Finance Bill 2026 Review Notes

The Finance Bill 2026, tabled by Treasury Cabinet Secretary John Mbadi on 30 April 2026 and formally published by Parliament on 5 May 2026, represents the Government's principal legislative vehicle for revenue mobilization in the 2026/27 financial year. The Bill targets Kshs 2.985 trillion in overall tax revenue - a 7.21% increase over the current year - with Kshs 120 billion expected from new tax measures alone.

Unlike the withdrawn Finance Bill 2024 and the relatively modest Finance Act 2025, which targeted only Kshs 30 billion in new measures, the Finance Bill 2026 adopts a more targeted, data-driven approach. It introduces fewer broad-based tax increases but significantly expands KRA's enforcement architecture, tightens compliance timelines, and extends the tax net to new sectors including digital payments, virtual assets, mitumba trade, and gambling.

Key themes across all areas reviewed:

- Expanded KRA enforcement powers and anti-avoidance architecture
- Compressed filing deadlines that increase compliance cost and audit pressure
- Extended VAT record-keeping and audit windows
- Targeted sectoral levies: digital payments, mitumba, mobile phones, winnings
- REIT and trust incentives to attract investment
- Several provisions carry significant controversy and legal risk

1.Income Tax Act - Direct Tax

Filing Deadlines - Compressed Timeline

Section 19 & 20 of the Bill amend Section 52 and 52B of the Income Tax Act to shift the annual tax return deadline from 30 June a 6-month window to 30 April a 4-month window following the end of the year of income. For nil returns, the deadline is compressed further to 31 January - just one month after year-end.

- Impact: Businesses and individuals will need to file by 30 April 2027 for the 2026 tax year.
- Compliance burden: Shorter windows increase pressure on finance teams, audit completion, and cash flow planning - particularly for complex corporate groups.
- Nil returns due by 31 January each year, effective 1 January 2027.

Anti-Tax Avoidance & Expanded Assessments

A central enforcement reform: Section 23 of the ITA is repealed and replaced with a consolidated anti-avoidance provision under the new Section 18A of the Tax Procedures Act. The Commissioner General may now disregard any arrangement entered into primarily to obtain a tax benefit, treating the transaction as if it had never occurred.

- "Tax benefit" is broadly defined to include: reduced tax liability, inflated deductions, accelerated refunds, postponed payments, and conversion of taxable to non-taxable supplies.
- KRA has a 5-year enforcement window from the last day of the relevant tax period to issue revised assessments.
- Assessments may be based on secondary data: eTIMS, withholding tax records, customs data, whistleblower reports, audit findings, and third-party information under thenew Section 29A of The Tax Procedures Act..

Deemed Dividend Tax

Section 17 of the Bill amends Section 24 of the ITA to introduce a statutory minimum threshold for deemed dividends. Where a private company does not distribute profits within 12 months after the end of its financial year, the Commissioner may deem at least 60% of after-tax income as distributed to shareholders and assess dividend withholding tax accordingly.

- Applies where the Commissioner forms the view that distribution could have been made without prejudicing operations.
- Companies must document and substantiate reinvested retained earnings to mitigate this risk.
- Widely regarded as a significant compliance and planning burden for owner-managed businesses and holding structures.

Trust Income Taxation

Section 11 of the ITA is repealed and replaced to clarify trust taxation. Income received by a trustee, executor, or administrator is deemed their income and taxed accordingly. Critically, dividends or interest included in the trustee's taxable income are not subject to further tax, and beneficiaries are relieved from tax where the trustee has already settled the liability.

Gratuity Contributions

A new paragraph is inserted into Section 5(4) of the ITA exempting employer contributions to gratuity funds from taxable employment income, subject to conditions: a minimum 3-year continuous service contract, and total contributions not exceeding 31% of basic salary.

Capital Gains Tax

The Bill expands Kenya's capital gains tax net to cover gains derived by non-resident persons from the alienation of shares where those shares derive their value from Kenyan assets, or where the alienation results in a change in the group membership of a Kenya-resident company, or affects ownership, title, or interest in Kenyan property

- CGT is simultaneously exempted on transfers of property into REITs registered under Section 20(1) - a positive incentive for real estate capital market development.
- Stamp duty exemption on such REIT transfers is also introduced.

