

Quick Tax Guide 2025/2026

NOTE

This publication includes amendments to the Finance Act 2025 and does not include any legislative changes after that date. We also refer you to the important disclaimer on page 25 of this Tax Guide.

TABLE OF CONTENTS

PERSONAL TAXATION	3
CAPITAL GAINS TAX (CGT)	8
BUSINESS INCOME TAXATION	9
STAMP DUTY	17
VALUE ADDED TAX (VAT)	20
MISCELLANEOUS TAXES	22
CUSTOMS DUTIES	23
EXCISE DUTIES	23
TAX PENALTIES	24

PERSONAL TAXATION

Income tax is chargeable on any gains or profits from employment or services rendered. Gains or profits from employment are widely defined and include wages, salaries, leave pay, sick pay, payment in lieu of leave fees, commissions, gratuity, travelling, entertainment or other allowances.

Individual rates of tax

	Annual rates of tax			Monthly rates of tax		
Tax bands	Taxable Pay (KES)	Tax rates	Cumulative (KES)	Taxable pay (KES)	Tax rates	Cumulative (KES)
On the first	288,000	10%	28,800	24,000	10%	2,400
On the next	100,000	25%	53,800	8,333	25%	4,483
On the next	5,612,000	30%	1,734,400	467,667	30%	147,183
On the next	3,600,000	32.5%	2,907,400	300,000	32.5%	244,683
Excess over	9,600,000	35%		800,000	35%	

Personal relief	KES 28,800 (a)	KES 2,400 (a)
Insurance relief	KES 60,000 (b)	KES 5,000 (b)
Mortgage interest relief	KES 360,000 (c)	KES 30,000 (c)
Registered Pension/Provident Schemes relief	KES 360,000 (d)	KES 30,000 (d)
Post retirement medical fund	KES 15,000 (e)	KES 180,000 (e)

Individual tax reliefs (Relief on Tax) and Relief on Income (Allowable deductions against income)

Tax relief is an amount that is deductible against tax payable.

Relief on Income is an allowable deduction in order to arrive at the Taxable Income

- Personal relief is granted to individuals who are residents of Kenya for a year of income. An individual is entitled to personal relief from one employer only.
- Insurance relief is applicable on premiums paid for a post-retirement medical fund, life, health or education policies for an individual, spouse or dependent children. Education and health policies must have maturity periods of at least 10 years. The insurance relief is 15% of contributions made but capped to KES 60,000 per annum. The premiums paid to the Social Health Insurance Fund is an allowable deduction in full against income w.e.f 27th December 2024.
- Mortgage interest relief for owner occupied property capped to KES 360,000 per annum.
- The combined employer and employee contributions to a registered fund or scheme on behalf of a member are unlimited. However, the tax allowable amount is limited to the lower of:
 - Actual contributions;
 - 30% of the employee's pensionable income; and
 - KES 360,000 per annum (KES 30,000 per month) w.e.f 27th December 2024.

f) Affordable Housing Levy

The contributions made to the Affordable Housing Levy is an allowable deduction in full against income. w.e.f 27th December 2024.

Employment Benefits

All benefits are taxable at the higher of cost and fair market value except:

a) Tax-free benefits

- The first KES 150,000 per month (KES 1,800,000 per annum) of total income for the disabled persons registered with the National Council of Persons with Disability and approved by the Commissioner;
- KES 50,000 for non-reimbursed hospital admission costs, drugs treatment and home care services for disabled persons registered with the National Council of Persons with Disability and approved by the Commissioner;
- Education fees of an employee's dependents or relatives, if taxed on the employer;
- Medical premiums paid for employees, including spouse and dependent children;
- Provident/pension contributions (except contributions in excess of the relief) where the employer is tax exempt;
- International passage expenses for non-citizen employees recruited from outside Kenya solely to serve the employer;
- Canteen/cafeteria established/operated by employer or a tax registered third party where value of meals provided to staff does not exceed KES 5,000 per employee per month;
- Payment of Gratuity
- Other allowances paid under a pension scheme.
- Group life premiums that do not confer benefit to the employee or any of his dependents;
- Contributions paid to a registered or unregistered pension scheme, pension fund or individual retirement fund subject to a limit of KES 360,000 per annum;
- Club entrance and subscription fees, if disallowed against the employer's income.

b) Non-cash taxable benefits

- Effective 24th December 2024 Benefit in kind if the aggregate cost exceeds KES 60,000 per annum;
- Medical benefits provided to a non-whole-time service director (owning over 5% shareholding), partners and sole proprietor, including their beneficiaries (spouse and up to 4 children below 21 years), in excess of KES 1 million per annum.

c) Reimbursements

- For employees working outside of their workstation the first KES 10,000 per diem per day is deemed to be reimbursement and not taxable.

- Reimbursements of expenditure incurred by a public officer for the purpose of performing official duties is excluded from taxable gains.
- Amounts received as mileage/transport claim by employees on official duties shall be pegged to the approved rates by the Automobile Association of Kenya ("AA Kenya"). Any amounts above the approved rates shall be treated as a taxable benefit on the employee.
- Double taxation relief for Kenyan citizen artistic performers and sportsmen against tax charged in Kenya on the same income that has been taxed outside Kenya.

d) Housing

- Non-working directors and whole time service directors: higher of 15% of gross emoluments, fair market rental value and rent paid.
- Agricultural employees: 10% of gross emoluments less any rent charged to the employee.
- Other employees: higher of 15% of gross emoluments or rent paid by the employer under an arms-length agreement with a third party.

e) Loans to employees

- Fringe benefit tax is payable by the employer at the rate given by the Commissioner less actual rate paid by the employee.
- The rate of tax on fringe benefits provided by an employer shall be the resident corporate rate of tax for that year of income.

f) Other benefits

- In case of employees share ownership plan, the difference between the share offer price at the date option is granted by the employer and share market value on the date when the employee exercises the option.
- Value of shares allocated to employees in lieu of cash emoluments by an eligible start-up employer under certain conditions.
- Income earned by individuals registered under the Ajira Digital Program for a period of 3 years beginning 1 January 2020, provided qualifying members remit KES 10,000 subscription upon registration.

g) Set-off of tax

- Tax paid in another country on employment income by a Kenyan citizen can be offset against tax payable on that income in Kenya to the maximum of tax payable in Kenya on the said income.

