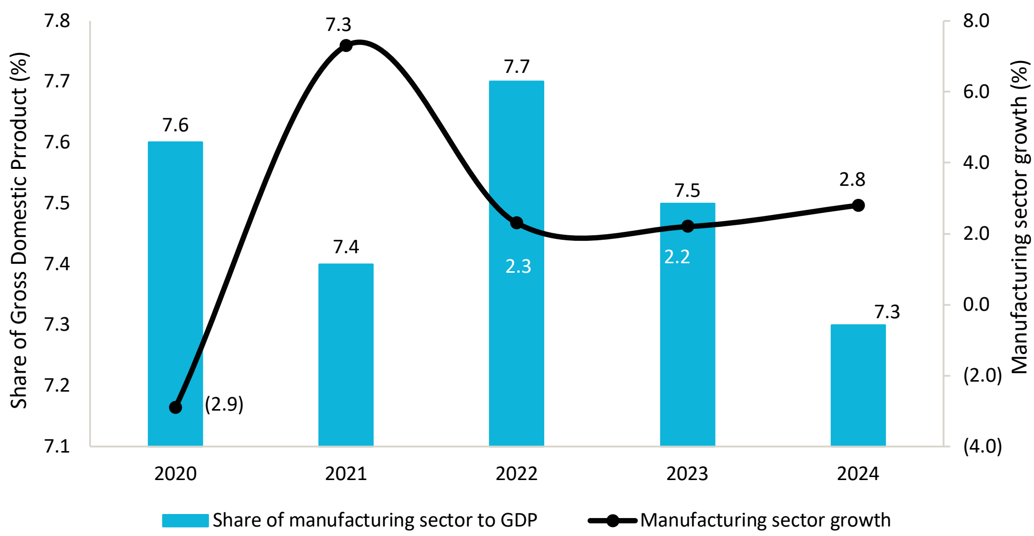
International tourist arrivals rose by 14.6% to 2.4 million, up from 2.1 million in the year 2023, with consistent monthly growth peaking in August at 249,086 visitors. The United States of America remained the leading source market at 12.8% of total arrivals, followed by Uganda, Tanzania, the United Kingdom and India. Notably, the Czech Republic recorded the highest year-on-year growth, with arrivals increasing by 121.9% from 4,727 in the year 2023 to 10,490 in the year 2024.

The 2025 Economic Survey reported a 16% increase in hotel bed-nights occupancy from 8.6 million in the year 2023 to 10 million in the year 2024. Holiday and leisure travel remained the dominant reason for visits, accounting for 44.3% of total arrivals as shown below. Business-related travel followed at 26.9%, while other travel purposes, including religious missions and volunteer work, comprised 24.7%. Transit visitors accounted for the remaining 4.2%.



5.3 Manufacturing sector

The manufacturing sector's Gross Domestic Product contribution increased to KES 228.9 billion in Quarter 4 of the year 2024, up from KES 213.6 billion in Quarter 3. Although moderate, this growth underscores the sector's resilience and potential for expansion.

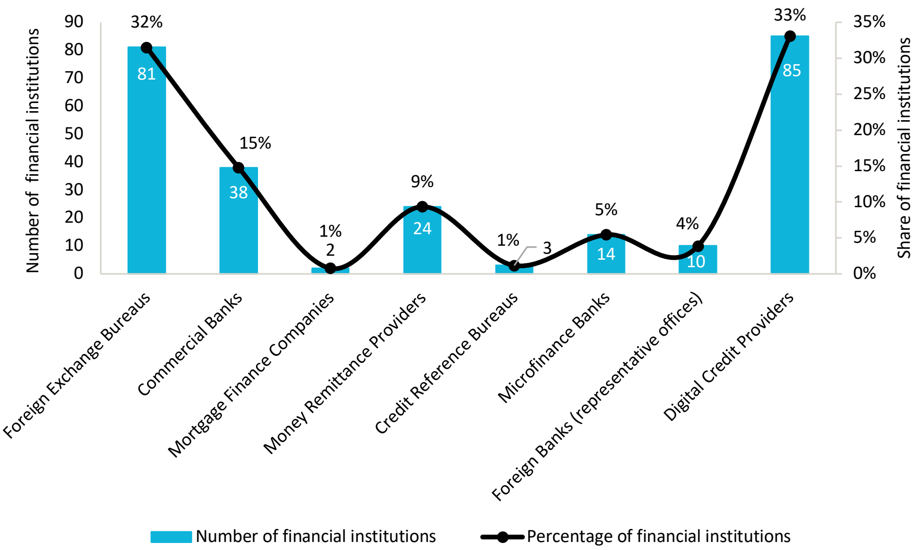


Source: Kenya National Bureau of Statistics

The manufacturing sector remains central to Kenya's economic development by generating employment, enhancing foreign exchange earnings and attracting foreign direct investment. According to the 2025 Economic Survey, the sector's real value added grew by 2.8% in the year 2024, contributing 11.5% to formal sector employment. Employment in the formal manufacturing industry rose by 1.9% to 369,200 persons, primarily driven by an 18.9% increase in jobs within various Export Processing Zones.

5.4 Banking sector

As at December 2024 the Kenya Banking Sector comprised of a total of 257 financial institutions as shown in the chart below.



Source: Central Bank of Kenya

The Banking Sector shows strong liquidity, with overall liquidity improving to 58.4% in December 2024 from 56.8% in the year 2023. Net foreign assets rose by 9.2% and broad money supply increased by KES 61 billion. However, modest private sector credit growth, tighter lending and rising interest rates pose risks, especially for households and Small and Medium-Size Entreprises. The Sector's resilience will hinge on effective macroeconomic navigation, digital innovation and support for real sector recovery.

5.5 Information communication technology sector

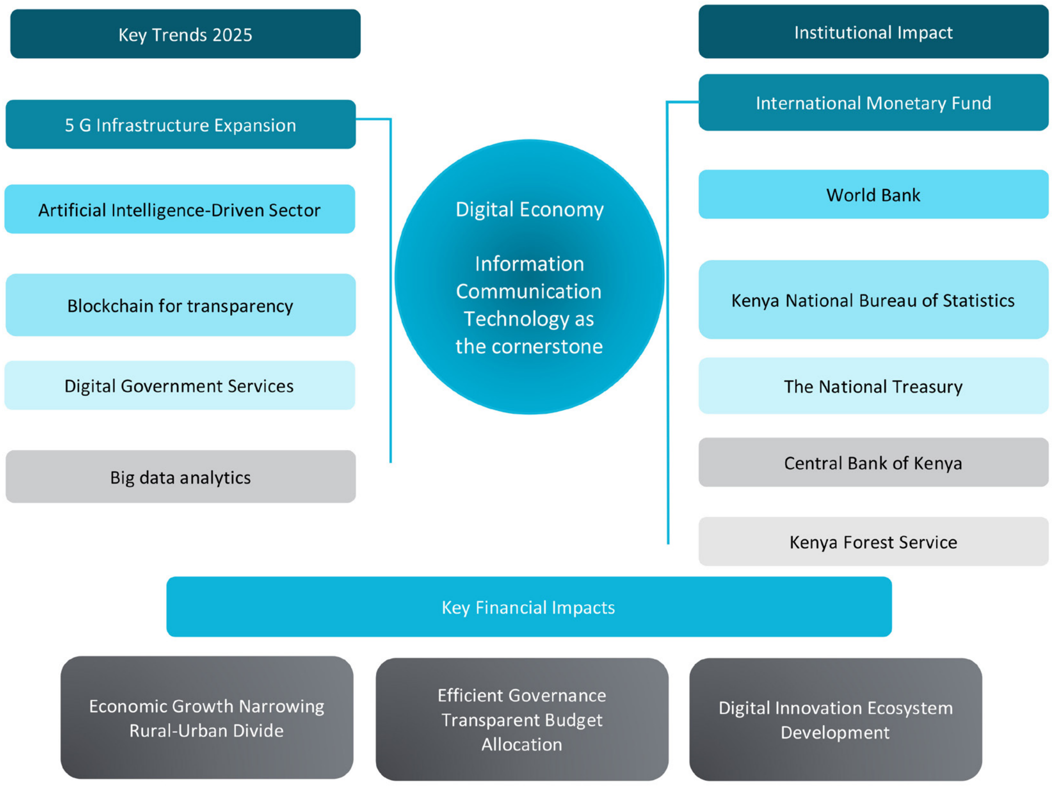
Digital technology increasingly underpins revenue collection, education, financial inclusion, and governance. Although the 2025/2026 Budget reflects a modest reduction in Information Communication Technology allocations compared to the previous year, targeted initiatives such as the National Start-Up Fund and National Safety Net Programme highlight a shift towards strategic, impact-driven investments. These initiatives aim to improve innovation, service delivery and citizen access to technology-driven solutions.

