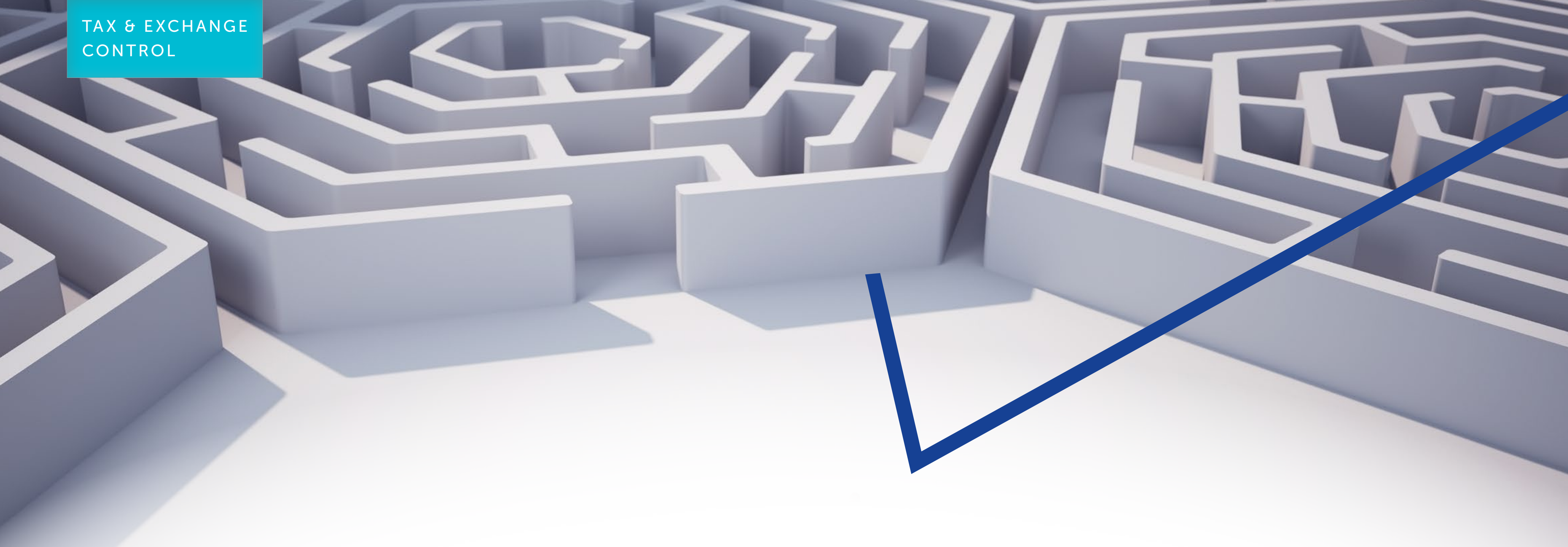
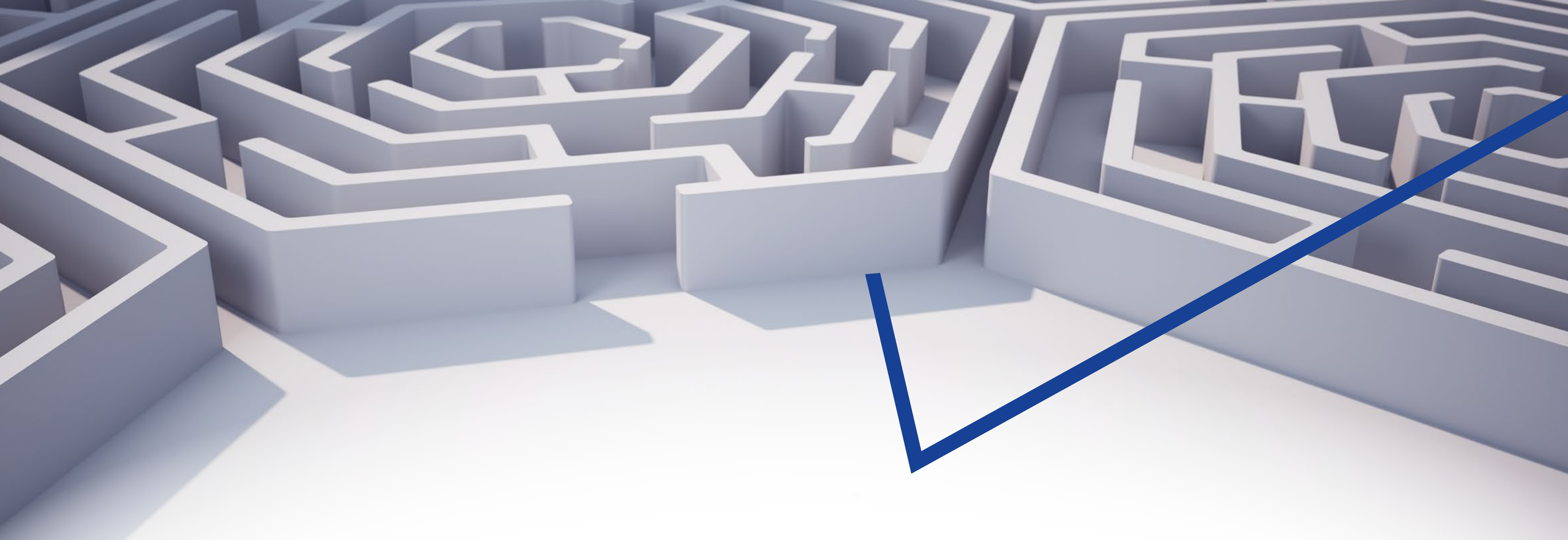
TAX & EXCHANGE CONTROL



