FINANCE BILL 2025
ANALYSIS

MAY 2025

INTRODUCTION

Released on 30th April 2025, the Kenya Finance Bill 2025 (the **Bill**) proposes changes in income tax, VAT, excise duty, and tax compliance. These amendments aim to increase the tax to GDP ratio to 16% by the Financial Year (FY) 2026/27. Most provisions will take effect from 1st July 2025, with exceptions for Advance Pricing Agreements and penalty waivers, which will apply from 1st January 2026.

DIRECT TAX PROPOSALS

• Expanded Definition of Royalty

The Bill proposes an expansion of the royalty definition to include payments made for the use of software distributed through a distributor. This means that regular payments for software distribution will now fall under the royalty category, ensuring clearer taxation of these transactions.

• New Definition of Related Person

The Bill introduces a clearer definition of "related person," expanding it to include individuals with shared control, management, or capital interests in each other's businesses. It also captures relationships by marriage, blood, or affinity, ensuring better alignment in tax audits.

• Removal of SEPT Threshold

The Bill proposes to eliminate the Kenya Shillings Five Million (Kshs. 5,000,000.00) annual turnover threshold for non-resident entities.

• Increase in Per Diem Threshold

The Bill proposes raising the tax-free per diem allowance for employees on official duties outside their regular work location.

The daily limit for this benefit will be increased from Kenya Shillings Two Thousand (Kshs. 2,000) to Kenya Shillings Ten Thousand (Kshs. 10,000.00).

• Repeal of Reduced CIT Rate for Housing Developers and Motor Assemblers

The Bill proposes to remove the 15% Corporate Income Tax (CIT) rate currently available to companies engaged in the local assembly of motor vehicles and those constructing at least hundred (100) residential units per year.

• Repeal of Investment Deductions

The Bill proposes to eliminate the 100% and 150% investment deduction rates for investments over Kenya Shillings One Billion (Kshs. 1,000,000,000.00) made outside Nairobi City County, Mombasa County and Special Economic Zones (SEZs).

• Introduction of Advance Pricing Agreements

The Bill proposes granting the Commissioner of the Kenya Revenue Authority the authority to enter into Advance Pricing Agreements (APAs) for transactions that are subject to transfer pricing rules.

• Requirement for all MNEs to file CbCR

The Bill proposes to delete the provision that currently exempts Multinational entreprises (MNEs) from Country by Country Reporting (CbCR) filing requirements.

• Tax Rate on Fringe Benefits

The Bill clarifies that the corporate tax rate of a company will apply to the tax on fringe benefits.

• **Reduced CIT for NIFCA-Certified Entities**

The Bill proposes a reduced Corporate Income Tax (CIT) rate for companies certified by the Nairobi International Financial Centre Authority (NIFCA). These companies would benefit from a 15% CIT rate for the first 10 years, followed by a 20% rate for the next 10 years, subject to specific conditions. Additionally, start-ups certified by NIFCA would enjoy a 15% CIT rate for the first three (3) years and 20% for the subsequent four (4) years.

• **Lowered Tax Rate for Digital Assets**

The Bill proposes to cut the Digital Asset Tax (DAT) rate on digital assets from 3% to 1.5%.

• **Sports Initiatives**

The Bill proposes allowing deductions for donations towards building public sports facilities but removes the provision allowing deductions for sports sponsorship expenses, even with prior approval from the Cabinet Secretary for sports. This change is expected to reduce support for sports sponsorships and impact funding for sports initiatives.

INDIRECT TAX PROPOSALS (VAT, EXCISE, FEES & LEVIES)

• **VAT Refunds**

The Bill proposes reducing the timeline for claiming VAT refunds from twenty-four (24) months to twelve (12) months. It also suggests lowering the threshold for lodging VAT refunds on bad debts from three (3) years to two (2) years from the date of supply.

• **Removal of Items from Zero Rating to Exempt Schedule**

The Bill proposes moving certain items, such as locally assembled and manufactured mobile phones, electric bicycles, animal feed production inputs, and solar and lithium-ion batteries, from the zero-rating schedule to the exempt schedule.

• **Exempt Products to be Taxed at 16%**

The Bill proposes to apply a 16% tax on products that were previously exempt. These include aircraft instruments and appliances, locally assembled motor vehicles for tourism transport, and inputs used in the production of passenger motor vehicles.

• **Excisable Services by Non-Resident Suppliers**

The Bill proposes to provide clarity on excisable services by non-resident suppliers by defining key terms such as "non-resident person," "digital marketplace," and offering further details on the place of supply.

• **Excise License Decision within 14 Days**

The Bill proposes that the Commissioner must make a decision on an excise license application within fourteen (14) days of receiving all the required documents.

• **Reduced IDF/RDL Exemptions**

The Bill proposes removing the exemption from Import Declaration Fees (IDF) and Railway Development Levy (RDL) for helicopters and smaller aircraft. However, parts for aircraft and spacecraft, as well as larger aircraft (over 2000 kg), will still be exempt.

• **Reduced EIPL**

The Bill proposes lowering the Export and Investment Promotion Levy (EIPL) from 17.5% to 10% on the importation of iron and steel products under tariff codes 7207.11.00, 7213.91.10, and 7213.91.90.

TAX ADMINISTRATIVE CHANGES

- **Reasons for amended assessments**

The Bill proposes that the Commissioner must provide clear reasons when issuing an amended assessment.

- **Extension of Agency Notices to Non Residents**

The Bill proposes granting the Commissioner the authority to issue agency notices to non-residents who are subject to tax in Kenya and have outstanding tax liabilities.

- **Increased Access to Taxpayer Data**

The Bill proposes removing the restriction that prevents the Commissioner from requiring taxpayers to share or integrate.data related to trade secrets or personal information.

- **Computation of Time**

The Bill proposes to eliminate the rule that excludes weekends and public holidays from the time calculation for filing objections and appeals

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