Withholding Tax Expansions

The definition of 'management or professional fee' is expanded to include interchange fees and merchant service fees arising from card-based transactions. This subjects payment processors, acquirers, and card network operators to withholding tax obligations.

The definition of 'royalty' is significantly expanded to include payments made to:

- Payment network service providers for use of their networks or platforms in processing, settling, or switching transactions - whether periodic or transaction-based.
- Operators of proprietary digital platforms, clearing systems, and card-payment schemes.
- Scrap metal sale proceeds and gambling winnings are now subject to withholding tax at 1.5% and 20% respectively.

Mitumba Import Tax

A new final tax is imposed on income from the importation of worn clothing, worn footwear, and other worn articles(mitumba). The taxable profit is deemed to be 5% of the customs value, subject to a one-off 30% income tax, payable prior to release of goods. This is a final tax in respect of the import income.

- The same goods attract 16% VAT at the point of entry, creating a multi-tax entry point.
- The Treasury argues this simplifies the current fragmented structure; critics warn it burdens low-income traders.

Non-Resident Corporate Tax Rate Reduction

The Finance Bill reduces the corporate income tax rate for non-resident companies from 37.5% to 30%. This aligns the non-resident rate closer to the resident rate and is intended to improve Kenya's attractiveness as an investment destination.

EAC Dividend Preference

The Bill deletes the provision to paragraph 3 of the Third Schedule that previously granted a preferential 5% WHT rate on dividends paid to citizens of EAC Partner States. All EAC Partner State recipients will now be subject to the standard dividend WHT rate.

2. Value Added Tax Act

VAT Exemptions - Expanded List

The First Schedule to the VAT Act is substantially amended to add a broad range of exempt goods , including:

- Dialyzers (kidney treatment equipment)
- Scrap metal
- Raw materials for manufacture of animal feeds and pharmaceutical products requires CS approval
- Transportation of sugarcane from farms to milling factories
- Telephones for cellular/wireless networks - imported or locally purchased
- Motorcycles, electric bicycles, electric buses
- Solar and lithium-ion batteries
- Bioethanol vapor (BEV) stoves
- Worn clothing - VAT exempt on domestic supply
- Goods for implementation of PPP infrastructure projects (CS approval required)

VAT on Financial Services - Exemption Narrowed

Paragraph 1(b) of Part II, First Schedule is replaced to narrow the exemption on financial services. While dealing in money remains exempt, the following are explicitly excluded from the exemption and will now attract VAT:

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

This effectively removes VAT exemptions previously enjoyed by fintech companies and payment aggregators - a major cost impact on the digital payments sector.

Input Tax Adjustment

Where a registered person has claimed input VAT on goods that subsequently become VAT-exempt while still unsold, the Bill requires the business to account for and repay that input tax in the period when the exemption takes effect. Any excess input tax resulting from the adjustment must be paid to the Commissioner.

- Advisory implication: Businesses with inventory subject to possible reclassification must monitor VAT status changes closely.

Record-Keeping Period Extended

Section 31 of the VAT Act is amended to extend the VAT record-keeping obligation from 2 years to 3 years. This aligns the VAT audit window with the broader 5-year assessment power under the ITA and TPA, effectively giving KRA a longer look-back period for VAT audits and queries.

PPP Infrastructure - New VAT Exemption

A new paragraph 39 is inserted into Part II of the First Schedule, exempting services for the direct and exclusive use in implementation of infrastructure projects under a public-private partnership framework. This is subject to approval by the Cabinet Secretary for Finance on recommendation from the relevant implementing ministry.

3. Excise Duty Act

Mobile Phone Excise Duty - Activation-Based

The liability for excise duty on cellular and wireless telephones shifts from the point of importation to the point of first activation. A new subsection 4A is inserted into Section 6, and Section 36 is amended accordingly. The rate is set at 25% of the excisable value, applied at the time the phone is first activated on a network.

- Revenue rationale: captures devices entering through non-standard channels that escaped import-stage duty.
- Controversy: Raises smartphone costs by up to 25%, potentially affecting digital access for low-income users.

