CLIFFE DEKKER HOFMEYR

Unpacking the Finance Act, 2025:

Game-Changer or Business as Usual?

24 July 2025

CDH

Introduction

Public budgets are the most effective policy tool that government have to deal with poverty and ensure equitable economic development.

Therefore, fiscal decisions by governments have a direct impact on economic development.

Public finance for health is not just about money: it's about allocative efficiency, navigating political approval processes, prudent spending and accountability.

Public finance systems can influence how efficiently resources are used and ultimately affect the cost of living.

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Fiscal Context

Zero based budgeting was adopted by the cabinet and applied by the National Treasury in the making of the 2025/26 budget estimates. Not clear to what extent its been applied.

National Treasury has a new budgeting manual which includes a costing module that MDAs are expected to use.

Revenue driven Fiscal Consolidation seems to have hit limits and not delivering the much needed relief on the public purse especially due to debt servicing

Accountability and governance challenges remain the achilles heels to PFM

Overall Budget…

Item/ Level of Government Ksh(Billion)	Approved Estimates (FY 2024/25) S1	Supp. Estimates 2 (FY 2024/25)	2025 Approved BPS (FY 2025/26)	Budget Estimates (FY 2025/26)
A. National Government	**2,233**	**2,347**	**2,523**	**2,498**
Executive	2,169	2,281	2,447	2,428
Parliament	41	43	49	42
Judiciary	23	23	27	27
B. Consolidated Fund Services	**1,237**	**1,243**	**1,369**	**1,337**
Domestic Debt Interest	750	767	851	851
Foreign Debt Interest	260	229	278	246
Pensions, CPS Salaries, Subs and Miscl. Exp	227	227	240	240
Guaranteed Debt	-	20	-	-
C. County Government (Equitable Share)	**391**	**418**	**405**	**405**
Total Budget (A+B+C)	**3,861**	**4,008**	**4,298**	**4,240**

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Public debt

- Public debt stock at the end of April 2025 was Ksh 11.5 trillion (66.9% of GDP).
    i. Domestic debt- Ksh 6.2 trillion (35.9% of GDP)
    ii. External debt stock was Ksh 5.3 trillion (31.0% of GDP)
    iii. Domestic and external debt stock accounted for 53.6% and 46.4% of total debt stock, respectively.
- Debt servicing in 2023/24 was 68% of ordinary revenue.
- In 2025/26, it's projected that 69% of ordinary revenue will be used to settle debt obligations. A slight reduction from just over 70% in 2024/25.

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...but debt is about deficits

- Our fiscal discipline has made deficits quite difficult to manage.
- Supplementary budgets have often led to increased borrowing.
- This increased borrowing is often domestic.

Year (Billions)	Deficit in the Proposed Budget in the BPS (beginning of the year)	Deficit At the end of the Year	Increase in the deficit within the year
2014/15	-367	-732	99 percent
2015/16	-533.2	-732.6	37 percent
2016/17	-555.4	-871.6	57 percent
2017/18	-582.4	-670.4	15 percent
2018/19	-638.2	-760.6	19 percent
2019/20	-629.9	-789.9	25 percent
2020/21	-614.1	-965.7	57 percent
2021/22	-976.1	-823.4	-16 percent
2022/23	-846.1	-833.9	-1 percent
2023/24	-720.1	-785	9 percent