Commissioner's Prescribed Benefit Rates

All benefits are taxable at higher of cost to the employer of providing the benefit and fair market value.

a) Domestic Benefits

Certain benefits such as water, telephone, furniture, electricity, wages paid to personal staff, security are taxable at the higher of cost or fair market value. In rare cases, where the cost of certain benefits to the employer is difficult to ascertain the Commissioner has prescribed a value. The prescribed rates are:

Service	Reduced rates of benefits
Electricity (Communal or from a generator)	KES 1,500 (KES 900 for agriculture employees)
Water (Communal or from a borehole)	KES 500 (KES 200 for agriculture employees)
Telephone (Landline and mobile phones)	30% of the cost to employer
Provision of Furniture *	1% of the cost to employer

* If leased, the cost of leasing should be brought to charge.

b) Motor vehicles

The benefit is taxed at the higher of 2% per month of the initial cost of the vehicle or prescribed scale rates shown below:

Motor vehicle type	Engine Capacity	Monthly (KES)	Annual (KES)
Saloon, Hatch Backs & Estates	Up to 1,200 cc.	3,600	43,200
	1,201 to 1,500 cc.	4,200	50,400
	1,501 to 1,750 cc.	5,800	69,600
	1,751 to 2,000 cc.	7,200	86,400
	2,001 to 3,000 cc.	8,600	103,200
	Over 3,000 cc.	14,400	172,800
Pick-ups, Panel Van Unconverted	Up to 1,750 cc.	3,600	43,200
	Over 1,750 cc.	4,200	50,400
Land Rovers/ Cruisers		7,200	86,400

NB: Range Rovers/Double Cabin and vehicles of a similar nature are classified as saloon.

- For leased vehicles, the benefit is the cost of leasing;
- Employees with restricted private usage can apply for a lower benefit valuation.

NATIONAL SOCIAL SECURITY FUND (NSSF) NSSF ACT

A new NSSF legislation (the National Social Security Fund Act, 2013 – NSSF Act, 2013) was enacted on 24 December 2013 to replace the NSSF Act, Cap 258. The NSSF Act, 2013 establishes two funds namely, the Pension Fund and the Provident Fund. The new legislation requires the employer and the employee to each contribute 6% of the employee's monthly pensionable earnings subject to prescribed upper and lower earning limits. Currently

the upper earnings limit is KES 18,000 and lower earnings limit at KES 6,000. Upper earnings limit will move up gradually to the average level of earnings equal to 4 times the National Average Earnings (NAE). Compulsory contributions to NSSF up to 12% of lower earnings limit. Excess contribution over 12% lower earnings limit may be contributed to NSSF or any other registered retirement scheme (w.e.f. 1 February 2023). NSSF is payable by the 9th of the month following the month of deduction.

Contributions not paid after the due date shall attract a penalty at 5% per month or part thereof.

Foreign nationals who are members of a social security scheme in their home country and are expected to be in Kenya for less than 3 years at any one time may be exempt from making contributions to the fund, subject to making an application and grant of the same.

Affordable Housing Levy

An employer shall pay a mandatory Affordable Housing Levy (AHL) contribution in respect of each employee. The employer and employee will each contribute 1.5% of the employee's monthly gross salary. AHL will be due by the 9th day of the following month.

Social Hospital Insurance Fund

Effective 1 July 2024 and subject to implementation of the new SHIF regulations, the standard contributions are as follows:

- Contribution in salaried employment - 2.75% of gross monthly income
- Contribution in self-employment - 2.75% of declared or assessed gross monthly income.

Minimum contribution is KES 300 per month.

No capping of maximum contribution

SHIF will be payable before the 9th of the following month.

National Industrial Training Authority

All employers are required to register with the National Industrial Training Authority and remit to the authority a monthly payment of KES 50 per employee including an apprentice, indentured learner, other trainee, temporary, seasonal and casual worker per year or on pro rata basis.

National Employment Authority (NEA)

All employers are required to register with the National Employment Authority (NEA). NEA requires all employers in Kenya with 25 or more employees to submit returns in relation to their employees for each calendar year ending 31 December.

An employer is required to notify the Director of Employment of any vacancies and/or terminations as well as when vacant posts are filled. An employer who fails to file a return of employees' details with NEA is liable for a fine of up to KES 100,000 and/or a six months jail term.

Pension/Provident Funds Exempted from Tax

- a) Payment of pension benefits from a registered pension fund, registered provident fund, registered individual retirement fund, public pension scheme or NSSF upon attainment of the retirement age determined in accordance with the rules of the fund or the scheme.
- b) Payment of Gratuity.
- c) Other allowances paid under a pension scheme.
- d) Payment of a retirement annuity.
- e) Withdrawals from the fund prior to attaining the retirement age due to ill health or withdrawals after the 20 years from the date of registration as a member of the fund.