The Sector is expected to grow significantly in the year 2025, driven by advancements in Artificial Intelligence, data privacy, and cybersecurity. The Ministry of Information, Communications and the Digital Economy is spearheading regulatory and legal reforms to ensure innovation is balanced with robust risk management.

Information Communication Technology is the cornerstone of digital economy as shown below. Key financial impacts include efficient governance through transparent budget allocation and digital innovation ecosystem development.

Information Communication Technology: Transforming Kenya's Financial Landscape 2025

A groundbreaking Component of Kenya's Budget Review



Source: Financial fortune media-Kenya Digital Economy Outlook 2025

With sustained investment in digital infrastructure, cybersecurity and skills development, Kenya is well-positioned to emerge as a regional Information Communication Technology leader, driving inclusive growth and enhancing governance.

5.6 Health and vital sector

Kenya's health sector continues to be a critical pillar for national development, aligning with Vision 2030, the Fourth Medium-Term Plan and the Bottom-Up Economic Transformation Agenda. Through initiatives like Afya Bora Mashinani, the Sector has made significant strides in expanding access to healthcare and improving health outcomes.

Key achievements include enhanced maternal and child health, increased access to advanced services for instance heart surgeries and cancer care, and effective disease control, with tuberculosis treatment success at a rate of 89%. Despite progress, immunization coverage has stagnated at 84%, prompting targeted interventions. The Kenya BioVax Institute is nearing completion, aiming to boost local vaccine production.

To drive reform, the Government enacted four key laws in the year 2023: the Social Health Insurance Act, Primary Health Care Act, Facility Improvement Financing Act and Digital Health Act. These underpin the shift from National Health Insurance Fund to Taifa Care, a universal healthcare model covering all Kenyans regardless of employment status, with over fifteen million enrolments as of the year 2025.

The Kenya Government has committed KES 204.9 billion in fiscal year 2025/2026, rising to KES 231 billion in fiscal year 2027/2028, with a strong focus on recurrent and development spending. The health sector is part of the broader services sector, projected to grow at an average of 6.6% between the year 2025 and the year 2028.

5.7 Agriculture and forestry sector

Kenya's agriculture sector experienced a significant recovery in the year 2024, contributing to national economic growth. Agriculture, Forestry and Fishing grew by 6.5% in the year 2023, rebounding from a 1.5% contraction in the year 2022. This was fuelled by favourable weather, increased fertilizer use and targeted interventions.

5.7.1 Forestry and Environmental impact

Forestry contributed KES 7 billion and more than 50,000 jobs, but deforestation poses long-term risks. Agriculture, Forestry and Fishing contributed 22.5% to Gross Domestic Product in the year 2024, up from 21.5% in the year 2023. Deforestation increases health costs, for instance KES 237 million in malaria-related costs and raises water treatment expenses KES 192 million due to sedimentation.

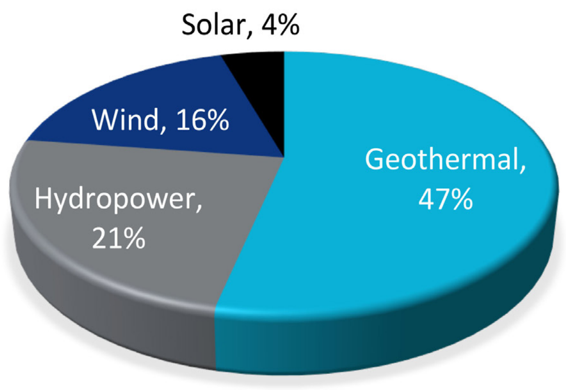
5.7.2 Outlook and policy response

The Government aims to strengthen resilience through irrigation expansion, climate-resilient crop varieties, reforestation programs and digital agriculture platforms. If implemented effectively, these interventions will help ensure that Agriculture continues to drive Kenya's economy despite environmental challenges.

5.8 Energy sector

As of the year 2024, Kenya's installed power generation capacity stood at approximately 3,243 Mega Watts, up from 3,076 Mega Watts in the year 2022. Kenya has a diverse electricity mix, with 90% of generation from renewable sources.

The following is a graphical representation of Kenya's energy generation from renewable sources.



Kenya is Africa's leading geothermal energy producer and ranks sixth globally, with a capacity of 989 Mega Watts. Kenya aims to achieve 100% electricity access and a fully renewable electricity grid by the year 2030. To this effect the Geothermal Development Company plans to develop an additional 465 Mega Watts of geothermal capacity in a field called Menengai steam field, over five phases.

5.9 Economic inclusion

Kenya's 2025/2026 budget of KES 4.2 trillion, up 5.3% from the previous year, prioritises economic inclusion for marginalised groups, women, youth and rural communities. It allocates KES 127 billion to healthcare under the Social Health Insurance Fund and supports empowerment initiatives like the Women Enterprise, Youth Enterprise and Uwezo Funds, though some face reduced funding. Financial inclusion stands at 84.8% nationally, but gaps persist, notably in Turkana County with 31.5% exclusion and a 1.6% gender gap.

5.10 Education and training

Education plays a crucial role in driving a country's economic growth by developing a skilled, productive workforce and fostering innovation. It reduces poverty, supports better health and governance and attracts investment, strengthening the overall economy.

According to the 2025 Economic Survey and the 2025 Budget Policy Statement, the education sector remains a key Government priority in the 2025/2026 fiscal year. Its total allocation increased by 6.6% to KES 735.3 billion, up from KES 689.6 billion in 2023/2024, highlighting the Government's commitment to improving access, equity and quality of education nationwide.

The Ministry of Education received the largest share of the 2024/2025 national budget, with the Teachers Service Commission allocated KES 370.1 billion; an 8.1% increase from the previous year. This funding is intended to support ongoing teacher recruitment, promotions and training as part of broader efforts to enhance teacher motivation and retention.