Gambling Excise Duty Amendments

Excise duty provisions for betting and gambling are rationalized. The definition of 'amount deposited' is expanded to include all forms of value made available for betting or gambling (cash, chips, credits, virtual assets) to a licensed person under the Gambling Control Act, 2025. Virtual asset deposits are now explicitly within scope.

4. Audit & Assurance

The Finance Bill 2026 introduces substantive changes that directly reshape the audit environment for businesses operating in Kenya. The key changes are of structural significance to those charged with governance and financial oversight.

Expanded KRA Audit Powers - Data-Driven Assessment

The new Section 29A of the Tax Procedures Act empowers the Commissioner to issue assessments based on a wide array of secondary information without the taxpayer's voluntary disclosure, including:

- Withholding tax declarations submitted under Section 35(5), ITA
- Employer PAYE filings (Section 37(1), ITA)
- eTIMS (electronic tax invoice management system) data
- Customs and import/export records
- KRA audit findings and inspection records
- Whistleblower information via the KRA Act Section 5A
- Data from other written laws (broad catch-all)

In practice, a taxpayer may receive a fully KRA-generated tax assessment, shifting the burden to respond, correct, or formally dispute it. The requirement that KRA base assessments on 'verifiable information from official systems' provides some procedural protection but does not eliminate the risk of assessment errors.

Extended VAT Audit Window

The extension of the VAT record-keeping period from 2 to 3 years (Section 31, VAT Act) means businesses must retain VAT records for an additional year. Combined with the 5-year anti-avoidance assessment window under the TPA, KRA's cumulative audit reach now spans up to 5 years on income tax and 3 years on VAT.

- Board implication: Governance frameworks and internal audit programs must account for these extended look-back periods in record management policies.

Prepopulated Tax Returns (Section 51, Bill - Section 75, TPA)

A significant reform: KRA is now authorized to generate prepopulated tax returns on behalf of taxpayers using information from eTIMS, withholding tax data, and other official systems. Taxpayers may rely on these prepopulated returns when filing - but the obligation to file accurate returns remains with the taxpayer.

- Audit risk: If a prepopulated return contains errors and the taxpayer files it uncorrected, liability remains with the taxpayer.
- Internal audit teams must establish a review and challenge protocol before accepting prepopulated data.

Electronic Tax Invoice Non-Compliance - Restructured Penalties (Section 53, Bill - Section 86, TPA)

Section 86 of the TPA is repealed and replaced with a more structured penalty regime for failure to comply with electronic tax requirements (eTIMS invoice issuance, electronic returns, electronic payment). The new framework:

- Requires the Commissioner to issue a written notice requesting reasons for non-compliance before imposing penalties.
- Considers whether failure was due to circumstances beyond control, willful neglect, or whether reasonable steps were taken.
- Penalties on confirmation of non-compliance: the higher of 2x the tax due, Kshs 100,000, or Kshs 10,000 for individuals.

The structured process provides an opportunity to present mitigating circumstances - but the 2x-tax penalty is severe for high-value transactions.

Virtual Asset Service Providers - Reporting Obligations (New Sections 6C & 6D, TPA)

Virtual asset service providers (VASPs) are now required to file annual information returns with the Commissioner in respect of all reportable users. Kenya may also enter into bilateral agreements for automatic exchange of virtual asset transaction information with other countries.

- Penalties for false statements: Kshs 100,000 per statement or up to 3 years imprisonment.
- Penalty for omitting required information: Kshs 100,000 per omission.
- Penalty for failure to file: Kshs 1,000,000.
- Audit implication: Organizations with virtual asset exposure must immediately assess their VASP obligations and information management systems.

Country-by-Country Reporting - Definitional Refinements

Sections 13 and 14 of the Bill amend Sections 18D and 18F of the ITA to refine the CbCR framework, including the definition of 'ultimate parent entity' and cross-references to the correct subsections for filing obligations. These are technical corrections but require review by multinational enterprise groups to confirm their filing obligations remain accurate.

5. Advisory & Regulatory

Beyond direct tax and audit, the Finance Bill 2026 introduces several advisory and regulatory developments relevant to investment structures, sector-specific planning, and compliance program design.