13 June 2025

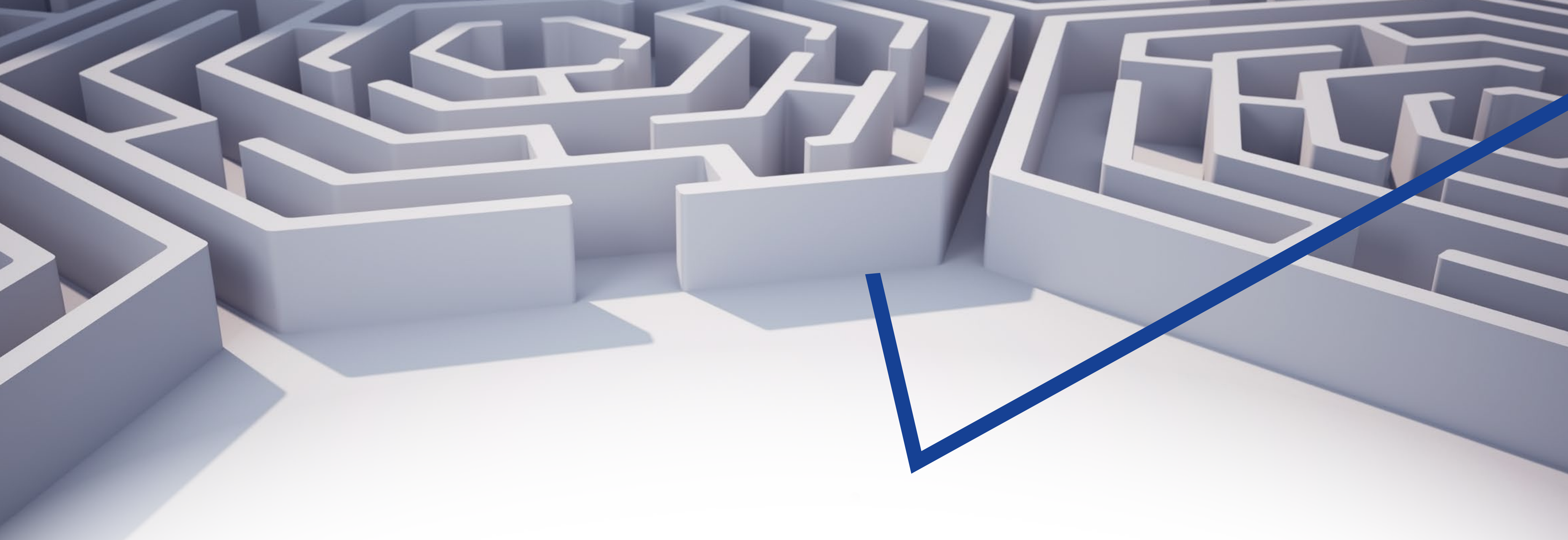
Kenya Budget Day Overview

The tax and exchange control legal partner for your business.