5.11 Employment

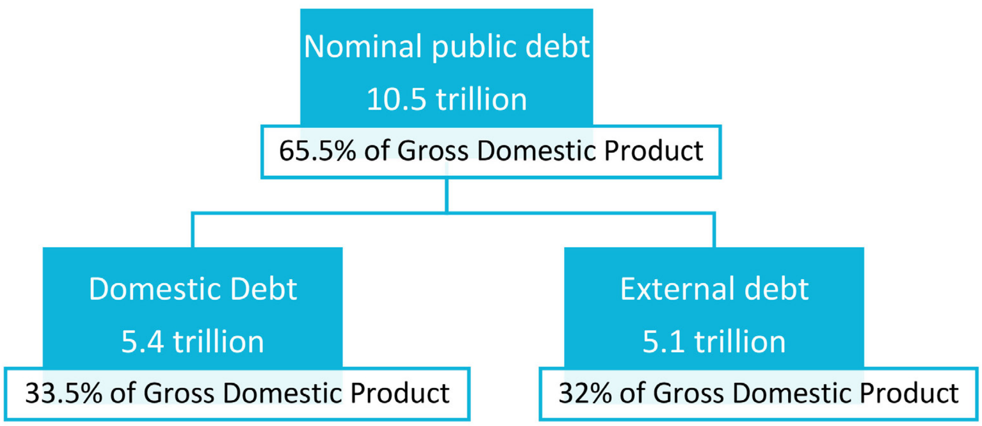
In the year 2024, Kenya's economy generated 782,300 new jobs, representing a 7.8% decline from the 848,200 jobs created in the year 2023. This deceleration in job creation is attributed to a combination of factors, including domestic unrest linked to protests against the Finance Bill, 2024 and adverse weather conditions, particularly widespread flooding.

The informal sector accounted for 703,700 new jobs, representing 90% of total employment growth. This was a decline from 720,900 jobs created in the year 2023. The modern (formal) sector created 78,600 jobs, reflecting a 2.4% increase in employment. Wage employment in the private sector grew by 2.1%, down from 3.3% in the year 2023.

The number of female wage employees increased by 5% to 1.2 million in the year 2024. However, female representation remained low in certain sectors, such as mining and quarrying, where women accounted for only 14.2% of the workforce.

6. Public Debt

6.1 Public debt position



Kenya's public and publicly guaranteed debt rose by 2.7% in the fiscal year ended June 2024, primarily driven by a 12% increase in domestic debt. As at June 2024, the debt portfolio was almost evenly split, comprising 51% domestic debt and 49% external debt as shown above. Notably, the public debt-to-Gross Domestic Product ratio declined to 65.5%, down from 72.0% recorded in June 2023.

As at the end of June 2024, Kenya's total nominal public and publicly guaranteed debt stock stood at KES 10.5 trillion. The increase in domestic debt was driven by increased uptake of Treasury Bonds by 16.2%. The external debt decreased by 5.4% to KES 5.1 trillion.

6.2 Public debt service

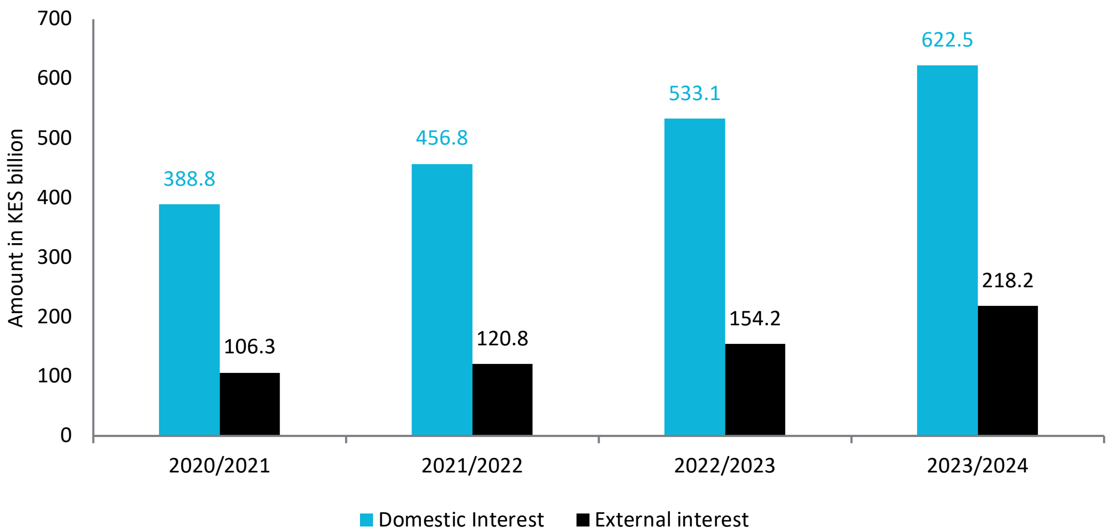
Cumulative interest and other charges on domestic and external debt increased by 16.8% and 41.5% percent respectively, during the fiscal year 2023/2024. This movement of the interest from the year 2020/2021 is highlighted in the following chart.

Kenya's total external debt service increased during the fiscal year 2023/2024, increasing by KES 364.27 billion to KES 755.91 billion, up from KES 391.64 billion recorded in fiscal year 2022/2023. The increase reflected refinancing of the USD 2.0 billion Eurobond.

6.3 Debt sustainability

According to the Quarterly Economic Review and the International Monetary Fund's debt sustainability analysis for November 2024, Kenya's debt remains sustainable in the medium to long term, though the country is facing a considerable risk of debt distress. This elevated risk is primarily attributed to a weaker outlook for revenue mobilization and the continued underperformance in exports, both of which strain Kenya's capacity to service its debt obligations.

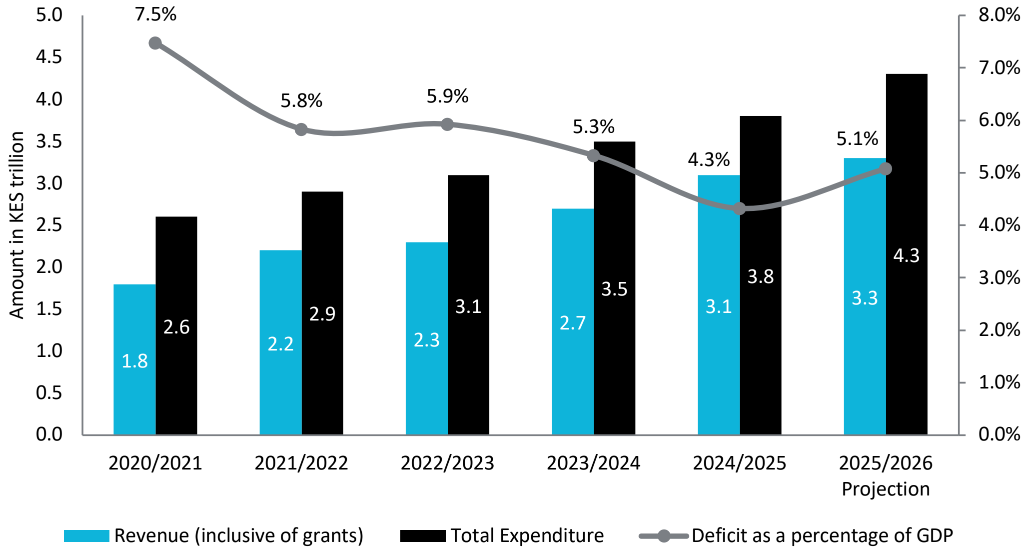
Nonetheless, the analysis notes that Kenya's debt dynamics are expected to improve gradually, supported by a multiyear fiscal consolidation strategy and a notable recovery in export growth compared to the performance observed over the past decade.