REIT Investment - CGT and Stamp Duty Incentives

The Bill introduces a capital gains tax exemption for transfers of property into Real Estate Investment Trusts (REITs) registered under Section 20(1) of the ITA (First Schedule, paragraph 76). The Stamp Duty Act (Section 96A) is simultaneously amended to exempt such transfers from stamp duty. This creates a tax-neutral entry point for property assets into REIT structures, which is expected to stimulate Kenya's nascent real estate capital markets.

> Advisory opportunity: Property owners and developers should evaluate the window to restructure holdings into REIT vehicles.
>
> The exemption applies only to REITs registered as collective investment schemes - firms must confirm regulatory status before relying on the exemption.

Non-Resident Tax Reduction

Reducing the non-resident company corporate tax rate from 37.5% to 30% is a meaningful signal to foreign investors. Combined with the REIT incentives and trust taxation clarity, the Bill attempts to balance revenue-raising with competitiveness improvements - though critics note that widened withholding tax net on payments to non-residents partially offsets this benefit.

Tax Amnesty Extension

Section 46 of the Bill extends the tax amnesty program (Section 37E, TPA) to cover tax liabilities arising up to 31 December 2025, with the principal tax payable by 31 December 2026. Previously, the amnesty covered liabilities up to 31 December 2023.

- Advisory action: Businesses and individuals with outstanding tax liabilities should urgently review eligibility and engage with KRA before the deadline.
- Penalty and interest relief is available upon settlement of principal tax - a significant compliance incentive.

Digital Economy - VAT on Fintech & Payment Services

The exclusion of money transfer, payment processing, settlement, merchant acquiring, gateway, and aggregation services from the VAT exemption (Part II, First Schedule, VAT Act) represents a fundamental shift in the taxation of Kenya's digital financial ecosystem. Previously, fintech players benefitted from the broad 'dealing in money' exemption.

- Impact: Payment service providers will need to register for VAT (if not already registered), charge 16% VAT on fees, and manage input tax recovery.
- Competitive distortion: Traditional banks (whose money-dealing remains exempt) may gain a cost advantage over fintech competitors.

- Merchants: Withholding tax on interchange and merchant service fees creates new compliance obligations for businesses accepting card payments.

Gambling Sector - Gambling Control Act 2025 Integration

The Bill integrates the Gambling Control Act, 2025 into the tax framework. Winnings from lotteries and prize competitions are now separately defined and subject to 20% withholding tax. 'Withdrawals' are redefined to refer to payouts from Gambling Control Act licensees. Virtual asset deposits into gambling platforms are now explicitly within the excise duty net.

Central Bank of Kenya Loans - Interest Deductibility

A new deduction is available for employees repaying loans advanced by the Central Bank of Kenya for construction, purchase, or improvement of a house they occupy - up to Kshs 360,000 in interest per year (Section 15, ITA). This is a narrow but targeted housing affordability measure.

Insurance Sector - Statutory Fund Definition

Section 19 of the ITA is amended to replace references to 'life insurance fund' with 'statutory fund', aligning the Income Tax Act with the Insurance Act (Cap. 487). This is a technical but important definitional correction for insurers computing taxable income from insurance funds.

6. Controversy & Risk Areas

Several provisions of the Finance Bill 2026 have already attracted significant commentary from legal, tax, and business communities. The following areas carry the highest risk of legal challenge, public opposition, or adverse economic impact.

Deemed Dividend Rule - Risk of Double Taxation

The amendment to the ITA to deem at least 60% of undistributed after-tax profits as dividends has attracted sharp criticism. Bowmans Law Firm warned that the provision risks exposing shareholders to double taxation - once at the corporate level and again via deemed dividend WHT - and could deter business reinvestment and create cash-flow crises for growth-oriented companies.

- Companies that have legitimately retained earnings for working capital, capital expenditure, or debt servicing face an arbitrary tax trigger.
- Businesses argue the provision disincentivizes long-term investment and lacks safeguards for companies with genuine reinvestment plans.