Index

Economic Outlook	4
Budget Overview	5
Proposed tax measures	9



Definitions

Abbreviation	Full reference
BETA	Bottom-Up Economic Transformation Agenda
CET	Common External Tariff
EAC	East Africa Community
eTIMS	electronic Tax Invoice Management System
KRA	Kenya Revenue Authority
MSME	micro, small and medium enterprise
VAT	Value-Added Tax
WHT	Withholding Tax

Kenya Budget FY 2025/26 highlights: What's new, what's next

On 12 June 2025, the Cabinet Secretary for the National Treasury and Economic Planning delivered the Budget Speech themed *"Stimulating Sustainable Economic Recovery for Improved Livelihoods, Job Creation and Business and Industrial Prosperity in line with the Bottom-Up Economic Transformation Agenda (BETA)"*.

This FY 2025/26 Budget (Budget) comes at a pivotal time, as the Government navigates a complex economic landscape shaped by external shocks, a constrained fiscal space and public demand for equity, transparency and impact.

In this alert, we highlight the key proposals, sectoral allocations and policy measures shaping Kenya's development agenda in FY 2025/26.

Economic outlook

Kenya's 2025/26 Budget was tabled against a complex backdrop of global financial uncertainty, domestic recovery needs and civic demands for accountability. Last year's proposed tax hikes triggered widespread protests and required painful rollback; this year, the Government is taking a more nuanced approach, balancing investor confidence with public stability.

The Government projects GDP growth at a steady 5.3% in both 2025 and 2026, supported by stabilised inflation and cautious monetary easing. This optimism, however, is tempered with fiscal realism.

Total revenue is projected at KES 3.3 trillion, while spending is set at KES 4.239 trillion, leaving a KES 923 billion deficit to be financed through KES 592 billion in domestic borrowing, KES 284 billion in external debt, and KES 46.9 billion in grants. The Budget features a KES 5 billion contingency reserve, signalling anticipation of possible shocks.

The Government opted to avoid aggressive taxation while maintaining a development-oriented agenda that positions the economy to recover without political backlash. However, execution remains the Achilles' heel. Unresolved pending bills from previous years and a mounting debt burden threaten to stretch the fiscal envelope, making robust institutional discipline essential for effective delivery.

With public debt hovering at a worrying 66% of GDP, well above the sustainable 55% threshold, the new Budget aims to reduce this burden while steering clear of politically charged tax increases.

National Treasury's emphasis on zero-based budgeting and harmonisation of public wages illustrates a deeper strategy to instil efficiency and performance discipline in public financial management.

Inflation is currently contained within the preferred range, creating room for the Central Bank of Kenya to maintain an accommodative stance. This comes alongside a notable appreciation of the Kenyan shilling, which has strengthened by approximately 20% against the US dollar since early 2024. At the same time, the decision to lean on domestic borrowing (KES 592 billion) could pose crowding-out risks if not well-managed, especially for the private sector.

Kenya Budget FY 2025/26 highlights: What's new, what's next?

...continued

Budget overview

The Budget continues the BETA with an emphasis on job creation, fiscal consolidation and restoring economic resilience.

Compared to FY 2024/25, the FY 2025/26 Budget includes more conservative revenue targets, slightly reduced development spending and heavier reliance on domestic borrowing to finance the significantly larger fiscal deficit.