Source: Central Bank of Kenya

7. Public sector and expenditure

7.1 Revenue versus expenditure



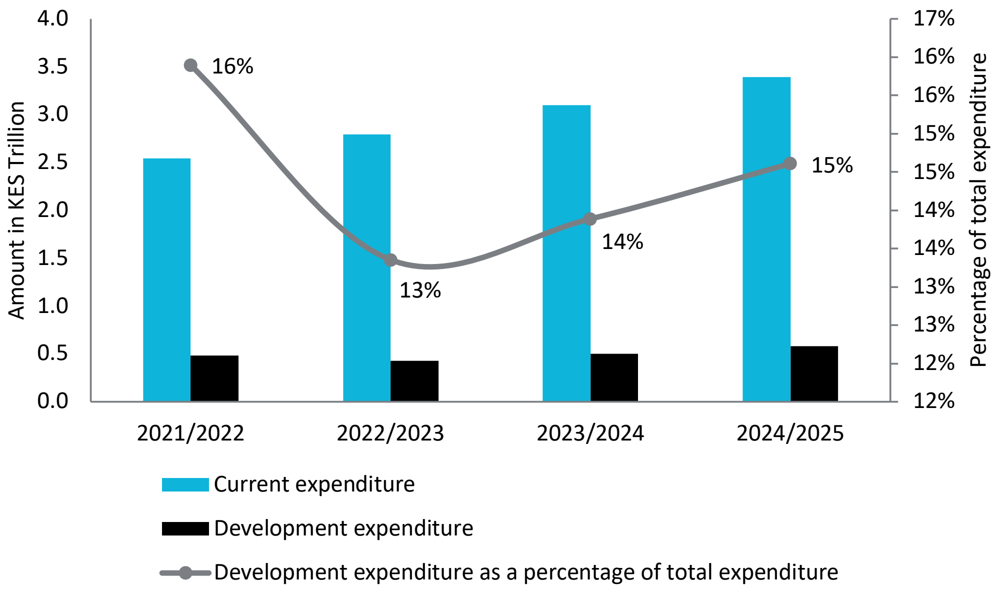
GDP means Gross Domestic Product
Note: Expenditure excludes acquisition of non-financial assets
Source: Kenya National Bureau of Statistics Economic Survey 2025

Revenue inclusive of grants rose from KES 2.7 trillion in the year 2023/2024 to KES 3.1 trillion in the year 2024/2025 and is projected to increase slightly to KES 3.3 trillion in the year 2025/2026.

On the other hand, expenditure increased from KES 3.5 trillion in the 2023/2024 financial period to KES 3.8 trillion in the 2024/2025 financial period. Expenditure is projected to increase to KES 4.3 trillion in the year 2025/2026.

7.2 The National Government expenditure

The following chart shows composition of expenditure split between recurrent and development expenditure from the year 2023 to the year 2024.



The increase in recurrent expenditure is significantly reducing fiscal space for development investment, with development spending compressed to 15%. High debt servicing and growing wage and transfer obligations are crowding out funds needed for infrastructure, human capital, and productivity growth. This trend risks entrenching fiscal rigidity, where short-term consumption dominates budgets, hindering progress toward Vision 2030 and Sustainable Development Goals.

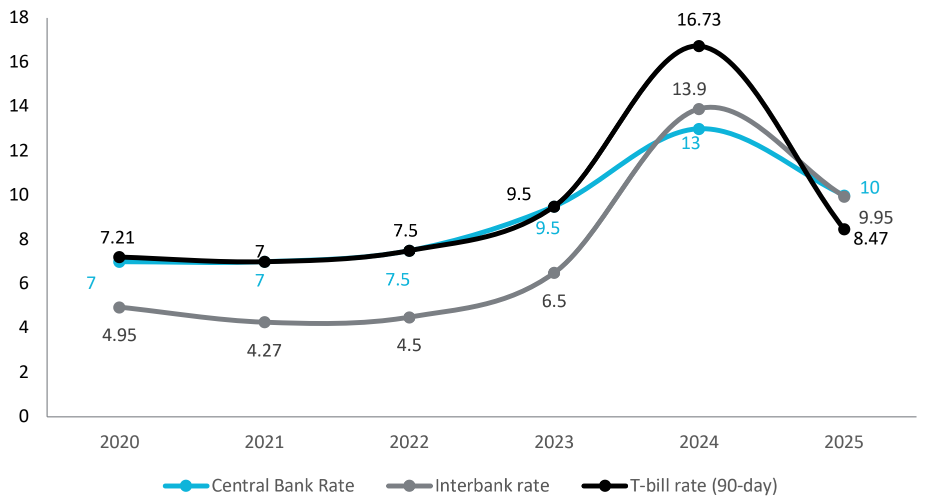
8. Interest Rates

8.1 Role of interest rates

Interest rates is the cost of borrowing or return on savings and investments determined by the Central Bank of Kenya Rate. The Central Bank rate is used to control inflation and stabilise the economy, influence borrowing and investment, control foreign capital inflows. The years between 2020 and 2025 were characterised by shifts in Kenya's monetary policies in response to domestic and global economic developments.

8.2 Central Bank of Kenya policies

The Central Bank of Kenya adjusted its policy stance to address the impacts of the COVID-19 pandemic, inflationary pressures, currency fluctuations and the need to stimulate economic growth. The graph below shows interest rate trends in Kenya between 2020 and 2025.



Source: Central Bank of Kenya

The interbank rate is the rate at which Banks lend to each other, influenced by the Central Bank Rate while the Treasury Bill Rate is the return on short-term Government securities. The spike in the year 2024 especially the one relating to the Treasury Bill Rate which peaked at 16.73%, reflects aggressive tightening by the Central Bank amid inflation pressures and currency volatility.

In the year 2025, the Central Bank of Kenya continued easing its policy stance to stimulate lending to the private sector and support economic activity. This suggests a return to a more neutral or accommodative stance as inflationary pressure eased.

9. Exchange Rates

9.1 Exchange rate and its economic significance

Exchange rate is the value of one currency relative to another, influencing trade, investment and economic stability. Exchange rate stability is key to sustainable development and sound economic policy. A favourable rate boosts exports, attracts investment and supports growth, while a weakening currency raises import costs, fuels inflation, increases foreign debt burdens and erodes investor confidence.

9.2 Depreciation of the Kenyan Shilling

Between the year 2022 and early 2024, the Kenyan Shilling depreciated by about 35% against the United States of America dollar, hitting a historic low of KES 160.75/USD in January 2024. This was driven by global economic uncertainty and domestic structural weaknesses, which eroded purchasing power, raised external debt servicing costs and complicated fiscal planning. External shocks like the Russia-Ukraine war disrupted supply chains and pushed up import prices, especially for fuel, fertiliser and grain. As a net importer, Kenya's widening trade deficit and growing demand for foreign currency further weakened the Shilling. Further, high USD-denominated debt and elevated global interest rates intensified pressure on the currency.

9.3 Currency recovery and strengthening factors

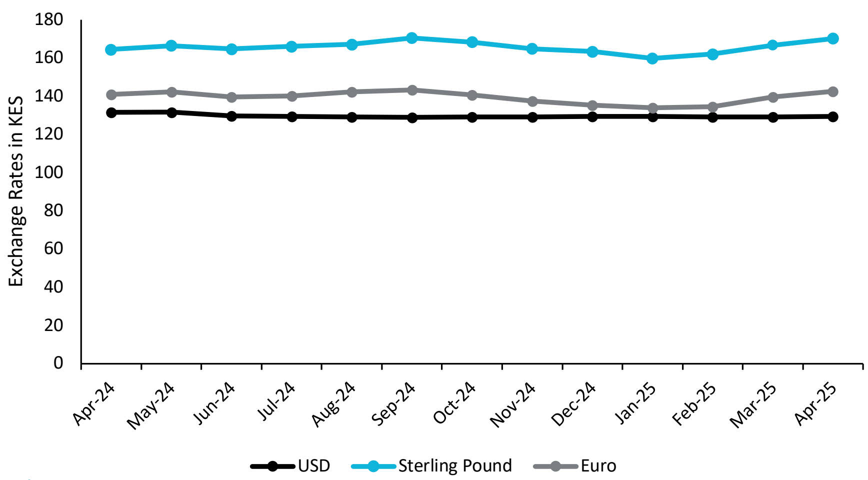
The Kenyan Shilling began to appreciate in early 2024, gaining around 17% and stabilising near KES 129/USD by October. This recovery was supported by a successful USD 1.5 billion Eurobond issue in February of the year 2024, which facilitated in refinance a maturing USD 2 billion Bond, and boosted reserves. Declining inflation, from 6.9% in January to 3.6% in September, due to lower global energy prices and improved domestic food supply also contributed to renewed currency stability. Fiscal discipline further allowed cautious easing of monetary policy.