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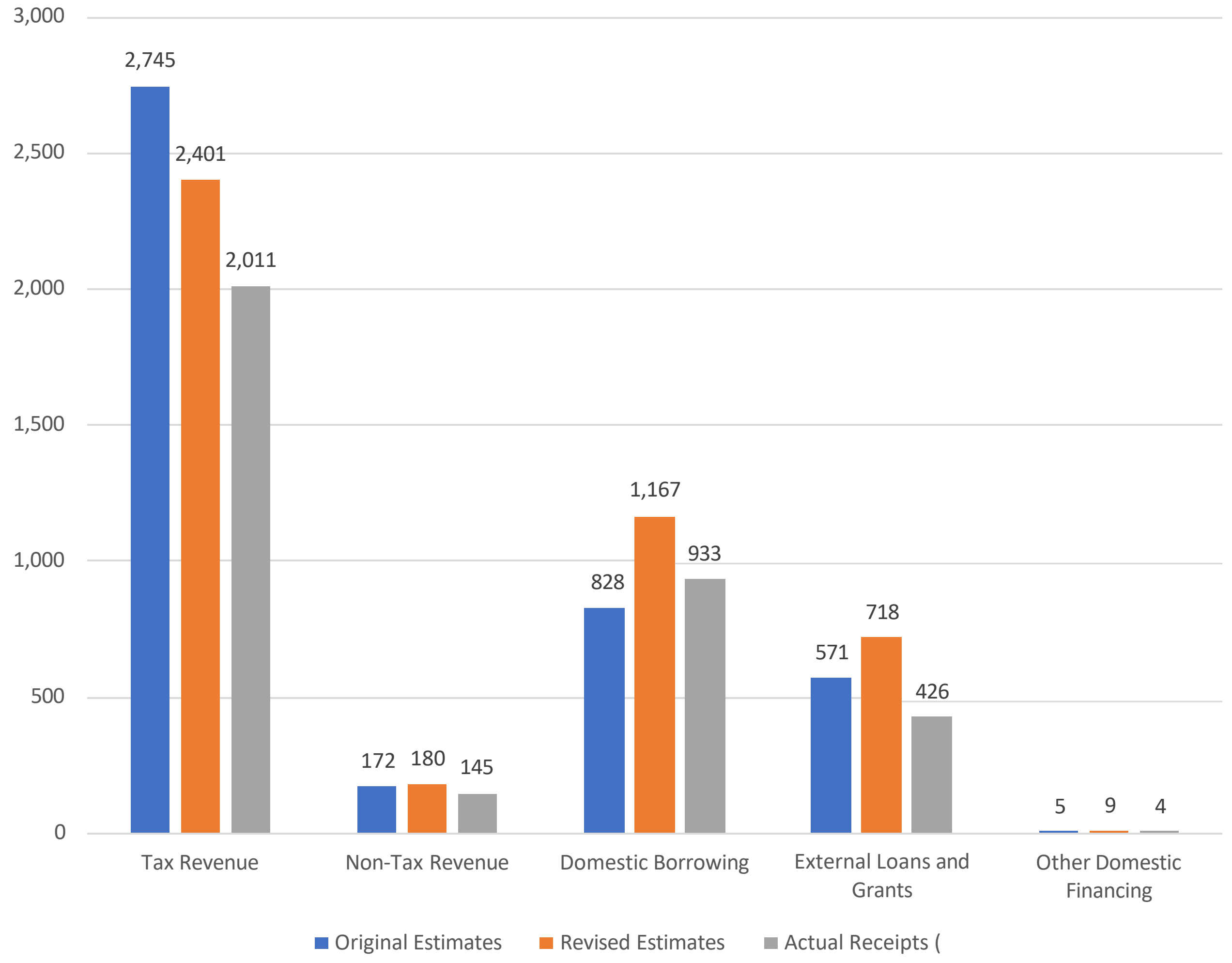
Revenue targets and performance As of May 31st, 2025.

- Tax revenue targets were revised downwards by 13% in 2024/25.
- Domestic borrowing targets were increased by 29% and external borrowing by 20%.
- The increased domestic borrowing should be read together with the pending bills and is indicative of the challenge of private sector to access capital and be liquid.
- Credit growth in the private sector was at 2.4% in March 2025.



Pending Bills are the other side of this matrix

- National and County Governments have a total of Ksh 684.26 billion in pending bills.
  - National – Ksh 511.75 billion
  - County - Ksh 172.51 billion
- National
  - SCs /SAGAs /SOEs – Ksh 421.26 billion (82% of pending bills)
  - Pay as You Earn (PAYE) – Ksh 21.47 billion
  - Pensions – Ksh 35.54 million
- County
  - Nairobi county accounts for 67% of the pending bills. Ksh 115.69
  - 81% of the pending bills are recurrent.

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GDP Growth Vs Incomes

- Kenya GDP growth has remained above global averages over the years since Covid. (Grew by 4.7% in 2024 and has been above 4% since 2021)

- Growth is not across sectors and is mostly in financial and service sectors.

- How, has this growth over the years influenced incomes? Why does the public seem to indicator not feeling the impact of the stabilizing economic indicator?
- **Its about incomes and the cost of living**. (Next chart)

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Figure 1.17. Real Annual Wages in the Formal Sector in Kenya (2023 Kenyan shillings)

Source: Kenya Economic Survey, 2005-2023. Kenya National Bureau of Statistics.

- Real annual incomes in Kenya have been on a steep decline since the Covid period.
- Inflation and increased taxes have.
- The situation is worse in government sector than o the private sector.
- Personal Income Tax

2024-2025 Revenue vis-à-vis 2025-2026 target

CDH

REPUBLIC OF KENYA

KENYA REVENUE AUTHORITY

Tulipe Ushuru, Tujitegemee!