CAPITAL GAINS TAX (CGT)

Self-assessment tax

The tax rate applicable is 15% w.e.f. 1 January 2023 and is payable on:

- Gains realised by companies, partnerships and individuals on or after 1 January 2015 on transfer of property situated in Kenya excluding securities listed on the NSE.
- Gains derived from the alienation of shares or comparable interests, including interests in a partnership or trust, if, at any time during the 365 days preceding the alienation, the shares or comparable interests derived more than 20% of their value directly or indirectly from immovable property situated in Kenya, or
- Gains, other than those to which above applies, derived from the alienation of shares of a company resident in Kenya if the alienator, at any time during the 365 days preceding such alienation, held directly or indirectly at least 20% of the capital of that company. w.e.f 1 July 2023
- Effective 1 July 2023 CGT will also apply where:
 - a non-resident person who holds more than 20% of the share capital of a Kenyan company directly or indirectly disposes of his/her interest
 - gains arising from the sale of shares in a foreign entity which derive more than 20% of their value directly or indirectly from immovable property situated in Kenya.
- CGT due date - earlier of receipt of full purchase price by the vendor or the date the application for transfer is made. w.e.f. 1 July 2023.
- For gains realised where capital deductions have been claimed, please seek specific advise.

Effective 27th December 2024, the CGT rate will be 5% provided that the Nairobi International Financial Centre Authority certifies that

- A firm has invested at least KES 3 billion in at least one entity incorporated or registered in Kenya within a period of 2 years;
- The transfer of the investment is to be made after five years of the date of the investment

Exemptions

- Transaction involving the incorporation, recapitalization, acquisition, amalgamation, separation, dissolution or similar restructuring of a corporate entity, subject to certain conditions; Effective 1 July 2023 groups undergoing internal restructuring will need to have existed for 24 months or more in order to qualify for exemption from CGT;
 - Transfer of assets to a company where an individual, spouses, or a spouse and immediate family hold 100% shareholding;
 - Land transfer by an individual value of which is KES 3,000,000 and below;
 - Transfer of agricultural land by an individual having an area of 50 acres and below outside municipality;
 - Transfer of residential home by an individual (MUST have occupied the house for at least 3 years consecutively prior to transfer);
 - Transfer of assets between former spouses or their immediate family as part of divorce settlement or bona fide separation agreement;
 - Transfer of assets:
 - between spouses;
 - between former spouses as part of divorce settlement or bona fide separation agreement;
 - to immediate family*; or
 - to immediate family* as part of divorce or bona fide separation agreement.
 - Transfer of property within 2 years of issue of probate under estate administration;
 - Transfer to registered family trusts.
 - Gains on transfer of property within a special economic zone by a licensed special economic zone developer, enterprise or operator.
 - Gains on transfer of securities traded on any securities exchange licensed by the CMA.
 - Effective 1 July 2023 when a property is transferred in a transaction that is not subject to CGT and the property is subsequently transferred in a transaction subject to CGT within a period of less than 5 years, then the adjusted cost in the subsequent transfer shall be based on the original adjusted cost as determined in the first transfer.
- * Immediate family means children of the spouses or former spouses.

BUSINESS INCOME TAXATION

Corporate income tax rates

Resident companies	Rate of Tax
Companies	30%
Permanent establishments of non-resident companies (branches)	37.5% (30% w.e.f. 1 January 2024)
Branch repatriation tax	15% (w.e.f. 1 January 2024)

Resident companies	Rate of Tax
Residential rental income tax	7.5% (w.e.f. 1 January 2024) 10% prior to 1 January 2024 (a)
Turnover tax	3%
Export processing zones: <ul style="list-style-type: none"> ▪ First ten years ▪ Next ten years ▪ Thereafter 	Exempt 25% 30%
Licensed Special Economic Zone (SEZ) enterprises, developers and operators (d) <ul style="list-style-type: none"> ▪ First ten years ▪ Next ten years ▪ Thereafter 	10% 15% 30%
Dividends paid by a company certified by the Nairobi International Financial Centre Authority where the company reinvests at least two hundred and fifty million shillings in Kenya, in that year of income	Exempt
Companies in local assembling of motor vehicle <ul style="list-style-type: none"> ▪ First five years 	15%
In respect of a company certified by the Nairobi International Financial Centre Authority, fifteen per cent for the first ten years from the year of commencement of its operations and twenty per cent for the subsequent ten years of its operation <ul style="list-style-type: none"> ▪ First ten years ▪ Next ten years 	15% 20%
Dividend distribution tax on untaxed gains or profits	30%
Income of a registered unit trust, collective investment scheme or a Real Estate Investment Trust	Exempt
Investee companies of Real Estate Investment Trusts	Exempt
Resident company operating a carbon markets exchange or emissions trading system certified by the Nairobi International Financial Centre Authority ("NIFCA") (w.e.f. 01 July 2022) <ul style="list-style-type: none"> First ten years Thereafter 	15% 30%
Interest and deemed interest on bearer bonds issued outside Kenya for a period of at least two (2) years and interest, discount or original issue discount	7.5%

- a) The residential rental tax regime is applicable for the use or occupation of residential property which does not exceed KES 15 million during any year of income. The tax is paid on a monthly basis.
- b) This is applicable where a developer constructs at least one hundred residential units annually subject to certain approvals.
- c) Turnover tax applies to any person whose turnover from business is between KES 1 – 25 million in a year of income,

subject to being registered under the scheme. Turnover tax does not apply to management, professional or training fees, rental income and any income subject to a final withholding tax. w.e.f. 1 July 2023.

- d) The lower corporation tax rate is applicable whether the Special Economic Zone enterprise sells its products within or outside Kenya.
- e) The 15% corporate rate of tax can be further extended for additional five years if the local content equivalent to 50% of the ex-factory value of the motor vehicles is achieved.
- f) The reduced corporate rates are applicable to companies in a special operating framework arrangement agreed between a company and the Government remain in force until expiry of such arrangements.