9.4 Foreign exchange inflows and sectoral support

Strong diaspora remittances, which rose by 16.6% over the 12 months from February 2024 to January 2025, played a critical role in enhancing foreign exchange inflows. According to Statista, Kenya's tourism sector also contributed significantly, with international arrivals increasing to over 1.9 million in the year 2023 from 567,800 in the year 2020. Tourism earnings reached KES 268.1 billion in the year 2022, marking an 83% year-on-year increase, followed by a further 31.5% growth in the year 2023. These inflows reinforced market confidence and supported the Shilling's recovery.

9.5 Exchange rate trends with major currencies

The graph below shows the performance of the Kenyan Shilling against major currencies between April 2024 and April 2025.



Source: Central Bank of Kenya

Between April 2024 and April 2025, the Shilling traded within a narrow range of KES 128.95 to KES 131.69/USD, closing at KES 129.45/USD in April 2025. It depreciated moderately against the British Pound, from KES 164.47/GBP to KES 170.16/GBP and showed slight volatility against the Euro, ending at KES 142.49/EUR. These trends were influenced by relative strength in foreign currencies and global monetary policy shifts.

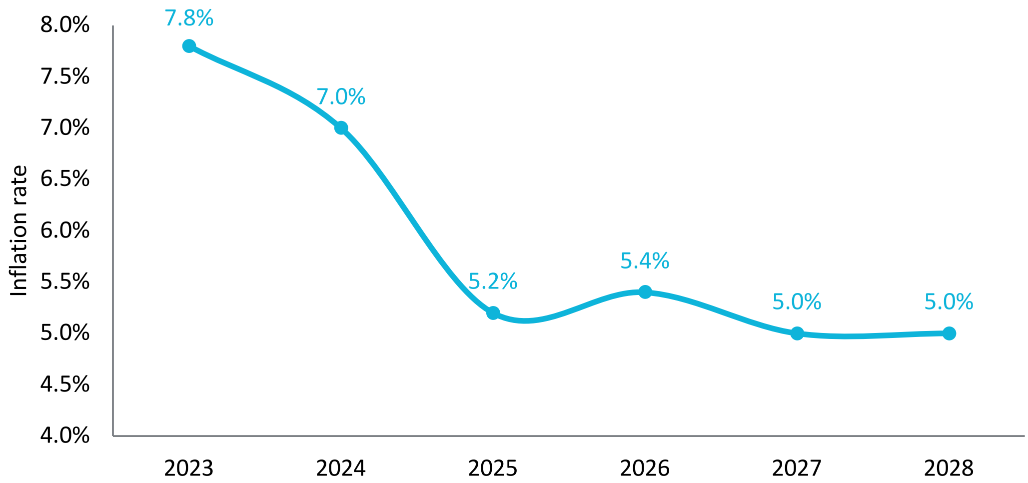
10. Inflation

Inflation is the rate at which the general level of prices for goods and services rises over time, leading to a decrease in the purchasing power of money. The effects of inflation include savers losing purchasing power if returns on savings do not measure up, borrowers benefit if they repay loans with money that is worth less and prices become unstable, making it more difficult for businesses to plan ahead.

10.1 Inflation trends in Kenya

In Kenya, the Central Bank of Kenya formulates and implements monetary policy with the aim of achieving and maintaining stability in the general level of prices in the Economy. The Central Bank of Kenya implements monetary policy with the aim of achieving a medium-term inflation target of 5.0%, with an allowance of 2.5% deviation in the short term. On a month-to-month basis, inflation edged up slightly to 0.5% in May from 0.3% in April, indicating modest short-term price pressures.

10.2 Implication of inflation trends in Kenya



Source: International Monetary Fund

The graph above shows a steady decline in Kenya's inflation rate from 7.8% in the year 2023 to a projected 5.0% by the year 2027 and the year 2028, after briefly stabilizing at 5.2%-5.4% in the years 2025-2026. This trend suggests that inflationary pressures are easing, driven by improving global supply chains, domestic monetary tightening, and more stable food and fuel prices.

The projected return to the 5% level, which is near the Central Bank of Kenya's medium-term target, indicates restored price stability, which should support consumer purchasing power, business planning and investment confidence. However, the slight increase in the year 2026 signals that vigilance is still required, as external shocks, such as global oil price volatility or climate-related risks, could disrupt this path. Sustaining this inflation trajectory will depend on sound fiscal policy, prudent monetary management and resilience in key sectors like agriculture and energy.

Finance Act, 2025 Analysis

INCOME TAX AMENDMENTS

Income Tax amendments introduced by FA 2025 not in FB 2025

1. Repeal of Digital Asset Tax (DAT) that was applicable on transfer or exchange of digital assets e.g. cryptocurrencies and non-fungible tokens among other non-tangible digital assets.
2. The Cabinet Secretary (CS) National Treasury to issue Significant Economic Presence (SEP) Tax regulations within six months after commencement.
3. Withdrawals by punters from their betting or gaming wallet maintained by a person licensed under the Betting, Lotteries and Gaming Act are subject to Withholding Income Tax (WHIT) at the rate of 5% for both residents and non-residents.
4. WHIT on sale of scrap repealed for both residents and non-residents.
5. Payments made by the national carrier to a non-resident for specialized technical, maintenance, compliance, training, or digital systems support services, where such services are not available in Kenya or the service provider is certified or accredited by an international regulatory, standard setting, or licensing body are exempt from WHIT.
6. Timelines for the Commissioner to issue a decision on applications for change of year-end reduced from six months to three months. The application for change of year end will be deemed approved if the Commissioner fails to comply with the timelines.
7. Purchase or acquisition of a defeasible right to use spectrum license for telecommunication operators will qualify for investment allowance at 10% on an equal instalment basis. However, for spectrum licenses purchased or acquired before 1 July 2025, the deduction will be limited to the unamortized portion based on the remaining useful life of the spectrum.

Income Tax proposals in FB 2025 enacted by FA 2025

1. Tax free limit for per diem increased from KES 2,000 to KES 10,000 expended per day per employee.
2. Taxpayers may enter into Advance Pricing Agreements (APAs) with the Commissioner for Transfer Pricing purposes, which will be valid for a period of 5 years. Further, the CS National Treasury is required to issue regulations for better implementation of APAs within six months from commencement of this provision.
3. Harmonized definition of "related person" to a single definition that includes all instances of relationship arising from participation either directly or indirectly in the management, control or capital of the business of the other person. The definition also covers instances of relationship that is derived from association through marriage, consanguinity or affinity.
4. Expansion of the scope of SEP Tax to cover the income of a non-resident person accrued in or derived from Kenya through a business carried out over the internet or an electronic network, including through a digital marketplace. Additionally, the exemption from SEP Tax for non-resident persons with an annual turnover of less than Kenya Shillings five million was repealed meaning that non-residents will pay SEP Tax regardless of their turnover.
5. Clarity on the due date for minimum top up tax for Multinational Enterprises operating in Kenya, that are part of a group whose consolidated annual turnover is Euro 750 million or more and have a combined effective tax rate of less than 15% in a year of income. The due date will be by the end of the fourth month after the end of the year of income.
6. Applicability of diminution allowance at the rate of 100% on costs incurred on any implement, utensil or similar articles excluding machinery or plant employed in the production of gains or profits.
7. The carry forward of tax losses will be limited to a maximum of five years. However, this period may be extended if the taxpayer applies for an extension and provides evidence of their inability to offset the losses within five years, subject to approval by the CS National Treasury upon recommendation by the Commissioner.

