

# **Legislative proposals – The Finance Bill 2025**

## **Presentation to the National Treasury**

East Africa Devices Assembly Kenya Limited

**May 2025**

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# About EADAK



Locally manufactures and assembles affordable smart devices at its assembly plant in Athi River, Graylands Phase V.



Has employed up to 750 people at its facility.  
Produced approximately 1.4 million mobile devices as of April 2025.



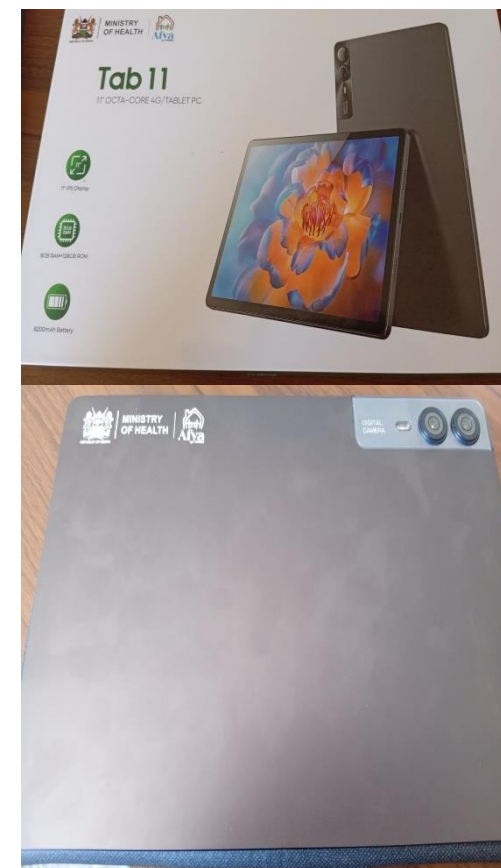
Recognized by the KRA in November 2024 as the top taxpayer in the non-fuel importers category for the fiscal year 2024.



One of EADAK's achievements: Supply of smartphones and tablets to the Ministry of Health for use by community health promoters supporting the preventive healthcare under the Bottom-up Economic Transformation Agenda ("BETA") and the universal Social Health Authority project.



Currently assembles smart mobile phones and tablets and plans to expand its locally assembled product portfolio to include a broader list of technology/telecommunication devices.



# **Proposal 1: VAT exemption on imported inputs or raw materials for approved local assemblers/manufactures of mobile phones**

# Unlocking a digitally empowered economy through mobile phones

- Smartphone penetration in Sub-Saharan Africa has been steadily increasing. According to the GSMA Mobile Economy 2025 report, mobile internet subscriber penetration in the region reached 46% in 2024, with smartphone adoption reached 54% and continues to rise due to falling device costs and expanding 3G/4G coverage. As of December 2024, over 41 million smartphones were in use in Kenya, reflecting a penetration rate of 80.5%.
- The Fourth Medium Term Plan (“MTP IV”) 2023-2027 highlights that increased access to smartphones and mobile broadband is essential for delivering digital government services, expanding e-commerce, and enhancing financial inclusion, especially in underserved rural areas.
- Smartphones are a key enabler of internet access and digital financial services (e.g. M-Pesa and online banking) due to their ability to support high-speed connectivity, mobile apps, and secure transactions.
- EADAK is actively supporting government policy on digital inclusion by making smart devices more accessible and affordable for all Kenyans. Currently, EADAK offers the most affordable smart device at an ex-factory price of approx. \$51. It is also investing in research and development to produce an ultra-low cost 4G cloud smartphone priced at < \$20.
- Stability in the tax policy environment, especially in relation to tax incentives, will help Kenya to bridge the digital and technology gap and accelerate access to the best internet and mobile networks.

# The issue

## Issue

- In 2023, the Government introduced VAT zero-rating on the supply of locally assembled smartphones to promote digital inclusion and local manufacturing.
- EADAK launched operations under this framework, targeting affordable smartphones for low-income Kenyans, who, for example, make up approx. 70.9% of Nairobi's population, according a 2025 report.
- The Finance Bill 2025 proposes to replace VAT zero-rating with VAT exemption, which will result in input VAT being a non-recoverable expense. This will increase production costs, push up phone prices, and potentially curtail the sector's operation thereby stalling progress on digital access.
- This VAT cost resulting from non-recoverable input VAT must either be passed on to the customer or absorbed by the manufacturers which is not sustainable.

