



Tax & Exchange Control

27 January 2026

KENYA

- Tax outlook 2026:
Navigating Kenya's
evolving tax landscape



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Tax outlook 2026: Navigating Kenya's evolving tax landscape

The first quarter of the calendar year is a critical time for many businesses to reassess their tax strategies for the year ahead. As they finalise budgets and review growth plans, a key question arises: what will the Kenyan tax environment look like in 2026?

This question carries added significance in light of the Government's ongoing revenue mobilisation agenda, implementation of the Medium-Term Revenue Strategy (MTRS), increased focus of non-tax revenue, growing use of technology in tax administration, early campaigns for the 2027 general elections and global tax developments that are now shaping domestic policy. This Alert outlines the key policy, legislative and administrative trends expected to define Kenya's tax landscape in 2026, and what they mean in practical terms for businesses.

Based on the MTRS, the Finance Act, 2026 is expected to implement reforms across all major tax heads, including:

Income tax

Income tax remains the single largest source of government revenue, contributing over 40% of total collections, yet it has also been one of the main sources of recent revenue shortfalls. In the first half of FY 2025/26, overall collections fell short of target by KES 152.2 billion, with underperformance driven largely by corporate income tax and Pay-As-You-Earn. Against this backdrop, the MTRS signals a deliberate policy shift away from preferential sectoral rates, generous corporate exemptions, and profit-based incentives, which have progressively eroded the income tax base.

We noticed the shift in Finance Bill, 2025 which proposed deleting: the incentives of claiming 100% cumulative investment done outside Nairobi and Mombasa or within a special economic zone (SEZ); 15% tax incentive for real estate developers that construct at least 100 residential units annually; and 15% corporate tax incentive on local assemblers of motor vehicles.

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However, these proposals were dropped in the Finance Act, 2025. The 10% corporate tax incentive for SEZ was, however, capped at 10 years, after which the normal rate of 30% will apply. We expect these attempts to reduce tax incentives to continue in 2026.

At the individual level, the review of income tax bands is intended to enhance progressivity while protecting the revenue yield from formal employment, potentially widening lower bands but aligning the top individual rate of 35% more closely with the corporate rate of 30% to stabilise collections from the largest tax head. Bankers are already pushing for this.

We also expect a renewed focus on informal business and micro and small businesses. The Kenya Revenue Authority (KRA) plans to exempt micro and small businesses from the requirement to pay quarterly installments and to generate payment registration numbers under the turnover tax (ToT) regime. ToT was introduced to simplify tax compliance for small taxpayers; however, uptake has remained low, with only 30,000 businesses registered and collections of KES 391 million in FY 2023/24, despite the reduction of the ToT rate from 3% to 1.5%. The redesign will allow small businesses to pay taxes directly through mobile money platforms such as M-Pesa, aligning payment schedules with cash flows and reducing administrative burdens.

This measure forms part of the KRA's broader strategy to expand the number of active taxpayers from 7 million to 11.5 million by June 2027 and to increase annual income tax collection from micro and small businesses in the informal sector from KES 17 billion to KES 500 billion.

Value-added tax

Reforms are also expected to focus on reviewing the value-added tax (VAT) registration threshold upwards, especially since the last VAT adjustment threshold was in 2007 when it was increased from KES 3 million to the current KES 5 million, rationalising exempt and zero-rated supplies, reconsidering the VAT rate, perhaps introducing VAT on selected currently exempt services such as education and insurance, and refining input tax apportionment rules.

During the United Kingdom–Kenya Business Forum held on 22 January 2026, the Government hinted at plans to reduce input VAT for export-oriented businesses from 16% to 8%. This measure is aimed at reducing the growing backlog of VAT refund claims by lowering refundable input VAT at source, while improving cash flow predictability for exporters. If implemented, this will materially change the VAT position of export-led sectors such as manufacturing, agro-processing and textiles, requiring a reassessment of pricing, margins and refund management strategies.

Excise duty

For excise duty and customs, reforms may target petroleum products, coal, tobacco, beverages, betting and gaming, with a shift towards sugar and alcohol content-based taxation and further rationalisation of the Common External Tariff at the East African Community (EAC) level. The Tax Laws (Amendment) Act, 2024 amended the Excise Duty Act to: charge excise duty based on the alcohol content of alcoholic beverages; introduce excise duty on coal; and increase duty on tobacco products. We expect the Government's plans to raise additional revenue from excise duty on betting, sugar, tobacco and beers to continue in 2026, backed by integration with KRA systems to allow a real-time view of businesses in the sector and timely collection of taxes.