ANNUAL REVENUE PERFORMANCE FY 2024 / 2025

TOTAL REVENUE COLLECTION

Sh2.571trn

▲6.8% GROWTH

100.6% PERFORMANCE RATE

EXCHEQUER REVENUE	4.5% GROWTH	Sh2.323trn
DOMESTIC REVENUE	4.8% GROWTH	Sh1.688trn
AGENCY FEES	34.9% GROWTH	Sh248.276bn
CUSTOMS REVENUE	11.1% GROWTH	Sh879.329bn

PERFORMANCE OF KEY TAX HEADS

DOMESTIC VAT	BETTING TAXES	PAY AS YOU EARN	CORPORATION TAX	CUSTOMS (NON OIL TAXES)
Sh327.336bn	Sh5.70bn	Sh560.945bn	Sh301.809bn	Sh541.02bn

Revenue Target

KSh 3.36 trillion

(Includes Appropriation-in-Aid — A-i-A)

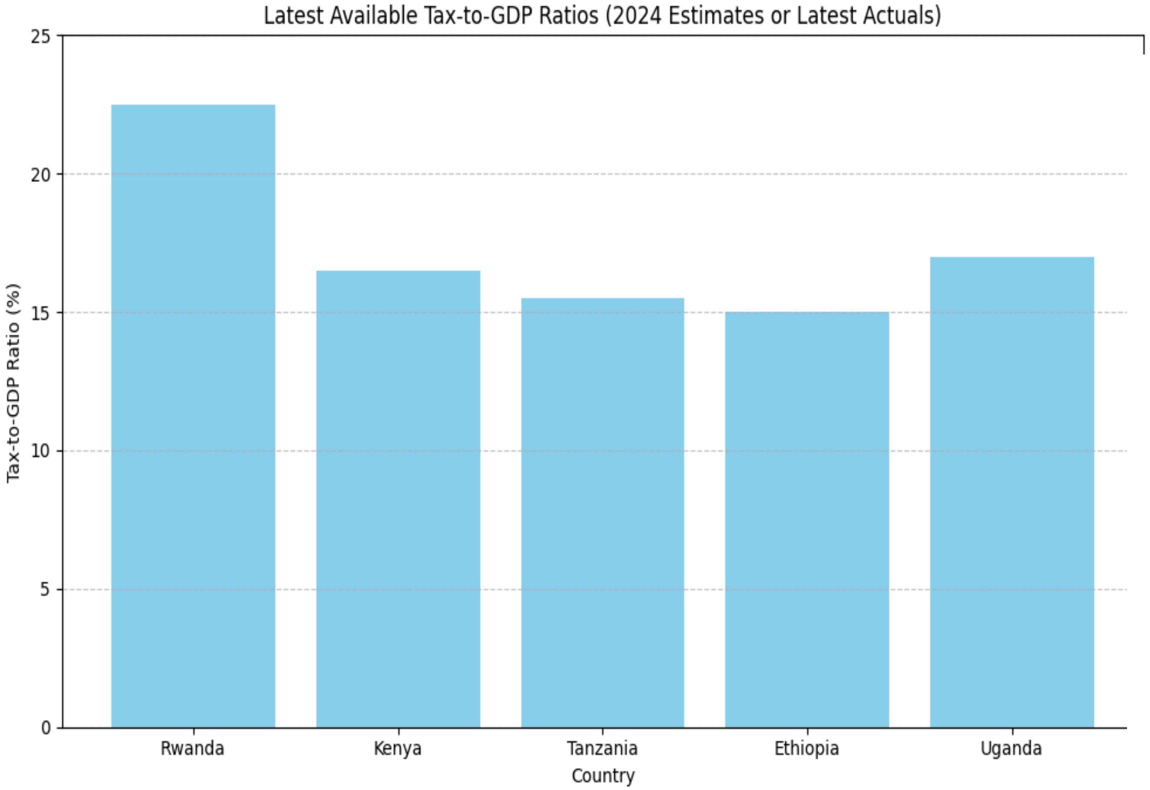
Proposed Budget

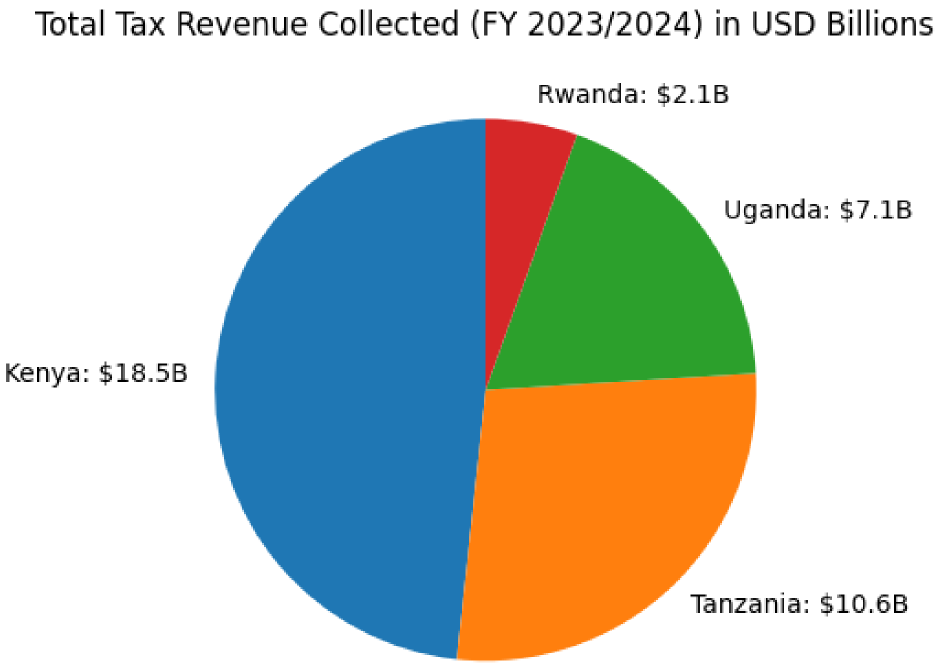
KSh 4.24 trillion

(Up from KSh 4.01 trillion in 2024/2025)

Sourced from the KRA and the Treasury: Budget Summary Report

Comparison with East African Countries





Key Highlights per Sector

Financial Sector

CIT at 15% for 10 years, → CIT at 20% for 10 years.

CIT at 15% for 3 years, → CIT at 20% for 4 years.

Conditions for NIFC certified companies	Investment of KES 3 Billion+ within first 3 years;
	HoldCo: 70% local employees in senior mgt
	Regional HQ: 60% local employees in senior mgt.

Dividends are exempt if the company reinvests KES 250M+ in Kenya.

WHT on qualifying dividends and interest is final

Real Estate Sector

CIT at 15% for developers of 100+ residential units.

VAT exemptions on goods for the construction of affordable houses.

Interest Deduction of KES 360,000 on home construction loans

Key Highlights…cont

Digital Economy & Technology

DAT on income from transfer of digital asset at 3% repealed

→ **Introduced 10% excise duty on fees charged on virtual assets transactions**

Significant Economic Presence Tax	Scope widened to include services offered via the internet/electronic networks.
	KES 5M turnover threshold for non-residents removed
Excise Duty on Digital Services	Applicable on internet-based services by non-residents

Automotive Sector

CIT at 15% for local motor vehicle assemblers for first 5 years retained

VAT (0%) on electric bicycles and electric buses retained