# Impact of current proposal for VAT exemption on the locally manufactured phones

Scenario	Input Cost (KES)	VAT on Inputs (KES) (16%)	Total Input Cost (KES) (A)	Margin Applied (KES) (5%) (B)	VAT on Sale (16%)	VAT Recovered by Manufacturer?	VAT Cost to Consumer (KES)	Final Price to Consumer (KES) (A+B)
Zero rated sale	1,000	160	1,000	50 (5% of 1,000)	0	Yes (160)	0	1,050
Exempt sale (VAT on input only)-cost passed to customer	1,000	160	1,160	58 (5% of 1,160)	0	No	160	1,218
Exempt sale (VAT on input only)-cost absorbed by manufacturer	1,000	160	1,000	5% of 1,000 = KES 50 minus KES 160 VAT cost to consumer = KES (110) (loss)	0	Absorbed by manufacturer.	0	1,050
Fully exempt (input & output exempt)	1,000	0	1,000	50 (5% of 1,000)	0	Not Applicable	0	1,050

## Proposed amendment

- To balance the Government's priorities to address tax challenges and pursue the digital inclusion agenda, it is our view that the proposed VAT exemption on the supply of locally assembled smartphones should be accompanied by a VAT exemption on imported inputs/raw materials supplied to approved mobile phone assemblers/manufacturers in Kenya.
- This will resolve the VAT refund challenge caused by zero rating of the phones but at the same time maintain relative affordability, support local production, and ensure smartphones remain accessible to low-income populations thereby safeguarding Kenya's progress toward a digitally empowered economy. Further, this will not only safeguard existing jobs but also increase more jobs in the industry through increased production.



## Justification for the proposed legislation

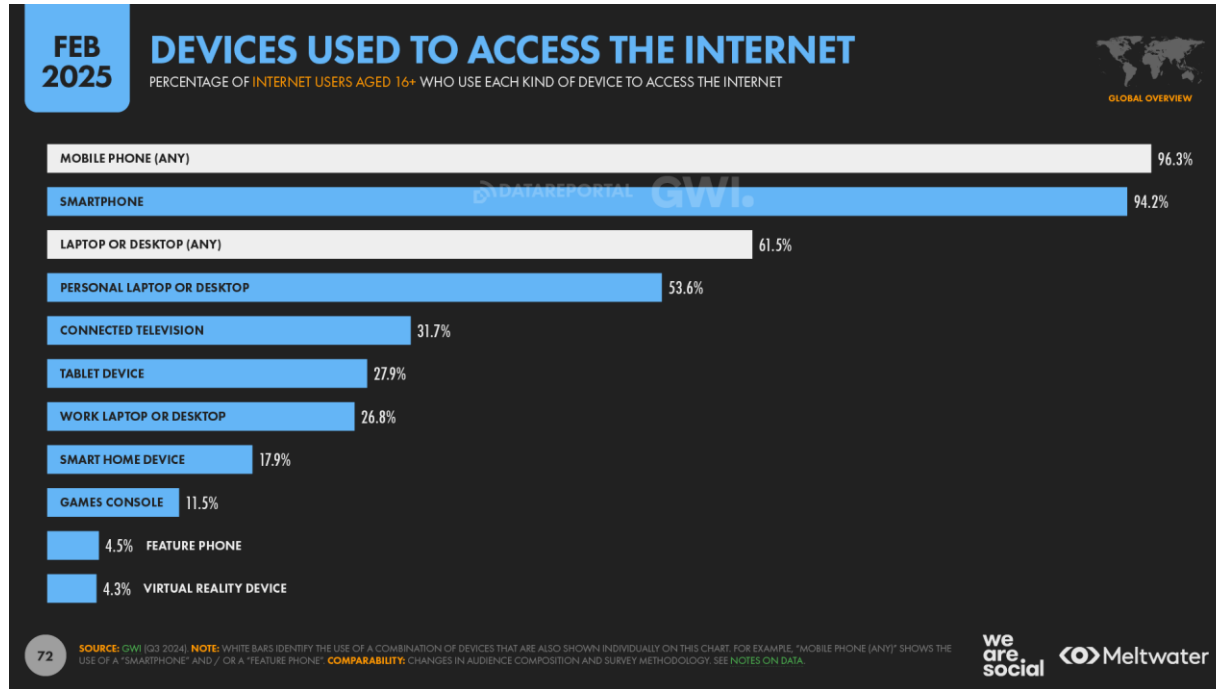
- Non-recoverable VAT on inputs will raise production costs, threatening the viability of local phone assembly plants like EADAK, already facing KES 1.8B in unpaid VAT refunds. Important to note is that in less than 2 years of operation, EADAK has already contributed **KES 1B** in taxes to the Kenyan economy.
- This will lead to higher consumer prices, reduced demand, and potential plant closure, affecting over 700 direct jobs and significant tax contributions of more than KES 1billion from Nov 2023–Apr 2025.
- Investor confidence will decline due to unpredictability in the tax environment which directly impacts Return on Investment (“RoI”). This will push investors to other countries in the region with a stable tax environment.
- Higher prices would limit smartphone access for low-income users, undermining Kenya’s Digital Economy Blueprint and Vision 2030 goals.
- Reduced smartphone uptake will harm downstream sectors such as mobile operators, by shrinking the user base for digital services like M-Pesa, e-Citizen, and eTIMS.
- Unequal tax treatment makes locally assembled phones less competitive than imports, undermining Kenya’s domestic manufacturing sector. Exempting inputs would level the playing field.