8. Mortgage interest on amounts borrowed for construction of residential premises to be a deductible expense for income tax purposes.
9. All gains and profits from employment income of non-citizens operating in Kenya will be fully taxable irrespective of the number of days the individual was present in Kenya.
10. Expenditure incurred in the construction of sports facilities on public grounds shall be an allowable deduction for income tax purposes.
11. A resident person that engages a non-resident ship owner is obligated to deduct WHIT at the rate of 2.5% of the gross amount payable.
12. Timelines for issuance of income tax exemption certificate extended from sixty days to ninety days.
13. Clarification on income tax exemption on transfer of property in a special economic zone where the exemption shall only be applicable to a licensed SEZ developer, enterprise or operator.
14. Tax incentives for companies certified by Nairobi International Financial Centre Authority (NIFCA). The tax incentives are as follows:
    - Tax exemption on dividends paid by a company certified by the NIFCA where it reinvests at least KES 250 million in Kenya, in that year of income;
    - 15% income tax rate for the first ten years and 20% for the subsequent ten years where –
        - the company invests at least KES 3 billion in Kenya in the first three years of operation;
        - the company is a holding company, at least 70% of its employees in senior management are Kenyan citizens; and
        - the regional headquarters of the company is in Kenya, at least 60% of its employees in senior management are Kenyan citizens.
    - In the case of a start-up certified by the NIFCA, income tax rate of 15% for the first three years and 20% for the succeeding four years.
15. Each constituent entity of a Multinational Enterprise Group that is resident in Kenya is required to file a CbC report and notify the Commissioner in such a form as the Commissioner may specify.

Income Tax proposals in FB 2025 that were dropped

1. Proposed expanded definition of royalty to include transactions relating to distribution of software was dropped.
2. Proposed repeal of 100% and 150% Investment Deduction on capital expenditure was dropped.

   The Second Schedule to the Income Tax Act provides for an Investment Deduction at 100% where:

   (a) the cumulative investment value in the preceding three years outside Nairobi City County and Mombasa County is at least KES 2 billion: Provided that where the cumulative value of investment for the preceding three years of income was KES 2 billion on or before the 25 April, 2020, and the applicable rate of investment deduction was 150%, that rate shall continue to apply for the investment made on or before the 25 April, 2020;

   (b) the investment value outside Nairobi City County and Mombasa County in that year of income is at least KES 250 million; or

   (c) the person has incurred investment in a Special Economic Zone.

FB 2025 had proposed to repeal the above 100% and 150% investment allowances and therefore harmonize investment allowance rates across industries and various sectors. It is expected that the 150% accelerated investment deduction will phase out with time.

3. Proposed repeal of preferential income tax rate of 15% for the first 5 years for companies engaged in the local assembling of motor vehicles was dropped.
4. Proposed repeal of preferential income tax rates of 15% on real estate companies involved in construction of one hundred residential units annually was dropped.

VALUE ADDED TAX AMENDMENTS

Value Added Tax (VAT) amendments introduced by FA 2025 not in the FB 2025

1. Taxpayers can apply for a VAT refund for excess input VAT if they were in respect of taxable supplies that became zero rated on 1 July 2023 provided that the taxpayers apply to the Commissioner for refunds within six months from the date of commencement of this provision.
2. Reclassification of VAT status on the following goods and services from the general rate of 16% to VAT exempt:
    - Placebos and blinded (or double blinded) clinical trial kits of tariff number 3006.93.00 for recognized clinical trial, put up in measured doses.
    - All goods imported or purchased locally by the Defence Forces Welfare Services.
    - Mosquito repellents.
    - Taxable services supplied to manufacturers of mosquito repellants and inputs, machinery and raw materials used in the manufacture of mosquito repellents upon recommendation by the Cabinet Secretary for Health.
    - The supply of locally consumed teas.
    - Accommodation, restaurant, beauty salon and laundry services provided by the Defence Forces Welfare Services.
    - Taxable services supplied for direct and exclusive use of the Defence Forces Welfare Services.
3. VAT exemption status on capital goods for the manufacturing sector with investments of at least KES 2 billion that was granted before 27 December 2024 will be valid for a period of 12 months until 27 December 2025.
4. Reclassification of VAT status from VAT exempt to taxable at the general rate of 16% for taxable goods of Chapter 5407 (Woven fabrics of synthetic textile filament yarn) and Chapter 6309 (worn clothing and other worn articles) imported as raw materials for manufacture of textile products.

VAT proposals in FB 2025 enacted by FA 2025

1. The definition of a tax invoice to be included in the VAT Act to align with the definition in the Tax Procedures Act, 2015 (TPA). A tax invoice includes an electronic tax invoice issued in accordance with section 23A of the TPA. This is an alignment to the TPA which stipulates that a person carrying out a business is required to issue an electronic tax invoice whose features include the following:
    a) the words "TAX INVOICE";
    b) name, address and PIN of both the supplier and purchaser;
    c) serial number of the tax invoice;
    d) date and time of the tax invoice issued;
    e) date and time the supply was made if different from the date the tax invoice was issued;
    f) description of the supply in terms of quantity of goods or type of services;
    g) details of any discount allowed at the time of supply;
    h) consideration of the supply;
    i) tax rate charged and the total amount of tax charged; and
    j) any other prescribed information.

    The proposal is meant to ensure that all tax invoices are e-TIMS compliant, especially for VAT registered persons entitled to claim input VAT where applicable.
2. Place of supply of services made in Kenya to include internet services delivered to a person in Kenya.

3. Clarity on the timeline for making VAT refund applications within 12 months.
4. VAT refund applications on bad debts reduced from 3 years to 2 years from the date of supply.
5. Mandatory requirement for issuance of a tax invoice by a VAT registered person on all supplies whether VAT exempt or taxable.
6. Imposition of VAT on the misuse of exempt or zero-rated supplies.
7. VAT to be applicable on fuels, lubricants and tyres supplied to official aid funded projects.
8. Taxable goods, excluding motor vehicles, imported or purchased locally for direct and exclusive use in geothermal, oil or mining prospecting or exploration are now taxable at the general rate of 16% unless VAT exemption had been approved before this amendment, but the VAT exemption will only apply until 30th June 2026.
9. Discs, tapes, solid-state non-volatile storage devices used in the health sector are now taxable at the general rate of 16% unless VAT exemption had been approved before this amendment, but the VAT exemption will only apply until 30 June 2026.
10. Packaging materials for tea and coffee now zero-rated upon recommendation by the CS Agriculture.