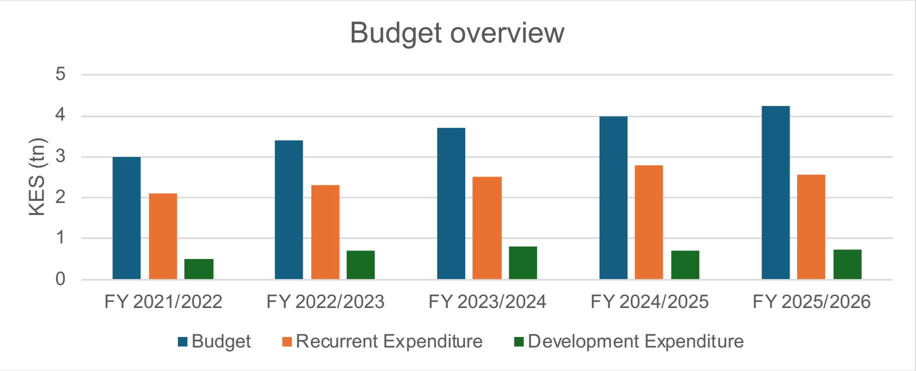
Comparative analysis: FY 2025/26 v FY 2024/25 Budget

Indicator	FY 2024/25 Budget	FY 2025/26 Budget	Change (%)	Remarks
Total revenue (incl. Appropriation in Aid (AIA))	3,343.2 billion	3,321.8 billion	-0.6%	Slight decline reflects revised targets after FY24 shortfalls.
Ordinary revenue	2,917.2 billion	2,754.7 billion	-5.6%	Indicates a more conservative and realistic revenue estimate.
AIA	426 billion	567 billion	+33.1%	Greater focus on non-tax revenue collection by Ministries, Departments and Agencies
Grants	51.8 billion	46.9 billion	-9.5%	Slight drop in external grant support.
Total expenditure	3,992 billion	4,291.9 billion	+7.5%	Driven mainly by recurrent needs and sectoral expansion
Recurrent expenditure	2,840 billion	3,134.4 billion	+10.4%	Driven by salaries, debt service and subsidies.
Development expenditure	707.4 billion	693.2 billion	-2.0%	Shift to public-private partnerships for infrastructure delivery.
County allocations (total)	444.5 billion	474.9 billion	+6.8%	Upholds support for devolution.
Equitable share	400.1 billion	405.1 billion	+1.2%	Modest increment.
Fiscal deficit (incl. grants)	597 billion	923.2 billion	+54.6%	Reflects slower revenue and higher spending.
External financing	333.8 billion	287.7 billion	-13.8%	Reduced reliance on external debt.
Domestic financing	263.2 billion	635.5 billion	+141.4%	Heavy reliance on domestic debt market.

Kenya Budget FY 2025/26 highlights: What's new, what's next?

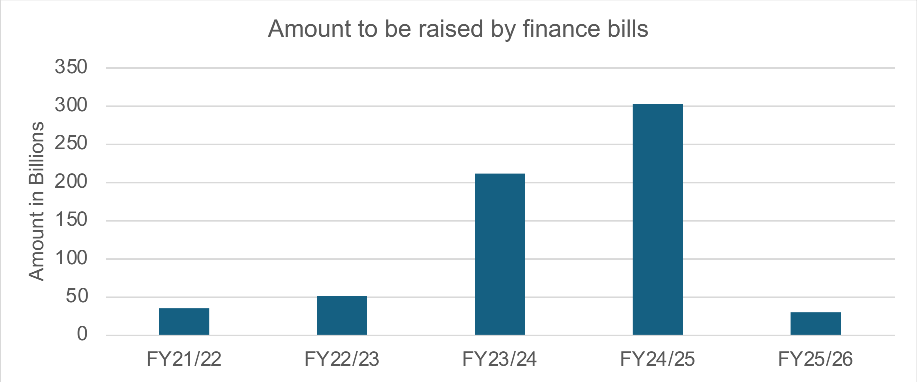
...continued

The chart below presents a five-year trend in Kenya's national budget, comparing total expenditure with recurrent and development spending across fiscal years.



Additional tax revenue arising from Finance Bill, 2025 measures

The Finance Bill, 2025 targets additional tax revenue collection of KES 30 billion in the coming fiscal year. The measures being proposed are different from those in the previous bills as they seek to enhance tax administration, as opposed to introducing new taxes.



Kenya Budget FY 2025/26 highlights: What's new, what's next?