There are plans by the Government to remove the excise duty and export levy on kraft paper – which is currently subject to 25% duty. The move aims to reduce the cost of primary packaging, eases production pressures, and supports value addition, industrial development and access to export markets. This signals a more targeted use of excise policy, not only as a revenue tool but also as an instrument of industrial and trade competitiveness.

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We hope that the Government will also focus on reducing or abolishing excise duty on glass and ceramics in light of its housing agenda. The recently introduced excise duty on such products has been counter-productive, with some local manufacturers and dealers complaining that what is available locally does not meet the demand from their clients.

Other tax measures

In addition, there may be new revenue measures, including carbon taxes, motor vehicle circulation taxes and surcharge taxes, alongside continued modernisation of the KRA's systems, enhanced audits and stronger enforcement.

Focus on non-tax revenue measures

Besides core tax collections, the Government has increasingly leveraged non-tax revenue to support public finances, with notable results from fees for government services, state agency surpluses and investment income. For the financial year ended 3 June 2024, non-tax cash receipts reached KES 129.27 billion, a 57.6% increase from the KES 82 billion realised in the prior year and well above early projections, highlighting both stronger enforcement and improved collection mechanisms. This growth was driven in part by enhanced digitalisation of service fees through platforms such as eCitizen and centralised payments across ministries and agencies, as well as surplus funds from semi-autonomous government agencies and dividends from state investments. The positive performance, which exceeded the original non-tax revenue target

by more than KES 53 billion, demonstrates that modernised fee collection and better management of agency and investment receipts can meaningfully increase traditional receipts and help offset shortfalls in tax performance.

Increased National Social Security Fund contributions

From February 2026, the National Social Security Fund (NSSF) gradual adjustments enter the fourth phase of implementation, increasing the statutory payroll costs for both employers and employees. The Tier I lower limit will rise from **KES 8,000** to **KES 9,000** while the Tier II upper limit will rise from **KES 72,000** to **KES 108,000**. While the statutory contribution rate will remain at 6%, the monthly contribution from both employer and employee is expected to increase from KES 4,320 to KES 6,480. Employers should review payroll costs, particularly for employees earning up to the new upper limit, to ensure accurate contributions and budgeting.

Tax administration reforms

Electronic Rental Income Tax System

As part of its continued shift towards technology-driven compliance and sector-specific enforcement, the KRA rolled out the Electronic Rental Income Tax System (eRITS) on 26 September 2025 to facilitate the registration, filing and payment of monthly rental income through a centralised digital platform, eRITS. Beyond administrative convenience, eRITS is a strategic tool aimed at expanding the tax base, formalising the rental sector, improving visibility over rental income streams

and enabling cross-checking against third-party data such as land registries, utilities and financial records. For landlords and property investors, this marks a clear move from passive rental taxation to active digital monitoring, meaning that inaccuracies in property records, under-declaration of rental income or failure to onboard properties are increasingly likely to trigger system-based queries or audits, making rental income compliance a growing risk area in 2026.

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Validation of income and expenses

From 1 January 2026, the KRA implemented iTax system-based validation of income and expenses at the point of filing, with declared amounts being cross-validated against eTIMS records, withholding tax data and customs import records. Deductibility and income recognition will increasingly depend on electronic invoicing data, subject only to limited statutory exceptions. However, following the public discourse on the validation of income and expenses, the KRA held a public virtual sensitization meeting on 23 January 2026, and has provided a concession to provide a 'non-eTIMS' section in the iTax return covering the period 2025. This will allow taxpayers a one-time opportunity to declare income and claim expenses not supported by an eTIMS receipt.

In parallel, the KRA's expanding use of data analytics and risk profiling will play a central role in directing audits towards high-risk taxpayers, transactions and sectors, with the result that, for many businesses, tax risk in 2026 is likely to arise less from technical interpretation of the law and more from weaknesses in data quality, systems integrity and process discipline.

Suspension of NIL returns

The KRA has suspended the filing of NIL returns until 31 March 2026. According to the KRA Deputy Commissioner of Taxpayer Service, the KRA will verify taxpayer compliance by leveraging

integrated data sources to identify taxpayers who should be paying taxes. Declared income will be cross-checked against visible economic activity using information from eTIMS, withholding tax records, customs and import data, and other agency databases such as the National Transport and Safety Agency for asset ownership. Where there is a discrepancy between reported income and actual economic activity, it may trigger audits or follow-up actions, reinforcing compliance risk for businesses and individuals.