VAT proposals in FB 2025 dropped by FA 2025

1. Proposal to have VAT withholding credits only utilized to offset VAT liabilities.
2. VAT exempt supplies that were proposed to be taxable at the general rate of 16%:
   - All goods and parts thereof of chapter 88 (aircraft, spacecraft, and parts thereof)
   - Aircraft direction-finding compasses, instruments and appliances
   - Goods used in the construction of approved tourism facilities, recreational parks, convention and conference facilities
   - Goods used in construction and equipping of approved specialized hospitals
   - Specially designed locally assembled tour vehicles purchased before custom clearance
   - Good imported or purchased locally for direct use in construction of Affordable housing
   - Specialized equipment for the development and generation of solar and wind energy
   - Weighing machinery purchased or imported by registered hospitals
   - Inputs and raw materials used in the manufacture of passenger motor vehicles; and
   - Locally manufactured passenger motor vehicles.
3. Zero rated supplies that were proposed to be VAT exempt:
   - Inputs or raw materials supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments
   - Inputs or raw materials for the manufacture of animal feeds
   - Transportation of sugarcane from farms to milling factories
   - Supply of locally assembled and manufactured mobile phones
   - Supply of motorcycles with electric motor for propulsion of tariff number 8711.60.00
   - Supply of electric bicycles
   - Supply of solar and lithium batteries
   - Supply of electric buses of tariff number 8702; and
   - Bioethanol vapour (BEV) Stoves (cooking appliances and plate warmers for liquid fuel).

TAX PROCEDURES AMENDMENTS

Tax procedures amendments in FA 2025 not in FB 2025

1. Definition of Certificate of Origin introduced to mean an official document issued by a competent authority in the exporting country, confirming that the goods were manufactured in the exporting country. A Certificate of Origin is considered valid if it includes the following:
   - Exporter's name and address;
   - Importer's name and address;
   - Port of origin;
   - Accurate description of the goods;
   - Quantity of the goods;
   - Country of origin; and
   - Country of destination.

   Import documentation will not be processed and goods will not be cleared for entry into Kenya unless the Certificate of Origin and supporting documents are provided to the Commissioner or an authorised officer.

   Failure to present a valid Certificate of Origin is an offense that will result in the seizure or forfeiture of the goods to the Commissioner or an authorized officer.

Tax procedures proposals in FB 2025 enacted by FA 2025

1. Payments subject to WHT that is a final tax are exempted from Electronic Tax Invoice requirements.
2. The Commissioner is required to provide a reason for amended assessments.
3. Relief from penalties for failure to deduct WHIT, where the recipient of the payment has already paid and accounted for the full principal tax.
4. Exempting the Commissioner from payment of stamp duty on attaching property as security for unpaid taxes.
5. The Commissioner is empowered to collect tax from non-residents through agency.
6. Deletion of 10% VAT Withholding penalty duplicated.
7. KRA refund processing extended from 90 days to 120 days and if under audit, from 120 days to 180 days.
8. Where the Commissioner allows a late objection, the decision period starts from the date the objection is lodged.
9. The Commissioner is empowered to waive penalties and interest on errors generated by the electronic tax system.

Tax procedures proposals in FB 2025 that were dropped

1. Proposal to empower the Commissioner to access trade secrets and customer data.
2. Proposal to exclude Saturdays, Sundays and public holidays when computing the timeframes for lodging a tax objection or appeals to the Tax Appeals Tribunal, High Court or the Court of Appeal.

Enacted tax procedures amendments in FA 2025 with a few amendments

Description	FB 2025 Proposal	FA 2025 Amendment
Timelines for offset or refund of overpaid tax	Finance Bill, 2025 proposed to remove input Value Added Tax from the list of future tax liabilities against which overpaid tax can be applied	Finance Act, 2025 replaces input VAT with VAT payable from the of list future tax liabilities against which overpaid tax can be applied

EXCISE DUTY AMENDMENTS

New definitions in the Excise Duty Act enacted by FA 2025

"Micro distiller" means a manufacturer of a spirituous beverage through two fundamental processes of fermentation and distillation using a still (boiler) not exceeding 1,800 litres and whose annual production volume does not exceed 100,000 litres per year.

FA 2025 deleted the term "amount wagered or staked" and replaced it with a new definition, "amount deposited into a customer's betting wallet" which means the amount of money transferred by a customer into the customer wallet maintained by a licensed betting and gaming operator for betting and gaming purposes.

Excise Duty Proposals in FB 2025 enacted by FA 2025

1. Definition of a "Digital marketplace" to mean an online or electronic platform which enables users to sell or provide services, goods or other property to other users.
2. Exclusion of banks, saccos and microfinance institutions from the definition of a digital lender.
3. Excise duty to apply on excisable services offered in Kenya by a non-resident over the internet, an electronic network or through a digital marketplace.
4. Expansion of the applicability of excise duty to include non-residents where such services are consumed in Kenya through the internet, electronic network or digital marketplace.
5. Introduction of a fourteen-day timeline for issuance or rejection of excise licence upon receipt of required documents.
6. Classification of goods for excise duty purpose shall be by reference to the tariff codes set out in Annex 1 to the protocol on the establishment of the East African Community Customs Union and in interpretating that Annex, the general rules of interpretation set out in the annex shall apply.

Items not liable to excise duty enacted by FA 2025

These items were previously subject to excise duty but are currently not excisable:

- Imported eggs of tariff heading 04.07.
- Imported onions of tariff heading 07.03.
- Imported potatoes, potato crisps and potato chips of tariff heading 07.01.
- Coal.
- Locally manufactured articles of plastic of tariff heading 3923.30.00.
- Imported Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastic whether or not in rolls of tariffs 3919.90.90, 3920.10.90, 3920.43.90, 3920.62.90 and 3921.19.90 but excluding those originating from East Africa Community ("EAC") Partners States that meet the EAC rules of origin.
- Printed paper or paper board of tariff 4811.41.90 and 4811.49.00 but excluding those originating from EAC Partners States that meet the EAC rules of origin
- Cosmetics and Beauty products of tariff heading No. 3303, 3304, 3305 and 3307.
- All goods including materials supplies, equipment, machinery and motor vehicles for the official use by the Defence Forces Welfare Services.
- All goods imported or purchased locally by the Defence Forces Welfare Services. This has replaced the exemption given to "Alcoholic or non-alcoholic beverages supplied to the Kenya Defence Forces Canteen Organization".
- Excisable services supplied to or by the Kenya Defence Forces Welfare Services.

Excise duty rates enacted by the Finance Act, 2025 on various goods

Item	Previous Rates	New Rates
Imported Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, reflecting or non-reflecting layer, but not otherwise worked of tariff 7005 but excluding those imported by a registered processor upon the recommendation by the Cabinet Secretary responsible for matter relating to industry and those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	35% of excisable value or KES 500 per square meter, whichever is higher
Imported paper or paper board, labels of all kinds whether or not printed of tariff heading 4821.10.00 and 4821.90.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	25% or KES 150 per kilogramme, whichever is higher	25% or KES 200 per kilogramme, whichever is higher
Imported cartons, boxes and cases of corrugated paper or paper board and imported folding cartons, boxes and case of non-corrugated paper or paper board and imported skillets, free-hinge lid packets of tariff heading 4819.10.00, 4819.20.10 and 4819.20.90	25%	25% or KES 200 per kilogramme, whichever is higher
Imported Printed paper or paperboard of tariff heading 4811.41.90 or 4811.49.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% or KES 150 per kilogramme, whichever is higher
Imported Glass bottles (excluding imported glass bottles for packaging of pharmaceutical products)Provided that it shall not apply to glass bottles imported from any of the countries within the East African Community	35%	35% or KES 40 per kilogramme, whichever is higher
Imported Articles of plastic of tariff heading 3923.30.00	N/A	10%
Imported ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics of tariff 6907	5% of custom value or KES 200 per square meter	5% of custom value or KES 300 per square meter, whichever is higher
Imported tea whether or not flavoured	N/A	25% of excisable value
Imported Uncoated kraft paper and paperboard, in rolls or sheets; kraftliner; unbleached of tariff number 4804.11.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 50 per kilogramme, whichever is higher
Imported other kraft paper or paperboard weighing 150g/m² or less, in rolls or sheets; unbleached of tariff number 4804.31.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 50 per kilogramme, whichever is higher
Imported other kraft paper or paperboard weighing more than 150g/m² but less than 225 g/m², in rolls or sheets; unbleached of tariff number 4804.41.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 50 per kilogramme, whichever is higher

