Introduction

As Kenya moves closer to one year since the June 2024 protests against the Finance Bill 2024, a new fiscal proposal is here with us. The Finance Bill 2025 gazetted on May 6, 2025 details the proposed tax and revenue measures set to anchor the government's fiscal policy for FY 2025/26. Unlike its predecessor, the 2025 bill treads cautiously on matters of increasing burdensome taxes on the common '*mwananchi*' who are already weary. On the surface, the bill appears modest with the Government promising to focus on efficiency and simplification of tax laws, and the reduction of tax expenditure by cutting subsidies through reduced refund requests and the number of items covered as zero-rated and VAAT exempt.

The Finance Bill 2025 has focused on changes that widen the current tax base to meet the estimated ordinary revenue of KSh.2.76 trillion as well as to enhance revenue mobilization to support the country's fiscal consolidation efforts and economic growth under the Bottom-Up Economic Transformation Agenda (BETA). The Bill purports that its primary objective is to alleviate the cost of living and to restore public trust. Yet, a closer and in-depth analysis and scrutiny of the Bill suggests that it may fall short of these reforms, instead of improving and delivering any economic progress will deepen inequality.

New Taxation Measures and their Impacts

A. Value-Added Tax (VAT)

The government has proposed shifting various zero-rated inputs and goods to VAT-exempt. This includes raw materials for medicines, sugarcane transport, mobile phones assembled locally, solar panels, batteries, and animal feed inputs. The shift means that the firms cannot reclaim VAT on inputs. The following key sectors are bound to be affected by this shift

i. Health – The health sector is paramount to the growth of an economy. The shift of raw materials for medicine from zero-rated to tax-exempt will increase the production cost for drugs, consequently, the distribution prices. This affects raw materials that are by themselves intermediate goods, a good example being packaging materials for medicine. By having these items as VAT exempt this means that the input VAT on these intermediate goods will not be recovered. The net effect therefore will be patients will be required to pay more for their health which might affect those with chronic conditions that require lifetime medication.

ii. Agriculture – The backbone of the Kenyan Economy might be hit negatively if the VAT exemptions target intermediate goods that are inputs in animal feed production. The same effect replicates when exemptions are on spare parts and fuel. When the precedence holds, the impacts shall spread to livestock and sugarcane farmers who might pay more for feeds and cane transportation to mills.

Such changes would affect rural income and prices for agricultural inputs because suppliers and manufacturers would likely shift the burden to the final consumer.

iii. The bill has proposed to apply 16 percent VAT on construction materials for affordable housing projects. The bill has also set its sights on the expansive digital lending space when provided by foreigners, with the Bill proposing to expand the scope of excise duty charged on digital platforms to include services offered by non-resident persons over the internet, an electronic network, or through a digital marketplace. Additionally, the Bill introduces the definition of non-resident person to mean a person who is outside Kenya. This will increase the cost of access to short-term credit for those who rely on digital loans for business capital, school fees, rent payments, and emergency expenses.

B. Personal Income Tax (PAYE)

The Finance Bill 2025 requires that employers automatically apply for eligible tax reliefs and exemptions in the computation of PAYE. This change ends the need for employees to file refund claims for omitted claims. This change aims to ensure that employees receive their entitled tax benefits directly through their monthly payroll, eliminating the need for them to file for refunds with the Kenya Revenue Authority. Under the current system, many employers do not factor in available tax relief such as personal relief, insurance relief, mortgage interest relief, and disability relief—when computing PAYE. As a result, employees often have to individually claim these reliefs from the KRA, leading to administrative burdens and delays. With the proposed change, employers will be legally obligated to incorporate all applicable deductions, reliefs, and exemptions into the PAYE calculations before deducting taxes from employees' salaries. This ensures that employees benefit from reduced tax liabilities upfront, improving their take-home pay.

Eligible businesses can deduct the full cost of qualifying tools and utensils from their taxable income in the same year they are acquired, rather than spreading the deduction over several years through depreciation. The 100% deduction applies to implements, utensils, and similar articles used in business operations, excluding plant and machinery. This includes items like hand tools, kitchenware for food businesses, and other small equipment essential for daily operations. The amendment aims to reduce administrative tasks for the Commissioner and to improve compliance by taxpayers, as well as to promote certainty.