...continued

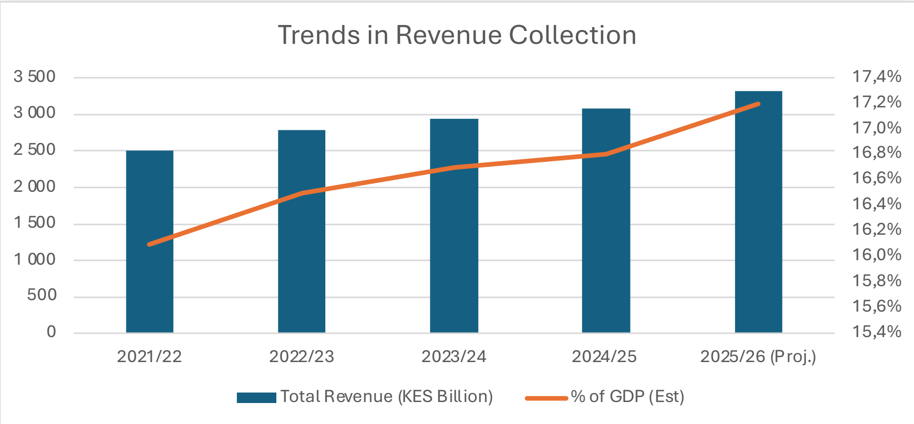
Trends in revenue collection

The total revenue for FY 2025/26 is projected at KES 3.32 trillion, equivalent to 17.2% of GDP, compared to an estimated KES 3.08 trillion (16.8% of GDP) in FY 2024/25.

This includes:

- Ordinary revenue: KES 2.75 trillion (14.3% of GDP)
- Ministerial AIA: KES 567 billion
- Grants: KES 46.9 billion (0.2% of GDP)

The following graph illustrates the trend in total revenue, highlighting projected collections for FY 2025/26 in comparison to last five fiscal years.



To support these revenue targets, the Government has outlined a series of policy and administrative measures aimed at enhancing domestic resource mobilisation.

These include:

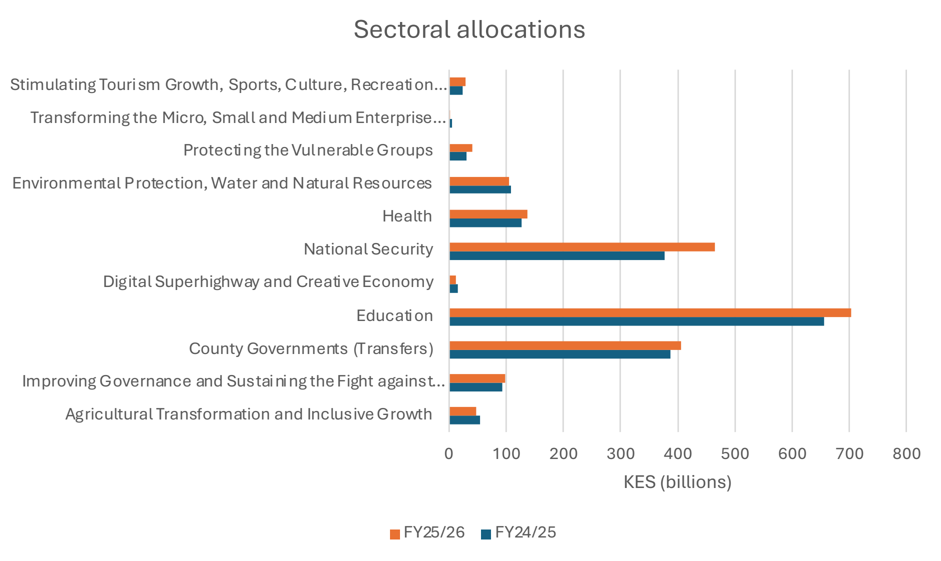
- Continued implementation of the Medium-Term Revenue Strategy and National Tax Policy aimed at improving predictability and consistency in tax administration.
- Enhanced use of digital platforms like GAVA Connect, electronic Tax Invoice Management System (eTIMS) integration, simplified Pay-As- You-Earn and value-added tax returns, and electronic rental income tax system to expand compliance.
- Focused efforts to broaden the tax base and reduce compliance costs, especially in the digital economy, agribusiness, and micro, small and medium enterprise (MSME) segments.
- Reduction in tax expenditure, currently standing at 3.38% of GDP, to unlock additional fiscal space.
- Strengthened enforcement through Kenya Revenue Authority modernisation and automation initiatives, with emphasis on real-time data analytics and risk profiling.