Tax judicial trends to watch in 2026

Carry-forward of tax losses

In the case of *Patel v Commissioner for Legal Services & Board Co-ordination* [2025] KETAT 420 (KLR) the Tax Appeals Tribunal confirmed that tax losses carried forward prior to the enactment of the Finance Act, 2025, remain valid until fully utilised. It held that the five-year limit on the carry-forward of tax losses applies prospectively and in the absence of a transition clause, legislative changes should not extinguish already vested rights. Therefore, the five-year limit only applies to tax losses incurred by taxpayers from 1 July 2025. The limit of five years on carry-forward of losses was introduced on 1 July 2025 through the Finance Act, 2025. The KRA may appeal on this case, which has a huge impact on businesses that may face tax losses because of huge investment allowances.

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Valid objections to tax assessments must be filed on the iTax system

In *Commissioner of Investigation & Enforcement v Zhao* [2025] KEHC 16297 (KLR) the High Court held that the 60-day timeline for the Commissioner to issue an objection decision starts when a taxpayer validly lodges its objection through the iTax system. In this case, the respondent had first lodged its objection to the appellant's assessment via a physical letter dated 29 September 2023, which date the respondent used to compute the lapse of the 60 days. The appellant contended that the respondent's objection was validly lodged through the iTax system on 30 November 2023, and that the decision rendered on 29 January 2024 fell within the statutory 60 days. In this regard, taxpayers should lodge their objection against tax assessments via the iTax portal in addition to physical or email delivery of the objection to the KRA. Complying with this decision may be impractical considering the practice of issuing assessments and raising objections through letters. Sometime, the KRA iTax system does not have enough capacity to accommodate bulky objections and is subject to system failures. We will wait to see how this decision will be implemented in 2026 if the case does not proceed to the Court of Appeal.

Shifting the evidentiary burden in tax disputes

A taxpayer, Dr Magare Gikeny, has challenged the constitutionality of section 56(1) of the Tax Procedures Act (TPA), which places the burden on taxpayers to prove that the KRA's assessment is wrong on the basis that such assessments are presumed correct, arguing that this unfairly shields the KRA from first having to justify its decisions and undermines the right to a fair hearing guaranteed by the Constitution. We await the court's decision.

Global tax trends that may impact Kenya in 2026

Domestic Minimum Top-Up Tax

Kenya, through the Finance Act, 2025, aligned with the global trend towards a Domestic Minimum Top-Up Tax (DMTT) for multinational groups with consolidated revenues of at least EUR 750 million. This introduces a permanent obligation to compute and pay a top-up tax where the effective tax rate falls below 15%, shifting compliance away from negotiation and towards technical calculations, group reporting and documentation. The DMTT fundamentally alters the taxation of multinational groups by prioritising formula-driven compliance over discretionary incentives. For affected groups, the focus in 2026 will shift to accurate effective tax rate computations, robust group reporting systems and defensible transfer pricing outcomes.

Despite the above, US-headquartered companies will be exempted from the DMTT following an agreement reached on 5 January 2026 with more than 145 countries, recognising the US tax sovereignty over the worldwide operations of US companies. This exemption creates a major tax leakage for the KRA, particularly in respect of big multinationals based in the US.

Advance pricing agreements

With effect from 1 January 2026, Kenya will operationalise advance pricing agreements (APAs) as a core transfer pricing compliance tool. APAs introduce a preventive enforcement model, allowing taxpayers and the KRA to agree in advance on transfer pricing methodologies for complex cross-border transactions. From a policy perspective, APAs are designed to stabilise corporate income tax collections from multinational groups, reduce prolonged transfer pricing disputes and protect the tax base from erosion through aggressive pricing structures. For taxpayers, the regime offers certainty, but at the cost of increased upfront disclosure, documentation and long-term monitoring obligations. The KRA published draft regulations in November 2025 that outline a structured process covering pre-filing consultations, formal applications, negotiation, execution, renewal, revision and cancellation of APAs, and allow unilateral, bilateral and multilateral agreements. Please find our analysis of the draft regulations [here](#).