* Business expenses are only allowable if are incurred wholly and exclusively to generate income. However w.e.f. 1 January 2024, any expenditure or loss must be supported by an invoice generated from an electronic tax invoice management system (eTIMS) unless the transaction is exempted by the Tax Procedures Act, Cap 469B.

Payment of Taxes

Instalment tax and Balance of Tax payments

Instalment tax where applicable is payable as follows:

	Instalment taxes				Balance of tax payments
	20th day of the fourth month of the financial year	20th day of the sixth month of the financial year	20th day of the ninth month of the financial year	20th day of the twelfth month of the financial year	Last day of the fourth month after the financial year
Agricultural enterprise	-	-	75%	25%	As calculated
All other taxpayer	25%	25%	25%	25%	As calculated

Basis for instalment tax: Preceding year's tax multiplied by 110% or current year's estimate.

Self-Assessment Returns (SAR)

- SARs for non-individuals fall due six months after the end of the accounting year.
- SARs for all individuals due on or before 30 June of the following year. A spouse's income may be filed and taxed separately.
- SARs must be submitted on the iTax platform.

Application for extension to file returns

- Application for extension to submit monthly and annual returns can be done 15 days and 30 days respectively before the due date for submission of return.

Tax Losses

- The Tax loss to be carried forward for a maximum period of 5 years.

Investment allowance and capital deductions

Investment allowance on Buildings

Capital expenditure incurred on:	Rate from 1 January 2022**
Hotel building	50% in first year of use and residual value 25% in equal instalments
Building used for manufacture	50% in first year of use and residual value 25% in equal instalments
Capital expenditure incurred on:	Rate from 1 January 2022**
Hospital buildings	50% in first year of use and residual value 25% in equal installments
Petroleum and gas storage facilities	50% in first year of use and residual value 25% in equal installments
Educational buildings including student hostels	10% per year in equal installments
Commercial building	10% per year in equal installments
Industrial building	10% per year in equal installments
Dock	10% per year in equal installments

Investment allowance on Machinery

Capital expenditure incurred on:	Rate from 1 January 2022*
Machinery used for manufacture	50% in first year of use and residual value 25% in equal installments
Hospital equipment	50% in first year of use and residual value 25% in equal installments
Ships or air-crafts	50% in first year of use and residual value 25% in equal installments
Motor vehicles * and heavy earth moving equipment	25% per year in equal installments
Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25% per year in equal installments
Furniture and fittings	10% per year in equal installments
Telecommunications equipment	10% per year in equal installments
Filming equipment for local producers subject to CS approval	25% per year in equal installments

Capital expenditure incurred on:	Rate from 1 January 2022*
Machinery used to undertake exploration operations (prior to 01/01/2022, restricted to those who have a mining right)	50% in first year of use and residual value 25% in equal installments
Machinery used to undertake operations under a prospecting right	50% in first year of use and residual value 25% in equal installments
Other machinery	10% per year in equal installments
Diminution	100% in the first year

* Subject to a maximum limit of KES 3 million for saloon motor vehicles.

Investment allowance – Other

Capital expenditure incurred on:	Rate from 1 January 2022*
Purchase or acquisition of an indefeasible right to use fibre optic cable or spectrum license by a telecommunications operator	10% per year in equal instalment
Farm works	50% in first year of use and 25% in equal installments

- * Effective 27 December 2024, investment deduction at rate of 100% in the following circumstances:
- The cumulative investment value in the preceding three years outside Nairobi and Mombasa Counties is at least KES 1 billion; or
 - The investment value outside the Counties of Nairobi and Mombasa is at least KES 250 million; or
 - The capital investments are made in a Special Economic Zone (SEZ).

Effective 27 December 2024, investment deduction at rate of 150% on investments made outside Nairobi County or Mombasa County if they meet the below criteria;

- That the cumulative investment value for the four years preceding 1 July 2021 is at least KES 1 billion; or
- The cumulative investment for the three years succeeding 1 July 2021 at least KES 1 billion.

Interest and Foreign Exchange Loss Restriction

- A cap on tax deductibility of interest to 30% of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). Any interest that exceeds the 30% cap will be disallowed for tax purposes. Interest include payments that are economically equivalent to interest as well as expenses incurred in connection with raising financing (w.e.f. 1 January 2022);
- Effective 1 January 2024, interest to be restricted is in respect of loans received from non-resident person in excess of 30% of EBITDA. The loan from non-resident could either be from related person or third party. Restricted interest will be an allowable deduction in the subsequent 3 years of income to the extent that the deduction does not exceed the 30% of the EBITDA threshold;

- Tax deductibility of realised foreign exchange losses is deferred to the point when the company meets the 30% EBITDA threshold. (w.e.f. 1 July 2022). Effective 1 January 2024 realised foreign exchange loss shall be deferred and claimed over a period of not more than 5 3 years from the date the loss was realised.

The following additional categories of persons are exempt from the interest deductibility restriction rule:

- Microfinance institutions licensed and non-deposit taking microfinance businesses under the Microfinance Act, 2006 (w.e.f. 1 July 2022);
- Entities licensed under the Hire Purchase Act (w.e.f. 1 July 2022);
- Non-deposit taking institutions involved in lending and leasing business (w.e.f. 1 July 2022);
- Companies undertaking the manufacture of human vaccines (w.e.f. 1 July 2022);
- Companies engaged in manufacturing whose cumulative investment in the preceding five years from the commencement of this provision is at least KES 5 billion (w.e.f. 1 July 2022 to 31 December 2023);
- Companies engaged in manufacturing whose cumulative investment is at least KES 5 billion provided that the investment shall have been made outside Nairobi City County and Mombasa County (w.e.f. 1 July 2022 to 31 December 2023); and
- Holding companies that are regulated under the Capital Markets Act (w.e.f. 1 July 2022).