**Proposal 2: VAT exemption on the supply of locally assembled digital devices, as well as VAT exemption on imported inputs or raw materials supplied to approved assemblers/manufacturers of such digital devices in Kenya**

## Unlocking a digitally empowered economy

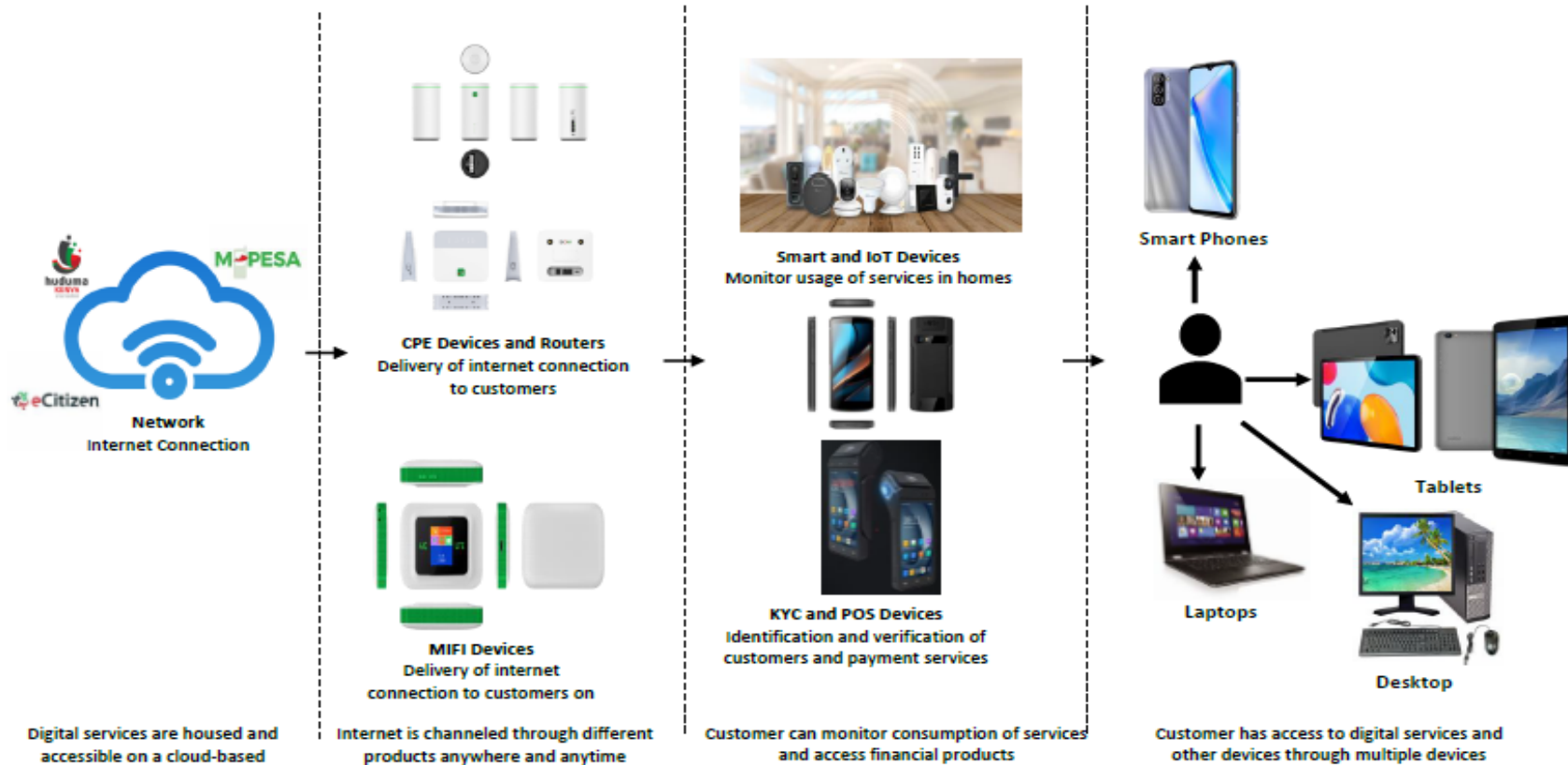
- The digital economy is a key global growth driver, fueled by internet access, mobile devices, and innovation. Over 5.56B global users are now online (as of 2025), with large investments seen in the European Union (“EU”) (€7.5B) and US (\$100B) to boost digital infrastructure.
- Africa's digital transformation is growing, with a projected 51.8% increase in internet users by 2029. Despite challenge like connectivity, infrastructure gaps, and policy hurdles, initiatives like the African Union’s (“AU”) Digital Strategy and Smart Africa Alliance aim to create a single, inclusive digital market.
- Kenya leads in Africa’s digital progress through, Konza Technopolis and mobile innovation, etc., achieving 48% internet penetration and 121% mobile penetration in 2025.
- However, device affordability remains a critical barrier, limiting widespread digital access. The Government’s BETA Agenda targets this through fibre rollout, digital automation, and creative industry support, but achieving impact requires VAT exemption on the supply of locally assembled digital devices as well as their inputs (raw materials), ensuring access to essential tools of connectivity.