Item	Previous Rates	New Rates
Imported other kraft paper or paperboard weighing 225 g/m² or more others in rolls or sheets; unbleached of tariff number 4804.51.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 50 per kilogramme, whichever is higher
Imported Glass of heading 70.03, 70.04 or 70.05, bent, edge-worked, engraved, drilled, enamelled or otherwise worked, but not framed or fitted with other materials of Tariff Heading 70.06, but excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin	N/A	35% of excisable value or KES 500 per square metre, whichever is higher
Imported safety glass of tariff numbers 7007.19.00 and 7007.29.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	35% of excisable value or KES 500 per square metre, whichever is higher
Imported Multiple-walled insulating units of glass of Tariff Heading 70.08, but excluding those from East Africa Community Partner States that meet the East Africa Community Rules of Origin	N/A	35% of excisable value or KES 500 per square metre, whichever is higher
Imported fully built and semi-built direct air capture machines	N/A	25% of excisable value
Imported aluminium profiles, fabricated doors and fabricated windows of tariff numbers 76.04, 7608.20 and 7610.10	N/A	25% of excisable value or KES 400 per kilogramme, whichever is higher.
Non-refillable lighters of tariff number 9613.10.00	N/A	25% of excisable value or KES 500 per kilogramme
Imported other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls of tariff number 3919.90.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher
Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher
Imported printed polymers of vinyl chloride containing by weight not less than 6% of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.43.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher

Item	Previous Rates	New Rates
Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other polyesters of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher
Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19 .90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher
Printed self-adhesive paper of tariff number 4811.41.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher
Gummed paper and paperboard of tariff number 4811.49 .00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin	N/A	25% of excisable value or KES 200 per kilogramme, whichever is higher
Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages	N/A	KES 500 per litre

New changes on excisable services enacted by FA 2025

New Provisions	Previous Provisions
Excise duty on betting at five per cent on the amount deposited into a customer's betting wallet but this is not applicable to horse racing	Excise duty on betting was 15% of the amount wagered or staked and was not applicable to horse racing
Excise duty on gaming at five per cent on the amount deposited into a customer's gaming wallet	Excise duty on gaming was 15|% of the amount wagered or staked
Excise duty on prize competition at five per cent of the amount paid or charged to participate in a prize competition	Previous rate was 15%
Excise duty on lottery (excluding charitable lotteries) at five per cent of the amount paid or charged to buy the lottery ticket	Previous rate was 15%
Excise duty on fees charged on virtual assets transactions by virtual asset providers at ten percent of the excisable value	No provisions

MISCELLANEOUS FEES AND LEVIES AMENDMENTS

Amendments enacted by FA 2025 that were not in FB 2025

1. **Harmonisation of Administrative Provisions**

   The Miscellaneous Fees & Levies Act (MFLA) broadens the application of the TPA to include the administration of fees and levies imposed under the Act. Currently, the Act only references Section 47 of the TPA, which pertains specifically to refund mechanisms for such fees and levies.

   With this amendment, the full suite of TPA regulations would apply to all matters involving MFLA including penalties, interest, objections and repayments.

2. **Import Declaration Levy Fund**

   The MFLA currently provides for an allocation of 10% of the Import Declaration Levy (IDF) into a Fund established and administered under the Public Finance Management Act and used to pay for Kenya's contributions to the African Union and other international organizations to which it has financial obligation.

   The FA 2025 increased the IDF fund allocation from 10% to 20%, with the additional 10% being used for revenue enforcement initiatives, marking a shift from the previous position where the entire Fund was dedicated solely to Kenya's contributions to the African Union and other international organisations.

3. **Raw materials for manufacture of textiles**

   FA 2025 has introduced IDF and Railway Development Levy (RDL) on goods of Chapter 5407 and Chapter 6309 imported as raw materials for manufacture of textile products in Kenya.

4. **IDL and RDL exemptions expanded**

   Currently, raw materials used in the manufacture of mosquito repellants are exempt from IDF and RDL. FA 2025 has expanded this exemption to include inputs, raw materials and machinery used in the manufacture of mosquito repellents, upon recommendation by the CS responsible for matters relating to health.

5. **Introduction of Export and Investment Promotion Levy (EIPL) rates on new tariff headings**

Tariff Heading	Tariff Description	Introduced EIPL rate
69.07	Ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing; finishing ceramics	3% of the customs value
69.10	Ceramic sinks, wash basins, wash basin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures	3% of the customs value
72.06	Iron and non-alloy steel in ingots or other primary forms (excluding iron of heading 72.03)	17.5% of the customs value
72.07	Semi-finished products of iron or non-alloy steel	17.5% of the customs value
72.13	Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel	17.5% of the customs value
72.14	Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling	17.5% of the customs value
72.24	Other alloy steel in ingots or other primary forms; semi-finished products of other alloy steel	17.5% of the customs value

FB 2025 proposals that were dropped

The changes below were proposed by the FB 2025 but have not been enacted by the FA 2025:

1. Aircraft exemptions from IDF and RDL

The FB 2025 proposed to delete the IDF and RDL exemptions on the following:

a) All goods and parts thereof of Chapter 88; and

b) Any other aircraft spare parts including aircraft engines imported by aircraft operators or persons engaged in the business of aircraft maintenance upon recommendation by the competent authority responsible for civil aviation

Further, the Bill proposed the introduction of IDF and RDL exemptions on the following:

- All parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00.

The above proposals have not been enacted by FA 2025.

2. EIPL changes

The below reclassification proposed by FB 2025 have been dropped by the FA 2025:

No:	Tariff No.	Tariff Description	Current rate – FA 2025	Proposed rate in FB 2025 that was dropped
a.	7207.11.00	Semi-finished products of iron or non-alloy steel containing, by weight, <0.25% of carbon; of rectangular (including square) cross-section, the width measuring less than twice the thickness	17.5 % of the customs value	10% of the customs value
b.	7213.91.10	Bars and rods of iron or non-alloy steel, hot-rolled, in irregularly wound coils of circular cross-section measuring less than 14mm in diameter of cross section measuring less than 8 mm	17.5 % of the customs value	10% of the customs value
c.	7213.91.90	Bars and rods of iron or non-alloy steel, hot-rolled, in irregularly wound coils of circular cross-section measuring less than 14mm in diameter; other	17.5 % of the customs value	10% of the customs value

STAMP DUTY ACT AMENDMENTS

FA 2025 introduces a stamp duty waiver for property transferred by a company to its shareholders as part of an internal reorganization. To qualify for this exemption, all of the following conditions must be met:

- The property must be allocated to shareholders in direct proportion to their existing shareholdings immediately before the transfer; and
- If the property comprises shares, those shares must be in a subsidiary of the company making the transfer.

The change aims to ease the tax burden on companies undergoing internal restructuring, effectively encouraging corporate reorganization. The requirement that asset transfers align proportionally with existing shareholdings helps safeguard against tax leakages by ensuring shareholders receive allocations equivalent to their pre restructure ownership, preventing unintended gains for others.

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