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Taxation of the digital economy

Kenya is actively modernising its tax regime to capture revenue from digital and cross-border digitalised business models, moving beyond the old Digital Services Tax (DST) to a broader Significant Economic Presence Tax (SEPT). The Tax Laws (Amendment) Act, 2024, introduced SEPT, which applies to non-resident persons deriving income from services provided over the internet or electronic networks where the user is located in Kenya. The draft Income Tax (Significant Economic Presence Tax) Regulations, 2025 published by the KRA in November 2025, if passed into law, will provide the operational framework for SEPT. The draft regulations expand the scope of taxable digital services including digital content, software, cloud computing, artificial intelligence, data monetisation, digital marketplaces and digital payments, and introduce clear criteria for determining user location, such as access via a Kenyan IP address, payments through Kenyan financial institutions, or Kenyan billing addresses (see our detailed analysis of the regulations [here](#)). The regime replaced the KES 5 million DST turnover threshold, requires non-resident providers to register or appoint tax representatives and establishes an effective 3% tax on gross turnover, with monthly filing and payment obligations.

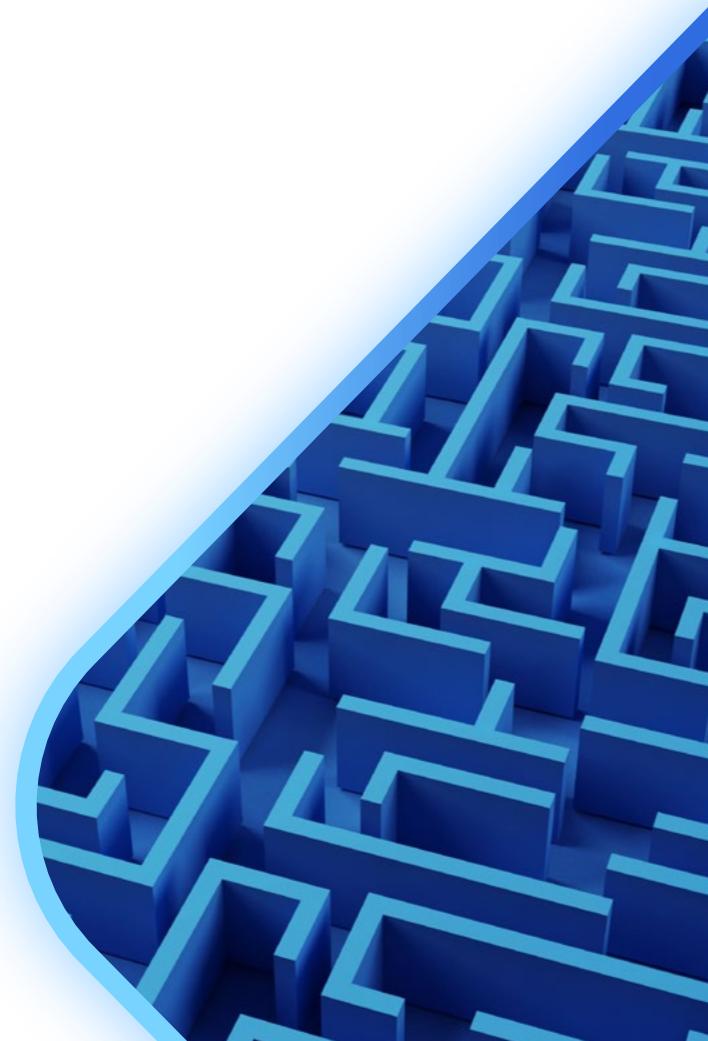
For taxpayers in 2026, this marks a shift from limited digital taxation to a comprehensive digital economy tax framework, requiring multinational digital businesses to reassess their Kenyan exposure, commercial structures and compliance processes, with digital taxation becoming a central risk and governance issue going forward.

Staying ready

In 2026, taxpayers should carefully monitor these anticipated tax developments. Tax compliance is no longer a luxury, and ignorance has ceased to be a defence. Global and local tax trends could make or break a business's sustenance or further growth plans. In this Alert we have not even touched on US tariffs and the impact on Kenya. That too should be watched closely.

In the meantime, National Treasury has already begun engaging taxpayers on what they can do to improve Kenya's tax climate in 2026. We expect a draft Finance Bill by 30 April 2026 and a Finance Act by 30 June 2026. Taxpayers are encouraged to engage with the KRA, National Treasury and National Assembly in advance. We all have a role to play in shaping tax policy in Kenya. Have a tax-conscious 2026.

Alex Kanyi, Charity Muindi and Denis Maina



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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.

PLEASE NOTE

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