C. Corporate Tax

There is no increase in the headline corporate rate proposed. The bill introduces incentives and base-broadening: 100% expensing for small business tools and equipment at the year of purchase. The move lowers the tax burden for small firms purchasing work-related gear.

The Export and Investment Promotion Levy (EIPL) on certain construction materials, such as iron and steel inputs, has been proposed to be cut significantly from 17.5% to 10%. The cut is set to encourage manufacturing. This policy shift aims to alleviate the high costs associated with importing essential construction inputs, thereby stimulating the manufacturing sector and revitalizing the construction industry. The EIPL, introduced in the Finance Act of 2023, was initially designed to support local manufacturing, boost exports, create jobs, and promote investment. However, it inadvertently led to increased input costs, particularly in sectors reliant on imported materials. The proposed reduction specifically targets: Semi-finished products of iron or non-alloy steel and Bars and rods of iron or non-alloy steel. This, however, should not be lost on the political interests in the steel industry. Nevertheless, by lowering the levy on these materials, there will be reduced construction costs, encouraging investment in infrastructure projects, and enhancing the competitiveness of local manufacturers who depend on these imports.

The surrogate parent test for related-party loans has been replaced by country-by-country reporting. The Kenya Finance Bill 2025 introduces a significant change in the taxation framework for multinational enterprises (MNEs) operating within the country. Specifically, it replaces the "surrogate parent test" with a requirement for Country-by-Country (CBC) reporting concerning related-party loans. Previously, Kenya relied on the surrogate parent test to determine the reporting obligations of MNEs. Under this approach, if the ultimate parent entity of a multinational group was not obligated to file a CBC report in its jurisdiction, a surrogate parent entity within the group could be designated to fulfill this requirement on behalf of the entire group. Country-by-Country Reporting in the new provision mandates that MNEs provide detailed CBC reports directly to the Kenya Revenue Authority (KRA). These reports should include comprehensive information on the global allocation of income, taxes paid, and other economic indicators for each jurisdiction in which the MNE operates. Implications for this test is that MNEs are now required to disclose detailed financial and operational data for each country of operation, increasing transparency in their global activities, the shift eliminates reliance on surrogate parent entities, ensuring that the KRA receives information directly, which may improve the accuracy and timeliness of data and that MNEs must adapt their internal reporting systems to comply with the new CBC reporting standards, which may involve additional administrative efforts.

D. Tax Procedure and Administration

The prohibition on requiring businesses to integrate their IT system with the Kenya Revenue Authority (KRA) under the Tax Procedure Act has been proposed to be deleted. In effect, KRA will be empowered to access real-time customer data, including bank and mobile money records, from firms without prior warrant. This move to expand the audit powers of KRA is unconstitutional and contravenes the Data

Protection Act. It proposes to amend the Tax Procedures Act, 2024, by deleting the provision that prohibits the KRA from accessing sensitive information when integrating with businesses to give it real-time transactional data. With this amendment, KRA is to circumvent the constitutional requirement for the government to seek court orders before accessing sensitive information from taxpayers.

The bill extends the VAT refund timeline from 90 to 120 days for the verification and audit period from 4 to 6 months. This will compound an already existing challenge that businesses are already grappling with.

The Treasury CS authority waive penalties or interest tax liabilities emanating from system errors have been reinstated. These powers have previously been exercised with prejudice for personal and political interests. The system should be enhanced to be accurate with minimal human intervention. Whereas the moves aim to seal revenue leaks and speed enforcement, they raise cash-flow and fairness concerns among taxpayers.

PROPOSED AMENDMENTS ON THE INCOME TAX ACT				
No:	**Clause**	**Description of the Section**	**Implication/ Proposal**	**Justification/Position**
1.	Clause 3 amends Section (**5) (2)(a) (iii)**	The proposed amendment affects income from employment: The amendment proposes the minimum taxable allowance to employees at ten thousand (10,000), up from two thousand (2,000)	Though it reduces tax burden on low income earners with a per-diem of up to 10,000; its implication negates the principles of equity, inclusivity, pro-poor taxation, and the progressivity of the tax regime.	Section 5 (2)(a) (iii) should be expanded by further amending the Income Tax to also expose Public servants earning more than KShs. 10,000 to taxation. While the current approach could widen the already existing disparity between Public and Private sector employees with regards to DSA compensation, reviewing the PAYE tax band as proposed in the MTRS is the most ideal approach for increasing the disposable income.
2.	Section 12 G	The proposed new subsection provides that a minimum top-up tax shall be	Adopt the proposed amendment; it enhances compliance, however,	The proposal aligns with the current CIT timelines therefore should be adopted

PROPOSED AMENDMENTS ON THE INCOME TAX ACT				
No:	**Clause**	**Description of the Section**	**Implication/ Proposal**	**Justification/Position**
		payable by the end of the fourth month after the end of the year of income.	precaution during implementation is vital to curb potential cash flow challenges for SMEs..	