Compressed Filing Deadlines

Moving the income tax filing deadline to 30 April and nil returns to 31 January has been criticized across the bar - by the former LSK President Faith Odhiambo, Bowmans Law, and business associations. The concerns:

- Reduced time for audit completion directly contradicts the extended VAT audit window.
- Corporate entities with complex group structures or overseas subsidiaries are disproportionately affected.
- Increased errors and penalties are expected, especially in the first transitional year.
- Small businesses and sole traders face the sharpest relative burden.

KRA Personal Data Access - Privacy & Due Process Concerns

The bill grants KRA the power to issue tax assessments based on secondary data from multiple systems - without primary disclosure by the taxpayer. Critics, including the former LSK President, have raised concerns about:

- Data privacy implications: cross-referencing financial, telecoms, and government database information without adequate procedural safeguards.
- Arbitrary or erroneous assessments: while assessments must be 'verifiable', KRA's data may contain errors or mismatches that disadvantage compliant taxpayers.
- Constitutional concerns: potential conflict with the right to privacy under Article 31 of the Constitution of Kenya.

Removal of VAT Exemptions on Digital Financial Services

The removal of VAT exemptions on payment processing and money transfer services has been labelled as contradicting the Government's own digital transformation agenda. Bowman’s noted that this creates a competitive

asymmetry between fintech companies- now subject to VAT and traditional banks - whose core money-dealing remains exempt.

- Higher costs on mobile money and digital payment services could reverse financial inclusion gains, affecting millions of unbanked or underbanked Kenyans.
- Affected companies may challenge the differential treatment as discriminatory under tax law and constitutional principles.

Mitumba Presumptive Tax - Equity Concerns

The deemed 5% profit margin on mitumba imports, taxed at 30% income tax - regardless of actual profit or loss - has been described by former LSK President Odhiambo as 'inequitable'. A trader importing goods worth Kshs 1 million would pay Kshs 15,000 in income tax before making a single sale.

- Risk of non-compliance: The upfront tax burden - combined with 16% import VAT - may push traders into informal channels.
- Social impact: Mitumba supports millions of low-income Kenyans as traders and consumers. Public backlash is likely.

Mobile Phone 25% Excise Duty - Digital Access

The 25% excise duty on smartphones and wireless devices - applied at activation has been criticized as treating an essential productivity and financial tool as a luxury good. Kenya's digital economy agenda - underpinned by mobile banking, e-government services, and mobile commerce - relies on affordable smartphone access.

- Rising handset costs could slow smartphone penetration growth and disproportionately affect youth and informal sector workers.

Kenya Airways WHT Exemption Removal

The Bill removes a paragraph of the ITA, which had exempted Kenya Airways from withholding tax on payments to non-resident service providers for specialized services - including technical maintenance, compliance, training, and digital systems support. This exemption was introduced under the Finance Act 2025.

- Kenya Airways has argued that such international specialists are unavailable locally and that the WHT makes essential safety-related services more expensive.
- Increased operating costs for the national carrier at a time of ongoing financial restructuring.

Income Tax (Amendment) Bill 2026 - Parallel Legislation

Separate from the Finance Bill 2026, the Income Tax (Amendment) Bill 2026 - sponsored by Molo MP Kimani Kuria - proposes to exempt certain internal corporate organizations from both capital gains tax and dividend-related withholding tax. While welcomed by professional services firms (PwC, KPMG, Deloitte), this parallel bill has attracted criticism:

- Absence of group existence requirement could allow entities outside formal corporate groups to benefit.
- Risk of sequential transactions: assets reorganized internally to claim exemption, then sold to third parties - effectively circumventing CGT.

- No minimum holding period or mandatory advance ruling for high-value restructurings.

Audit firms and the KRA have called for structural guardrails, including minimum holding periods, mandatory KRA advance rulings for large transactions, and consistency with stamp duty treatment.

7. Comparative Analysis

Finance Act 2025 vs Finance Bill 2026

The table below compares the key areas reviewed across the Finance Act 2025 (effective 1 July 2025) and the proposed Finance Bill 2026 (effective if passed: 1 July 2027), highlighting the direction and magnitude of change.