Kenya Budget FY 2025/26 highlights: What's new, what's next?

...continued

Key sectoral allocations

The chart below compares sectoral budget allocations for FY 2025/26 against FY 2024/25, highlighting shifts in government spending priorities across key areas such as education, health, national security, agriculture and county transfers.



Top sectoral increases

The FY 2025/26 Budget reflects notable increases in allocations to sectors aligned with national security, education and devolved governance. The largest winners are outlined below.

Sector	FY24/25	FY25/26	Increase %	Key reason
National security	377.5 billion	464.8 billion	23.1%	National safety, regional stability.
Education	656.6 billion	702.7 billion	7%	Competency-Based Curriculum implementation, teacher hiring.
County Governments	387.4 billion	405.1 billion	4.6%	Revenue allocation to counties for service delivery.

Kenya Budget FY 2025/26 highlights: What's new, what's next?

...continued

Top sectoral reductions

Conversely, several sectors experienced significant reductions in funding, reflecting a shift in fiscal prioritisation.

Sector	FY24/25	FY25/26	Change in %
Transforming the MSME economy	5.34 billion	2.46 billion	–53.9%
Digital superhighway and creative economy	16.3 billion	12.7 billion	–22.1%
Agricultural transformation and inclusive growth	54.6 billion	47.6 billion	–12.8%

Proposed tax measures: Comparing the FY 2025/26 Budget to the Finance Bill, 2025

Ahead of the FY 2025/26 Budget, the Departmental Committee on Finance and National Planning (Committee) tabled its report on the Finance Bill, 2025, providing early insights into the proposed legislative framework. We will provide a detailed update on the Committee's final recommendations.

The Budget reaffirmed the Government's commitment to a tax policy approach anchored on no new taxes or rate increases, with a clear emphasis on administrative reform, and simplification in the tax system.

A comparative review of the Budget and the Finance Bill, 2025 reveals broad alignment, reflecting a co-ordinated fiscal policy stance. However, a few notable additions and clarifications emerged in the Budget.

Excise licensing timelines

In the Finance Bill, 2025 the proposal is that the General Commissioner is required to provide feedback within 14 days while the Budget offers a clearer timeline by referring to 14 working days.

Kenya Budget FY 2025/26 highlights: What's new, what's next?

...continued

Customs measures

The Budget introduced several new customs measures that are not ordinarily part of finance bills, but which reflect regional agreements by the East Africa Community (EAC) Customs Union.

Key highlights include:

- **Tea packaging materials:** Kenya was granted a preferential import duty rate of 10% for tea packaging materials.
- **Wheat imports:** A 10% duty remission was approved for wheat imports, down from the Common External Tariff (CET) rate of 35%.
- **Rice imports:** Kenya secured an extension to apply a lower duty of 35% or USD 200 per metric tonne (whichever is higher) for imported rice, as opposed to the standard CET rate of 75% or USD 345 per metric tonne.
- **Animal feed inputs:** Kenya obtained approval to continue duty-free importation of raw materials used in the manufacture of animal feeds, supporting price stability in the agriculture sector under the EAC duty remission scheme
- **Telecommunication equipment:** An extension of duty remission on inputs for the local assembly of devices such as mobile phones, laptops, and tablets was approved.
- **Leather and leather products:** Kenya will continue applying a 35% import duty on leather products and will benefit from duty remission on leather processing chemicals.
- **Transformer assembly:** A tariff split was approved to distinguish between fully built and unassembled transformers, which is expected to incentivise local assembly in the energy sector.
- **Cranes:** Inputs used for local assembly of cranes will continue to enjoy duty-free access under the EAC Duty Remission Scheme.
- **Paper packaging inputs:** Kenya declined to extend last year's stay of application on higher CET rates for certain paper types. However, local packaging manufacturers will continue accessing raw materials under remission, ensuring they remain competitive.

Our detailed analysis of the proposed tax measures in Finance Bill, 2025 is available here.

Conclusion

The FY 2025/26 Budget signals a shift in Kenya's fiscal policy toward sustainability, efficiency and targeted investment, prioritising economic recovery without imposing new tax burdens. The Budget aims to stimulate growth while maintaining macroeconomic stability.