## Kenya Stats: Devices used to access the internet as of Feb 2025



According to the International Telecommunication Union (“ITU”) and Global System for Mobile Communications (“GSMA”), by the start of 2025, approximately 5.56 billion people were using the internet, which is a 1.7% increase from one year before.

# The digital ecosystem



## Example: Impact of VAT on EADAK's tablet prices

#	Tablet	Retail price (exclusive of VAT) (KES)	VAT @ 16% (KES)	Retail price (inclusive of VAT) (KES)
1	Neon Tab 11 (8+ 128GB)	26,872	4,300	31,172

# Tax proposal: Introduction of VAT exemption on the supply of devices and their inputs

## Issue

- Despite prior tax incentives on mobile phones and smart devices, locally assembled digital devices (e.g., laptops, routers, modems) are still subject to 16% VAT.
- The 16% VAT would be borne by the customer thus increasing the price of the devices.

## Proposed amendment

- Our proposal is for the Government to grant VAT exemption on the supply of the following digital devices, where these have been locally assembled:
  1. Routers;
  2. Know Your Client and Point of Sale devices;
  3. Smart and Internet of Things devices such as smart meters, smart watches and smart CCTV cameras;
  4. Customer Premise Equipment devices;
  5. Modems and My Wireless Fidelity (“MiFi”); and
  6. Laptops, desktops and tablets.
- At the same time, we request the government to extend the VAT exemption to imported inputs or raw materials supplied to approved local assemblers and manufacturers of these devices.

# Justification for VAT exemption

- Will positively impact the digital devices penetration rate in Kenya.
- Will make the digital devices affordable and mitigate grey market imports.
- Will discourage reliance on imported digital devices which will have a positive impact on the economy.
- Will be an overarching enabler for the growth of other sectors including education (tablets for school programs), health (tablets for the Universal Health Initiative), agriculture, among others.
- Will promote the government's digitisation agenda.
- Will contribute to Government's BETA and the wider Vision 2030 by promoting the growth of the manufacturing sector, accessibility and use of digital devices.
- Will contribute positively to the growth of the Kenyan economy through:
  - Creation of employment;
  - Local transfer of technical skills; and
  - Increased revenue from employment and corporate income taxes.



Thanks!