Area	Finance Act 2025	Finance Bill 2026
Revenue Target	Kshs 30 billion in new tax measures	Kshs 120 billion in new tax measures - 4x increase
Tax Filing Deadline	No change (remained 30 June / 6-month window)	Compressed to 30 April (4 months); nil returns by 31 January
Anti-Avoidance	Section 23 ITA in place; limited enforcement tools	Section 23 ITA repealed; consolidated new Section 18A (TPA) with 5-year look-back and broad data powers
KRA Assessment Powers	Voluntary self-assessment system; limited secondary data use	Commissioner may issue assessments using secondary data (eTIMS, customs, WHT, whistleblower, third-party)
Record Keeping (VAT)	2-year VAT record retention	Extended to 3 years
Non-Resident Corporate Tax	37.5% for non-resident companies	Reduced to 30%, aligning closer to resident rate
Capital Gains Tax	CGT not extended to indirect share transfers by non-residents	CGT extended to non-residents on indirect share transfers (8th Schedule)
Trust Taxation	Ambiguous on double taxation of trust beneficiaries	Clarified: trustees taxed at source; beneficiaries relieved; dividends/interest not taxed twice
Withholding Tax Scope	Standard WHT categories; Kenya Airways WHT exemption introduced	Interchange/merchant fees added; royalties expanded to digital platforms; Kenya Airways WHT exemption removed

Deemed Dividends	No statutory minimum threshold	At least 60% of undistributed after-tax profits may be deemed distributed - new trigger for WHT
VAT on Fintech	Broad exemption for financial services including digital transfers	Exemption narrowed: payment processing, money transfer, settlement services by fintechs now subject to VAT
VAT Exemptions	Mosquito repellent inputs; limited new exemptions	Broad new list: dialyzers, EV infrastructure, pharma inputs, telephones, electric buses, PPP projects
Mobile Phone Tax	25% excise on imported cellular phones at the point of import.	25% excise on all cellular/wireless phones - shifted to activation stage; EAC origin preference removed
Mitumba / Worn Goods	16% VAT at importation; regular income tax regime	New Section 12H: deemed 5% profit / 30% final income tax payable before release + 16% VAT
REIT Incentives	No CGT or stamp duty relief for REIT transfers	CGT exemption + stamp duty exemption on property transfers into REITs
Tax Amnesty	Covered liabilities up to 31 Dec 2023; deadline was 30 June 2025	Extended to liabilities up to 31 Dec 2025; principal payable by 31 Dec 2026
Virtual Assets	Limited VASP tax framework	Mandatory VASP information returns; Kshs 1m penalty for non-filing; international information exchange framework
Prepopulated Returns	No provision	KRA authorized to generate prepopulated returns from official data systems
EAC Dividend Preference	5% preferential WHT rate for EAC citizen shareholders	Preferential rate abolished; standard rates apply
Tax Loss Carry-Forward	Restricted to 5 years (introduced by FA 2025)	Unchanged at 5 years
Gratuity Deduction	No employer gratuity contribution exemption	New exemption: up to 31% of basic salary; minimum 3-year contract

Audit Controversy	Relatively contained; no significant public backlash	Multiple controversial provisions; legal profession and civil society already mobilizing opposition

8. Conclusion and Recommended Actions

The Finance Bill 2026 represents the most administratively consequential piece of tax legislation since the withdrawn Finance Bill 2024. While it avoids that bill's blunt broad-based tax hikes, it introduces systemic changes that will materially affect the cost of doing business, the risk profile of tax positions, and the expectations placed on boards and senior management.

Actions Recommended

- Review all retained earnings and dividend policy in light of the 60% deemed dividend rule - document commercial rationale for non-distribution.
- Assess readiness for April 30 filing deadline - engage audit firms now to restructure year-end close timelines.
- Evaluate tax amnesty eligibility for any outstanding liabilities up to 31 December 2025.
- Map exposure to the new WHT categories: interchange fees, merchant service fees, digital platform royalties, winnings, and scrap metal.
- Conduct VAT impact assessment on payment processing and money transfer fee income.
- Review VASP obligations and information reporting infrastructure.
- Engage legal counsel on constitutional risk areas - particularly KRA data access and fintech VAT differential treatment.
- Consider REIT restructuring if property assets are held in corporate structures.
- Assess transfer pricing and CGT exposure for non-resident entities with indirect interests in Kenyan companies or assets.