Deemed interest

Deemed interest refers to an amount of interest equal to the average 91 day T-Bill rate, deemed to be payable by a foreign controlled resident person in respect of any outstanding loan provided or secured by the non-resident, where such loans have been provided free of interest. However, deemed interest in respect of an interest free loan advanced to a company undertaking the manufacture of human vaccines is tax exempt.

Significant Economic Presence Tax

Effective 1 December 2024 Significant Economic Presence Tax (SEP Tax) will be payable by non-residents whose income from provision of services is derived from or accrued in Kenya through a business carried out over internet or an electronic network including through a digital marketplace. Digital marketplace includes

- Ride hailing Services
- Food delivery services
- Freelance services
- Professional services
- Rental services
- Task-based services

Any other services not exempt from tax under ITA

SEP shall be charged at the rate of 10% on the gross turnover.

The non-resident person shall file and submit a return on or before the 20th day of the month following the end of the month in which the services were offered.

Minimum top-up tax

Effective 1 December 2024 minimum top up will be payable by a covered person where the combined effective tax rate in respect to that person is less than 15%. This is aimed at ending the benefit of multi-national entities shielding multi-billion dollar profits in tax havens and ensuring that the multinationals pay a minimum level of tax in each jurisdiction that they operate in

The combined effective tax rate for a covered person shall be the sum of all the adjusted covered taxes, divided by the sum of all net income or loss for the year of income, multiplied by a hundred.

The amount of tax payable shall be the difference between fifteen per cent of the net income or loss for the year of income of a covered person, and the combined effective tax rate for the year of income, multiplied by the excess profit of the covered persons

Minimum top-up tax shall be payable by the end of the fourth month after the end of the year of Income.

Exemptions

- (a) to a public entity that is not engaged in business;
- (b) to a person whose income is exempt from tax under paragraph 10 of the First Schedule;
- (c) to a pension fund and the assets of that pension fund;
- (d) to a real estate investment vehicle that is an ultimate parent entity;
- (e) to a non-operating investment holding company;
- (f) to an investment fund that is an ultimate parent entity;
- (g) to a sovereign wealth fund; or
- (h) to an intergovernmental or supranational organisation including a wholly owned agency or organ of the intergovernmental or supranational organisation

Taxation of gains from Financial Derivatives accruing to non-residents

Effective 1 January 2023, gains accruing to derivative transactions between non-resident persons who have no permanent establishment in Kenya and a resident person in Kenya, excluding financial derivatives traded on the Nairobi Securities Exchange are subject to tax. The gains will be subjected to withholding tax at 15%.

Transfer pricing

The Kenya Transfer Pricing (TP) rules, modelled on the OECD Guidelines, were enacted in 2006, require all transactions between related parties (where one party is resident in Kenya and the other outside Kenya), to be documented in accordance with set out guidelines. The rules also apply to transactions

between a head office and its branch (or other related branches).

The rules also apply to domestic transactions where one of the parties is operating under a preferential tax regime. A preferential tax regime is one which includes a reduction in the tax rate or the tax base.

All related party transactions are required to adhere to the arm's length principle. Further, appropriate documentation should be maintained in support of the arm's length nature of these transactions.

TP policy documentation is a mandatory requirement and failure to comply is an offence under Section 82 of the Tax Procedures Act (TPA) which attracts a penalty equal to the higher of:

- a) 10% of the amount of tax payable by the person under the tax law to which the document relates for the reporting period to which the failure relates; or
- b) The penalty shall be KES 100,000 when no tax is payable for the reporting period which the TP policy was required to be maintained.

Advance Pricing Agreement

Taxpayers are able to enter an arrangement with the KRA on specific related-party transactions and thus mitigate transfer pricing controversy risks.

Country by Country Reporting (CbCR)

Effective 1 July 2021, the ultimate parent entities of multinational companies (MNE) based in Kenya are required to file an annual return within twelve months after the last day of the group's financial reporting year where the entity's group gross turnover exceeds a KES 95 billion.

The information to be included in the return includes: the financial activities of the group in Kenya and other jurisdictions where the group has taxable presence (that is, gross revenue, earnings before income tax, income tax paid and accrued, stated capital and accumulated earnings); number of employees; and tangible assets excluding cash and cash equivalents.

Ultimate parent entity means, "a resident entity that is in Kenya for tax purposes; is not controlled by another entity; and owns or controls directly or indirectly one or more constituent entities of a multinational enterprise group".

Set-off tax rebate for apprenticeships

Any employer who engages at least ten university or technical and vocational educational and training (TVET) graduates as apprentices for a period of six to twelve months during any year of income is eligible for a tax rebate equal to fifty percent of the amount of salaries and wages paid to them in the year of income and the subsequent three years of such engagement. The contracts must be registered with the National Industrial Training Authority (NITA).

Motor vehicle advance tax

For public service vehicles (PSV), pick-ups, vans, lorries and commercial vehicles:

- Higher of KES 2,500 per ton of load capacity per annum or KES 5,000 per annum
- For passenger carrying vehicles: For every driver KES 3,600 and for every conductor KES 1,200 per annum
- For minibuses, station wagons, buses, coaches and saloon cars: Higher of KES 100 per passenger capacity or KES 5,000 per annum whichever is higher
- Payment has to be on or before 20th of the first month of the year.

Residential Rental Income

Rental income received by an individual resident person for the use or occupation of residential property (not exceeding KES 15 million per annum) is subject to tax at a flat rate of 7.5% w.e.f. 1 January 2024 (prior period 10%) on the gross rental income received. Persons earning rental income of less than KES 288,000 per annum are exempt from this tax.