PROPOSED AMENDMENTS ON THE VALUE ADDED TAX ACT				
No:	**Clause**	**Description of the Section**	**Implication/ Proposal**	**Justification/Position**
1.	**Section 17 (5) (c)**	The Bill proposes the deletion of paragraph (c) in subsection (5)	The deletion of this paragraph implies that the refunds on excess input tax refunds on the tax withheld cannot be applied to offset other payable VAT obligations.	Section 17 (5) (c) should **not** be deleted
2.	**Clause 12 – Advance Pricing Agreements (APA)**	Introduces APA regime.	Develop regulations early and train KRA officers. The regulations should also take into account the time taken to negotiate these APAs which can stretch up to 18 months which may make the 5 years period insignificant unless rolled back to recover the negotiation period.	APA helps resolve transfer pricing disputes proactively. For transparency accountability, APAs should be published.
3.	**Clause 27 & 28 – Special economic zones and Nairobi Financial Centre tax rates**	Introduces reduced tax rates for qualifying investments.	This sets a dangerous precedence that does not reveal the beneficiaries and company owners. It could concentrate economic power to only few thus increasing the widening gap between the poor and rich.	The tax rates should be the same to all players. This proposal could result in tax evasion and unnecessary revenue loss.

PROPOSED AMENDMENTS ON THE VALUE ADDED TAX ACT				
No:	**Clause**	**Description of the Section**	**Implication/ Proposal**	**Justification/Position**
4.	**Clause 30–35 – VAT amendments**	Introduces anti-abuse measures and expands supply taxability. Removes some exemptions and increases timelines for refund claim	Monitor inflation impact and ensure compliance readiness.	Aims at improving VAT efficiency and reducing refund abuse.
5.	**Clause 36 - VAT First Schedule Changes**	The Bill proposes the deletion of paragraphs: 63, 109, 113, 129, 155, 156, 160, 161, 162, and 163	Object the saving clause that proposes mega government construction projects of fifty acres or more. The proposed amendment implies that these categories of goods are classified as exempt. These goods will now be subjected to 16%VAT, thus potentially resulting in cumulative increased tax burden.	The saving proposal is inconsistent with the government policy on reducing the tax expenditure thus risks depleting resources for providing services to citizens. In solving the unpredictability and annual amendments, OUC recommends the need for a clear policy framework determining the threshold for introducing and removing incentives with a clear background on the revenue impacts.

PROPOSED AMENDMENTS ON THE VALUE ADDED TAX ACT				
No:	**Clause**	**Description of the Section**	**Implication/ Proposal**	**Justification/Position**
6.	**Clauses 37 – amends VAT Second Schedule in part A**	The Bill proposes to move a number of products from Zero-rating to VAT Exempt. The Bill proposes the deletion of some paragraphs from Part A in the Second Schedule: 11, 21, 29, 30, 31, 32, 33, 34, and 35. • Raw materials for pharmaceutical manufacturing • Raw materials for animal feed production • Transportation of sugarcane from farms to milling factories • Locally assembled or manufactured mobile phones • Motorcycles under tariff heading 8711.60.00 • Electric bicycles • Solar and lithium-ion batteries • Electric buses under tariff heading 87.02 • Bioethanol vapour (BEV) stoves (HS Code 7321.12.00) • Packaging materials for tea and coffee	The proposed amendment implies that the goods classified as zero-rated will move to VAT exempt. These goods will no longer allow suppliers to reclaim input VAT, potentially increasing production costs where intermediate goods and inputs are involved.	The deletions may raise costs where intermediate goods or inputs are targeted, by passing the burden to consumers. Therefore, these will have negative impacts on consumers. With Solar being under the category of VATexempt will further hinder the promotion of green energy solutions due to increased costs.

