

Tax & Exchange Control

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Tax update on the KRA's recent notices on tax administration and compliance framework



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**TAX & EXCHANGE CONTROL
ALERT**

Tax update on the KRA's recent notices on tax administration and compliance framework

In response to the Finance Act, 2025, the Kenya Revenue Authority (KRA) has issued a series of public notices covering income tax, customs, excise and regulatory licensing. Many of these are forward-looking, adjusting tax rates, expanding digital compliance and tightening import controls. This alert consolidates these notices and highlights emerging trends in the KRA's approach.

Employer obligations in income tax deductions, reliefs and exemptions

On 6 October 2025, the KRA issued guidance to operationalise amendments in the Finance Act, 2025, requiring employers to apply all relevant tax deductions, reliefs and exemptions when computing PAYE under the Income Tax Act.

Key points:

- Apply personal relief to all resident employees.
- Allow insurance, mortgage interest and pension or post-retirement medical contributions within statutory limits, provided they are declared and supported by documentation.

- Factor in statutory deductions such as the Affordable Housing Levy and Social Health Insurance Fund contributions.
- Apply valid tax exemptions supported by exemption certificates.
- Employers must ensure accurate, timely PAYE filings reflecting all applicable deductions and reliefs, while employees should promptly furnish required documents.

The KRA guidance notice on PAYE deductions can be accessed [here](#).

Onboarding of rental properties on eRITS

The KRA issued a notice on 26 September 2025 notifying the public that it has rolled out an Electronic Rental Income Tax System (eRITS), which will facilitate easier payment of monthly rental income (MRI). The system enables management of properties, filing and payment of rental taxes in a simple and convenient way.

Key features:

- Property owners and agents can register properties, file returns and make payments online.
- Offers a more efficient and convenient way to manage rental tax compliance.

The notice on onboarding of rental properties can be accessed [here](#).

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Mandatory Certificate of Origin for imports into Kenya

On 23 September 2025, the KRA announced the full enforcement of the Certificate of Origin (COO) requirement for all imports into Kenya, effective 1 October 2025, pursuant to section 44A of the Tax Procedures Act. All consignments must now be accompanied by a COO issued by a competent authority in the exporting country. To ease implementation, the KRA had provided a transition window up to 30 September 2025.

If a COO is missing, the KRA may accept alternative documents such as:

- Origin declaration
- Export permit
- Customs export declaration
- PVOC (Pre-Export Verification of Conformity)

Exemptions apply to personal effects, used items, privileged imports, mailbags and human remains. Compliance challenges will be handled on a case-by-case basis.

The KRA guidance on the requirements for a mandatory COO can be accessed [here](#).

Draft Income Tax (Significant Economic Presence Tax) Regulations

The KRA published draft regulations on 22 September 2025 for public input, seeking to broaden services subject to significant economic presence tax (SEPT). The comments period closed on 7 October 2025. We await gazettment into law after comments from the public have been considered.

We have also analysed the implications of the regulations in detail [here](#).

Draft Excise Duty Remission Regulations

On 8 September 2025, the KRA invited comments on draft regulations aimed at creating a compliance-based framework for excise duty remission. The period for public, professional and stakeholder submissions closed on 26 September 2025. We now await the finalisation and gazettment of the regulations after consideration of the received comments.

Highlights:

- Restricts remission to alcohol products made from Kenyan-grown crops like sorghum, millet or cassava.
- Imposes strict conditions on documentation, digital invoicing, flowmeters, price caps and farmer traceability.
- Non-compliance triggers a full duty clawback with penalties.

The reforms aim to promote local agriculture and curb illicit trade but may increase costs for smaller producers.

The regulations may be accessed [here](#).

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Guidance on tax exemption for gratuity

The KRA clarified that gratuity earned after 1 July 2025 is exempt from income tax under the Finance Act, 2025.

Key points:

- Gratuity for periods before July 2025 remains taxable and must be apportioned across earning periods.
- Employers must recompute tax for each period and remit the differential tax due.
- Gratuity paid into registered pension schemes is exempt within statutory limits.
- Public pension schemes remain exempt since 27 December 2024.

The KRA guidance on the tax exemption for gratuity can be accessed [here](#).

Collection of Sugar Development Levy

On 31 July 2025, the KRA announced its appointment as the collector of the Sugar Development Levy under the Sugar (Sugar Development Levy) Order, 2025, effective 1 July 2025.

Levy details:

- 4% of the ex-factory price for locally manufactured sugar.
- 4% of the cost of insurance and freight value for imported sugar.

Payable monthly via iTax or at importation through the customs system, iCMS.

The notice can be accessed [here](#).

Rollout of Independent Review of Objections and Technical Review Unit

On 3 July 2025, the KRA announced the phased transfer of customs dispute resolution to the Tax Dispute Resolution Division under the Legal and Board Services Department, effective 1 August 2025. The reform operationalises an Independent Review of Objections (IRO) mechanism to enhance fairness and efficiency in customs-related appeals.

Phases:

- Phase I (August): Post clearance audit applications.
- Phase II (September): Tariff, valuation and exemption reviews.
- Phase III (November): Bonds and other customs matters.

Applications must be lodged with the IRO via email or in person at Ushuru Pension Towers, Nairobi.

The rollout notice can be accessed [here](#).

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Regulatory commentary and trend analysis

The KRA's recent activity signals a shift from passive rule publishing to active enforcement and systemisation. The notices reflect a co-ordinated shift toward a structured, data-driven and compliance-centric tax environment. From payroll administration and excise remission to customs procedures, rental income tax and sector-specific levies, the KRA is consolidating enforcement through digital systems and clearer regulatory parameters.

The two key trends we have observed are:

- Risk transfer: Responsibility and risk are shifting to taxpayers and intermediaries to maintain stronger audit defences via documentation and licensing.
- Tech and digital enforcement: Compliance will be monitored through systems, iTax, customs platforms and data matching and not just paper audits.

Businesses should respond by reviewing their tax processes, ensuring documentation integrity and aligning internal controls with these evolving standards. Proactive compliance and early engagement with the KRA remain the most effective safeguards against disputes and financial exposure as Kenya's 2025 fiscal framework takes full effect.

Alex Kanyi and Prince Kiptoo

Legal500
2025

Cliffe Dekker Hofmeyr

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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.

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