A person who collects rental income on behalf of the owner of the premises will be required to deduct and remit WHT to the Commissioner within 5 working days after the deduction. Only persons appointed as WHT agents for rental income by the Commissioner will be eligible to deduct the WHT.

If a person under residential rental income tax believes his rental income will exceed KES 15 million, he is required to inform the Commissioner before financial year-end. Losses brought forward were deemed to have been extinguished as at 31 December 2015.

STAMP DUTY

Stamp duty is charged on various legal documents and agreements. These include:

Description	Rate
Transfer of immovable property:	
Municipalities (Urban)	4%
Outside municipalities (Rural)	2%
Securities	
Increase in share capital	1%
Transfer of stock or marketable security (no duty on quoted securities)	1%
Registration of Debentures; mortgages and charges:	
Primary security	0.1%
Auxiliary security	0.1%
Leases:	
1 and 3 years	1% of annual rent
over 3 years	2% of annual rent

Exemptions under Real Estate Investment Trust (REIT)

- Transfer of beneficial interest from one trustee to the other or an additional trustee.
- Transfer of beneficial interest in property from a person or persons for transfer of units REIT.

Other exemptions

- Husband/wife transfers
- Family to family-controlled company land transfers
- Transfers between holding and subsidiary companies with shareholdings > than 90%
- Transfer of land for school construction
- Certain exemptions for Islamic related transfers
- Purchase of a house by a first-time homeowner under affordable housing scheme
- Transfer under a registered family trust (w.e.f. 1 July 2022).

Withholding taxes

Description		Notes	Residence Status	
			Residents	Non-residents
			%	%
Dividends	Corporate shareholding > 12.5% *	1 (a)	exempt	15%
	Corporate shareholding < 12.5% *		5%	15%
	Individual shareholding		5%	15%
	EAC citizens		-	5%
	Paid by an SEZ	1 (b)	-	-
Interest	Deemed Interest		-	15%
	Bearer instruments other		25%	25%
	Bearer bonds > 2 year maturity		15%	15%
	Bearer bonds > 10 year maturity		10%	-
	Other		15%	15%
Qualifying interest	Housing bonds	2	10%	
	Bearer instruments		20%	
	Other		15%	
Management, professional & training fees		7		
	> KES 24,000 per month		5%	20%
	EAC countries		-	15%
	Paid by an SEZ		-	5%
Contractual fees (building, civil and engineering)		7		
	> KES 24,000 per month		3%	20%
Rent/leasing	Immovable property		10%	30%
	Others (excl. aircraft, aircraft engines, locomotives and rolling stock)		-	15%

Description	Notes	Residence Status	
		Residents	Non-residents
Royalties		5%	20%
Goods supplied to a public entity		0.5%	5%
Making or facilitating payment over a digital marketplace		5%	20%
Withdrawals from gaming/betting		5%	20%
Withdrawals by punters		5%	5%
Digital content monetization		5%	20%
Insurance and re-insurance premiums (exc. for aircraft)		-	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.			20%
Commissions	Insurance Brokers	5%	Not specified
	Others	10%	Not specified
Oil and Gas	Natural resource Income	5%	20%
	Service fee paid by a contractor/licensee with no PE	-	10
	Dividend	5%	10%
	Interest	15%	15%
	Management and professional fees	5%	10%
Telecommunication service fee		-	5%
Sporting and entertainment	3	-	20%
Sales promotion, marketing, advertising services, and transportation of goods	4	5%	20%
Shipping business income	9	2.5%/3%	-
Disbursements of deemed income to trustee beneficiaries		25%	-
Payments by SEZs, developers and operator	6	-	10%
Payment on a digital marketplace	8	5%	20%

* Through a corporate holding company

Non-resident persons without a permanent establishment in Kenya pay tax at the above specified withholding tax rates, which is final tax.

Payment date: Effective 1 July 2023, Withholding Tax shall be due within 5 days after payment.

Payment is deemed to be the earlier of:

- date of accrual;
- date of issuance of invoice; or
- date of settlement of the obligation.

Notes

- 1) Sporting and entertainment
 - Payments made by non-resident filming agents and filming producers approved by the Kenya Film Commission to actors and crew members are exempted from withholding tax.
 - 2) Sales promotion, marketing, advertising services, and transportation of goods
 - East African Community citizens are exempted from withholding tax on transportation of goods. Air and shipping transport services are also exempt from withholding tax.
 - 3) Payment to a non-resident for royalties, interest, management fees, professional fees, training fees, consultancy fees, agency or contractual fees exempted for the first 10 years of the SEZ's establishment.
 - 4) Payments to non-resident contractor, subcontractor, consultant or employee involved in a project funded under an agreement with the Government of Kenya and development partners exempted to the extent provided for in the agreement.
 - 5) Effective 1 July 2025, the person who does not deduct, withhold or remit tax on a payment shall not be required to pay the principal tax not deducted, withheld or remitted where the recipient has accounted for the full principal tax.
- * Lower rates of withholding tax are applicable on some payments to residents of countries that have a Double Tax Agreement (DTA) with Kenya. Please seek specific advice for the same:
- * Kenya has included anti-treaty shopping mechanisms in its Income Tax legislation. Therefore, tax benefits included in the various DTA's shall not accrue to the person if 50% or more of the underlying ownership of the person is held by a person or persons who are not residents of the other contracting state.
- * The Tax Appeals Tribunal ruled that withholding tax is not applicable on management and professional fees paid by Kenyan resident persons to non-resident persons whose DTA's do not include articles expressly addressing management and professional fees such as South Africa and France. This matter is under appeal at the High Court of Kenya.