Manufacturing Sector

- 100% investment allowance retained for investments outside Nairobi/Mombasa & spectrum licenses
- Exemptions for Micro Distillers from automation requirements
- Export and Investment Promotion Levy of 17.5% on iron or non-alloy steel

Key Highlights…cont

Deals & Structuring

Stamp duty exemption on property transfer	property is transferred to the shareholders in proportion to their shareholding
	shares should be in a subsidiary of the company undertaking the transfer

CGT Exemption on SEZs	Gains from the transfer of property within an SEZ by a licensed SEZ entity are exempt from CGT

Transfer Pricing

Advance Pricing Agreements (APAs) introduced

Minimum top-up tax payable by the fourth month after year end.

Betting & Gaming Sector

Excise duty of 15% on amount wagered → Excise duty of 5% on amount deposited

WHT at 20% on winnings → WHT at 5% on withdrawals

Key Highlights…cont

Tax Administration

- Carry forward tax losses limited to 5 years with the option to extend for another 5 years upon application to the CS.
- Extension of enforcement mechanisms to non-residents: agency notices prior to appeal dropped.
- Minimum tax has been repealed-align with CoA Decision
- Requirement for a certificate of origin on importation-transition 30 September.
- Integration of taxpayer's systems with KRA been dropped
- Timeline for application of VAT refunds reduced from 24 to 12 months

Business as usual?

Focus on revenue mobilisation

- Broadened tax base (e.g., SEPT) and fewer exemptions granted.
- No major changes to the corporate or individual income tax rates.
- Automation and auto populated returns- VAT, CIT, Rental Income.

Shift to levies

- Railway development levy increased to 2%
- Sugar development levy introduced at 4% (w.e.f 01 July 2025)
- Carbon project fees: Administrative and issuance fees
- Extended producer responsibility fees

Increase of fees to access government services

- Immigration services
- National identification services

Panel Discussion


Q&A