PROPOSED AMENDMENTS ON THE EXCISE DUTY ACT				
No	**Clause**	**Description of the clause**	**Implication/ Proposal**	**Justification/Position**
1.	**Excise Duty - First Schedule Amendment**	Introduces a 25%–35% excise duty on imported materials like plastic films, float glass, and printed packaging not from EAC states.	Maintain the current 20% excise duty	The abrupt hike risks inflation, stifles manufacturing, and may lead to an increase in consumer goods prices; the final products will become more expensive.
2.	**Clause 60 – Stamp Duty Act amendment**	Exempts internal reorganizations from stamp duty.	In support; clarify transfer thresholds to avoid abuse.	Supports corporate restructuring and efficiency.

PROPOSED AMENDMENTS ON THE TAX PROCEDURES ACT				
No	**Clause**	**Description of the clause**	**Implication/Proposal**	**Justification/Position**
1.	**Clause 43–56 – Tax Procedures Act amendments**	Enhances digital tax processes, limits relief claims, extends deadlines.	In support, with the condition that taxpayers be informed of delays and provided with prompt progress updates. Ensure system stability to avoid errors triggering penalties.	Emphasizes automation and accountability facilitating dispute resolution while protecting procedural fairness.
2.	**Clause 52 - Amends section 51 of the Tax Procedures Act**	Deletes subsection 1B of Section 59A of the Principal Act barring KRA from requiring people to integrate or share data on trade secrets and private or personal data on behalf of customers or collected in the course of business.	Retain subsection 1B of Section 59A of the Principal Act	There is a bigger risk when this clause is abused considering what happened during and post 2024 protests. This is an unconstitutional decision violating the Article 31 of the Constitution of Kenya, 2010 on the Right to Privacy and the Data Protection Act, 2019.

PROPOSED AMENDMENTS ON THE MISCELLANEOUS FEES				
No	**Clause**	**Description of the clause**	**Implication/ Proposal**	**Justification/Position**
1.	**Clause 59 – Misc. Fees & Levies Act amendment**	Reduces export levy from 17.5% to 10% on steel products and hot-rolled rods.	While the proposal to lower export levy rates appears positive, it is proper to question the position of local companies when the growth in the construction sector has slowed since the introduction of the levy.	Ideally, such a levy should be introduced on finished goods that are not inputs in different sectors unless they are locally available

Submitted by the undersigned members of the Okoa Uchumi Campaign;

1. The Institute for Social Accountability (TISA)
2. Inuka Kenya Ni Sisi! Ltd
3. Amnesty International Kenya
4. Twaweza East Africa
5. Youth Lead CBO
6. Jijenge Youth
7. County Governance Watch
8. Bunge Mashinani
9. Onagi Comrade Alliance (OCA)
10. Fight Inequality Alliance Kenya
11. Katiba Institute
12. Centre for Economic Governance
13. Kenya National Interface Team
14. PAWA 254
15. University Student Leadership Association
16. AFRICOG

17. Talk Africa
18. Kenya Human Rights Commission
19. Transparency International Kenya
20. Uraia Trust
21. RHARK
22. Christian Aid Kenya
23. Bajeti Hub
24. Kawangware Youth Paralegal Trust (KAYPAT)
25. East Africa Tax Justice Network (EATGN)
26. Student Caucus
27. Kiambu County Social Accountability Network (KISANET)
28. Mzalendo Trust
29. Budget League
30. Badili Africa
31. Oxfam Kenya
32. National Taxpayers Association
33. Good Health Community Programmes Kakamega
34. Wajir county civil society consortium
35. Support Community In Democracy Alliance - SCODA in Siaya County
36. Ongwano Jarabai Press
37. Supporting Girls in Education -Kisumu County
38. Baringo Civil Society Organisations Forum.
39. Kisumu County Accountability Alliance (KISCAA)
40. Community-Led Solutions CBO
41. Kadibo Social Justice Center
42. Coalition of Homabay Organization on Governance Oversight
43. Bunge Mashinani Initiative.
44. Women Volunteers for Peace(WOVOP)
45. The Kenyan Section of the International Commission of Jurists (ICJ Kenya)
46. The Kenya Human Rights Commission (KHRC)
47. REMUSI HCSL
48. The National Council of Churches of Kenya (NCCK