VALUE ADDED TAX (VAT)

Charge to tax

VAT is chargeable on the supply of taxable goods and services as well as on the importation of goods and services into Kenya. The liability to account for the tax is on the supplier. Liability to VAT on imported goods is on the importer and is collected by customs. Liability on imported services is on the importer and the tax is paid directly to the commissioner by the registered importer.

The VAT rates applied are as follows:

Standard rate	16%
Zero rate	0%
Exempt	Exempt

- Registration threshold (turnover per annum) KES 5 million
- Discretionary voluntary registration can be granted
- Group registration is available on application but subject to specified conditions

E-Tims

- All persons are required to comply with the requirements of the Electronic Tax Invoices pursuant to the Value Added Tax (Electronic Tax Invoice) Regulations and E-Tims regulations.

Time of supply

- Time of supply is earliest of supply of goods or services, issuance of an invoice, issuance of architect's certificate or payment date.
- The time of supply for exported goods shall be the time when the certificate of export or such other equivalent export document has been issued by Customs.

VAT on Imported Services (Reverse Charge VAT)

- VAT registered taxpayers are required to account for reverse charge VAT only to the extent it relates to exempt supplies. However, this provision does not apply to persons who make supplies over the internet or an electronic network or through a digital marketplace.
- Tax on the supply of imported taxable services is a liability of the person receiving the supply.

Value of supply

- The value for tax is the price paid for local supply of goods or services. The value for imported goods is the value for duty plus duty paid. The price includes any cost of wrapping or packaging (except returnable containers) and all other incidental costs (except hire purchase interest)

Place of supply of services in Kenya

- The VAT Act has extensively enlarged provisions on this. Please consult us when necessary.

Input VAT

- Eligibility of claiming input VAT dependent upon corresponding declaration of output tax by supplier or where one holds a valid tax invoice.
- Input tax claimable within 6 months of the date tax became payable.
- Credit notes to be issued within 6 months after issue of invoice or within 30 days of court decision.

VAT withholding

- VAT withholding agent to withhold 2% of taxable value at the time of paying for the taxable purchases.

- A withholding VAT agent is required to remit the withheld VAT. The withheld VAT is payable within 5 working days after deduction.
- Withholding VAT is not applicable to the taxable value of zero-rated supplies and registered manufacturers whose value of investment on the 31st December 2024 is at least two billion shillings.

VAT refunds

- The Claim for refund of the excess input as a result of making zero rated supplies should be made within twelve months from the date the tax becomes due and payable.
- The application for refund of tax on bad debts should be made after a period of two years from the date of the supply.

MISCELLANEOUS TAXES

Gaming and Lotteries

- Betting, Lottery, Gaming and Prize Competition tax at 15%.

Standard levy

- Due from manufacturers at the rate of 0.2% of ex-factory price subject to a minimum of KES 1,000 per month and a maximum of KES 400,000 per annum.

Catering levy

- The catering levy is a 2% tax levied on hotels and restaurants.

Export and Investment Promotion Levy (EIPL)

EIPL is levied on all goods imported into the country for home use in accordance to the rates specified on the Third Schedule of the Miscellaneous Fess and Levies Act. Please seek specific advice with regard to the goods on which EIPL is applicable.

Rail Development Levy & Import Declaration Fee:

- Railway Development Levy (RDL) is levied on all goods imported into the country for home use. The standard RDL rate is 1.5% of the customs value of the goods.
- Import Declaration Fee (IDF) is charged at a rate of 2.5% of the Customs Value as per Miscellaneous Fees and Levies Act.

Exemption from RDL and IDF

- Goods imported for official use by international and regional organizations having bilateral and multilateral agreements with Kenya.
- Goods imported for official use by international and regional organizations that have bilateral or multilateral agreements with Kenya.
- Goods under Chapter 88 being aircraft, spacecraft, and parts thereof.

- Liquefied petroleum gas.
- All good including material supplies, equipment, machinery and motor vehicles for the official use by the Kenya Defence Forces, the Kenya Defence Forces Welfare Services, the National Intelligence Service and the National Police Service
- Input, raw materials and machinery used in the manufacture of mosquito repellants upon recommendation by the Cabinet Secretary responsible for matters relating to Health.

CUSTOMS DUTIES

- Duties are chargeable on imports, exports and on specified goods and services. Customs duties are charged under the East African Community Common External Tariffs.
- It is now mandatory for all the importers that imports consignment into Kenya to be accompanied by the Certificate of Origin issued by a Competent Authority from the Country of export effective 1 July 2025.

Customs duty rates

- Duties range from between 0% to 35% and are dependent on the tariff code clarification in the CET Tariff Handbook
- Export tariffs on certain goods are included in the EACCMA Act.

EXCISE DUTIES

- Excise duty is imposed on excisable goods manufactured in Kenya by a licensed manufacturer, excisable services supplied in Kenya by a licensed person or excisable goods imported into Kenya by a registered person.
- Please seek specific advice on applicable rates since the rates keep on changing from time to time.