Key reforms such as zero-based budgeting, enhanced tax administration and rationalised spending reflect the Government's intent to improve efficiency and accountability across the public sector.

However, the success of these measures will depend heavily on disciplined execution and institutional capacity. Persistent challenges – including a high public debt burden and limited absorption of development funds – pose significant risks.

Alex Kanyi, Denis Maina, Nicholas Owino, Ian Ounoi and Everton Muberekwa

OUR TEAM

For more information about our Tax & Exchange Control practice and services in South Africa, Kenya and Namibia, please contact:

Emil Brincker
Practice Head & Director:
Tax & Exchange Control
T +27 (0)11 562 1063
E emil.brincker@cdhlegal.com

Gerhard Badenhorst
Director:
Tax & Exchange Control
T +27 (0)11 562 1870
E gerhard.badenhorst@cdhlegal.com

Jerome Brink
Director:
Tax & Exchange Control
T +27 (0)11 562 1484
E jerome.brink@cdhlegal.com

Petr Erasmus
Director:
Tax & Exchange Control
T +27 (0)11 562 1450
E petr.erasmus@cdhlegal.com

Dries Hoek
Director:
Tax & Exchange Control
T +27 (0)11 562 1425
E dries.hoek@cdhlegal.com

Alex Kanyi
Partner | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E alex.kanyi@cdhlegal.com

Heinrich Louw
Director:
Tax & Exchange Control
T +27 (0)11 562 1187
E heinrich.louw@cdhlegal.com

Howmera Parak
Director:
Tax & Exchange Control
T +27 (0)11 562 1467
E howmera.parak@cdhlegal.com

Stephan Spamer
Director:
Tax & Exchange Control
T +27 (0)11 562 1294
E stephan.spamer@cdhlegal.com

Tersia van Schalkwyk
Tax Consultant:
Tax & Exchange Control
T +27 (0)21 481 6404
E tersia.vanschalkwyk@cdhlegal.com

Varusha Moodaley
Senior Associate:
Tax & Exchange Control
T +27 (0)21 481 6392
E varusha.moodaley@cdhlegal.com

Nicholas Carroll
Associate:
Tax & Exchange Control
T +27 (0)21 481 6433
E nicholas.carroll@cdhlegal.com

Mariska Delport
Associate:
Tax & Exchange Control
T +27 (0)11 562 1574
E mariska.delport@cdhlegal.com

Puleng Mothabeng
Associate:
Tax & Exchange Control
T +27 (0)11 562 1355
E puleng.mothabeng@cdhlegal.com

Sophie Muzamhindo
Associate:
Tax & Exchange Control
T +27 (0)11 562 1729
E sophie.muzamhindo@cdhlegal.com

Savera Singh
Associate:
Tax & Exchange Control
T +27 (0)11 562 1575
E savera.singh@cdhlegal.com

BBBEE STATUS: LEVEL ONE CONTRIBUTOR
Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

PLEASE NOTE
This information is published for general information purposes and is not intended to constitute legal advice. Specialist legal advice should always be sought in relation to any particular situation. Cliffe Dekker Hofmeyr will accept no responsibility for any actions taken or not taken on the basis of this publication.

JOHANNESBURG
1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa.
Dx 154 Randburg and Dx 42 Johannesburg.
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN
11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

NAIROBI
Merchant Square, 3rd floor, Block D, Riverside Drive, Nairobi, Kenya. P.O. Box 22602-00505, Nairobi, Kenya.
T +254 731 086 649 | +254 204 409 918 | +254 710 560 114
E cdhkenya@cdhlegal.com

NAMIBIA
1st Floor Maerua Office Tower, Cnr Robert Mugabe Avenue and Jan Jonker Street, Windhoek 10005, Namibia
PO Box 97115, Maerua Mall, Windhoek, Namibia, 10020
T +264 833 730 100 E cdhnamibia@cdhlegal.com

STELLENBOSCH
14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.
T +27 (0)21 481 6400 E cdhstellenbosch@cdhlegal.com

CLIFFE DEKKER HOFMEYR | cliffedekkerhofmeyr.com