TAX PENALTIES

Tax Head	Offense	Penalty/fine *
Income Tax	Late filing of return	Higher of 5% of tax due or KES 2,000 for individuals and KES 20,000 for non- individuals
	Late payment of tax	5% of tax due and an interest of 1% per month
	Underpayment of instalment tax	5% of the difference between the amount of instalment tax payable and the instalment tax actually paid, multiplied by 110% and an interest of 1% per month on unpaid tax
Pay As You Earn (PAYE)	Late filing of return	Higher of 25% of tax due or KES 10,000
	Late payment of tax	5% of tax due and an interest of 1% per month
Value Added Tax		
	Late filing of return	Higher of 5% of tax due or KES 10,000
	Late payment of tax	5% of tax due and an interest of 1% per month
	Failure to apply for registration or de-registration	Fine not exceeding KES 200,000 or imprisonment not exceeding 2 years or both
	Applying for cancellation when still required to register Fails to display the tax registration certificate at all premises Failure to notify, the commissioner of any changes in name, address, place of business and nature of business with 21 days of change	KES 1 million or imprisonment not exceeding 3 years or both (general penalty)
	Failure to pay tax due on any trading stock at time of de- registration that input tax was allowed at acquisition or importation Any disclosure that a person is registered on any document while is not registered Failure to maintain proper records, using of an ETR or provide access to an authorised officer	
Excise Duty	Late filing of return	Higher of 5% of tax due or KES 10,000
	Late payment of tax	5% of tax due and an interest of 1% per month
Monthly Rental Income	Late filing of return	Higher of 5% of tax due or KES 2,000 for individuals and KES 20,000 for non- individuals
	Late payment of tax	5% of tax due and an interest of 1% per month
Capital gains tax	Late payment of tax	5% of tax due and an interest of 1% per month
Turn over Tax	Late filing of return	KES 1,000
	Late payment of tax	5% of tax due and an interest of 1% per month
Stamp duty	Late payment of tax	5% of the duty payable
Withholding Tax, Withholding VAT and Withholding Rental Income Tax	Failure to withhold and payment	10% of the amount of the tax involved
	Late payment of tax	5% of the tax due

Tax Head	Offense	Penalty/fine *
General Penalties	Failure to apply for registration or deregistration (excluding VAT)	KES 100,000 for each month or part thereof subject (Max KES 1 million)
	Failure to retain or maintain documents required	Higher of KES 100,000 or 10% of tax payable relating to documents
	A Person knowingly makes a false or misleading statement or omitting from a statement any matter that leads to a shortfall	<ul style="list-style-type: none"> • 200% of the tax shortfall when the statement or omission was made deliberately • Increased by 10% on second application and 25% on third or subsequent applications • Reduced by 10% on voluntary disclosure
	Tax avoidance or fraudulent claim for a refund	Double the amount of tax avoided/claimed
	Failure to submit a tax return electronically or pay tax due electronically and where the commissioner is not satisfied with the reasons for non-failure.	2 times the tax due
	Non-compliance with common reporting standards	<ul style="list-style-type: none"> • False statement or omission of information required under a return KES 100,000 or imprisonment not exceeding 2 years or both • When required to file a return by a financial institution but fails or files a "nil" return, KES 1 million for each failure • In any other case failure to file return KES 20,000 and KES. 20,000 per day (Max of 60 days)
	Failure to honour the commissioner's summon	KES 10,000 for individuals and KES 100,000 for non-individuals
	Failure to submit return by an EPZ	KES 2,000 per day for as long as the failure continues

IMPORTANT DISCLAIMER: This publication has been distributed on the express terms and understanding that the authors are not responsible for the results of any actions which are undertaken on the basis of the information which is contained within this publication, nor for any error in, or omission from, this publication. The publishers and the authors expressly disclaim all and any liability and responsibility to any person, entity or corporation who acts or fails to act as a consequence of any reliance upon the whole or any part of the contents of this publication. Accordingly no person, entity or corporation should act or rely upon any matter or information as contained or implied within this publication without first obtaining advice from an appropriately qualified professional person or firm of advisers, and ensuring that such advice specifically relates to their particular circumstances.

PKF Kenya LLP is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

A full directory of our office network, contacts, products and services can be found at our website www.pkfea.com

KENYA

Nairobi

Kalamu House, Grevillea Grove
Westlands
P. O. Box 14077 – 00800
Nairobi, Kenya
Tel: (+254 20) 4270 000
Cell: (+254) 732 144 000

E-mail: pkfnbi@ke.pkfea.com

Mombasa

Pereira Building, 1st Floor
Pramukh Swami, Maharaj Road
P. O. Box 90553 – 80100
Mombasa, Kenya
Tel: (+254 41) 2226 422/3
Cell: (+254) 724 563 668
(+254) 733 563 668

E-mail: pkfmsa@ke.pkfea.com

Malindi

Malindi Complex Building, 1st Floor
Lamu Road
P. O. Box 5572 – 80200
Malindi, Kenya
Cell: (+254) 722 209 620

E-mail: pkfmld@ke.pkfea.com

Nakuru

Westside Mall, Fourth floor
Junction of Kenyatta Avenue &
West Road
P. O. Box 1236 – 20100
Nakuru, Kenya
Tel: (+254 51) 2211 906
Cell: (+254) 796 015 656

Email: pkfnku@ke.pkfea.com

UGANDA

Kampala

Kalamu House
Plot 1B
Kira Road
P. O. Box 24544 Kampala, Uganda
Tel: (+256 312) 305 800

E-mail: pkfkam@ug.pkfea.com

TANZANIA

Dar es Salaam

Girl Guides Building, 1st Flr, Tower B
Kibasila Street, Upanga
P. O. Box 7323 – 11102
Dar es Salaam, Tanzania
Tel: (+255 22) 2152 501/3/4
Cell: (+255) 784 520 097

E-mail: info@pkfea.co.tz

RWANDA

Kigali

KG 5 Avenue 44, Kacyiru
P. O. Box 341
Kigali, Rwanda
Cell: (+250) 788 454 746
(+250) 788 386 565

E-mail: pkfkgi@rw.pkfea.com

SOUTH SUDAN

Juba

C/O PKF Kenya LLP
Kalamu House, Grevillea Grove
Westlands, Off Brookside Drive
P.O. Box 14077 – 00800
Nairobi
Tel: (+254 20) 4270 000
Cell: (+254) 732 144 000

E-mail: pkfnbi@ke.pkfea.com