



KAM MEMORANDUM ON THE FINANCE BILL 2025

Submitted to

**MR. SAMUEL NJOROGI
THE CLERK
NATIONAL ASSEMBLY
PARLIAMENT OF KENYA, PARLIAMENT BUILDINGS
P.O BOX 41842 - 00100
NAIROBI**

Presented By

**TOBIAS ALANDO, CHIEF EXECUTIVE,
KENYA ASSOCIATION OF MANUFACTURERS (KAM)**

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1.0 INTRODUCTION

Kenya Association of Manufacturers (KAM) is the leading business membership organization in East Africa that plays a key advocacy role on behalf of manufacturers in Kenya and the region through its strong linkages with all sectors of the economy. KAM has over 1000 members and represents Kenya's manufacturing value-added industries.

KAM represented Kenya's manufacturing sector interests in the East Africa Trade integration process through the design, ratification, and implementation of the Customs Union, and the Common Market Protocol. The integration process in East Africa has been successful with Kenya Playing a critical role. The EAC region integration is expected to spur the manufacturing sector to enhance intra-EAC trade in value-added products and thus grow the economies of the region.

KAM has a membership of manufacturers across thirteen manufacturing sectors and Services ranging from **Food and Beverage, Pharmaceutical; Automotive; Chemical and Allied; Metal and Allied; Paper and Paperboard; Leather and Apparel; Textile and Apparel; Plastics and Rubber; Timber, Wood, and Furniture; Electric and Electronic; Building, Mining and Construction; Agro-Processing.**

2.0 PROPOSED AMENDMENTS TO THE FINANCE BILL, 2025

In response to the call for public participation in the afore-referenced Bill, we propose the following amendments to be considered before the draft Bill is enacted:

KAM MEMORANDUM ON THE FINANCE BILL, 2025

INCOME TAX

	CLAUSE	PROPOSAL	JUSTIFICATION
1.	<p>Clause 2 Definition of Royalty</p> <p>Amending the definition of ‘royalty’ to encompass software distribution, specifically where regular payments are made for the use of software via a distributor</p>	<p>Delete the proposal seeking to extend the definition of royalty under the Income Tax to include use of software through a distributor.</p>	<p>This is based on the following justifications:</p> <ul style="list-style-type: none"> • We recommend that the definition of “royalty” should follow international best practice and the OECD definition where the right-based approach is used. • Under the right-based approach, only payment for the right of use, right to use and copyrights qualify as royalties. • The proposed expansion of the definition of “royalty” deviates from the globally accepted definition of “royalty” that borrows heavily from the OECD’s rights-based approach under which only payments for the use of, or the right to use, copyrights qualify as royalties. Payments for copyrighted products (such as off-the-shelf or prepackaged software) do not qualify as royalties under OECD’s rights-based approach. • The OECD Model Tax Convention states that royalties arise where payments are for the right to use the copyright in the program (i.e., to exploit the rights that would otherwise be the sole prerogative of the copyright holder). • In this regard, the inclusion of distribution of software as royalty negates the whole principle of what a royalty is. The OECD guideline specifically states distribution of software should not be regarded as royalty.
2.	<p>Clause 6</p>	<p>Delete the proposal</p>	<p>This is based on the following justifications:</p>

	<p>Significant Economic Presence Tax</p> <p>Section 12E of the Income Tax Act is a ended—</p> <p>(a) in subsection (1), by inserting the words "the internet or an electronic network including through" immediately after the words "carried out over (b) in subsection (3), by deleting paragraph (d).</p>		<ul style="list-style-type: none"> • Retaining the KES 5 million turnover threshold for the Digital Service Tax (DST) will shield Micro, Small, and Medium Enterprises (MSMEs) and reduce compliance costs. • Protection of MSMEs- Many small digital businesses and startups operate on thin profit margins. Removing the threshold would subject even the smallest players to DST, increasing their tax burden and potentially stifling innovation and growth in Kenya's digital economy. • MSMEs are key drivers of employment and economic inclusion; overburdening them with taxes could lead to reduced competitiveness or business closures.
3.	<p>Clause 8 (a)(vi)</p> <p>Proposes to delete section 15 subsection 2(Z) of the Income Tax Act (ITA)</p> <p>Sec. 15 (2)Z – Provision enabling tax deduction of expenditure incurred in that year of income by a person sponsoring sports</p>	Delete the proposal	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • Deletion of the clause goes against UDA BETA commitments on youth and sports development i.e. investment in sports infrastructure, including stadiums and training facilities, promotion of sports as a career path, with structured talent identification and development programs and support for creative and performing arts as part of the creative economy pillar. • The proposal will lead to a decline in sports sponsorships especially those undertaken by corporates owing to withdrawal of the tax incentive • Sports are critical in society since they not only generate income for the youth but also prevent them from engaging in vices like drug abuse.

			<ul style="list-style-type: none"> Deletion of section 15(2) Z will be counter-productive and have an adverse impact on sports funding from the private sector in light of the constrained Government resources.
4.	<p>Clause 8 (c)</p> <p>Restriction of tax loss carry-forward to 5 years.</p>	<p>We propose the deletion of this proposal</p> <p>Alternate proposal</p> <p>a) Trading (Operating) Losses: Allow a carry-forward period of seven (7) years.</p> <p>b) Losses Attributable to Capital Allowances and Accelerated Depreciation: Allow a carry forward period of ten (10) years.</p>	<p>This is based on the following justifications:</p> <ul style="list-style-type: none"> While we understand the policy objective of curbing perpetual deferral of tax liabilities, a five-year blanket restriction on the carry forward of all tax losses may inadvertently penalize sectors with long gestation periods and high capital intensity. This could significantly affect investor confidence, especially in sectors such as steel, cement, edible oil processing, infrastructure, and other manufacturing industries In the current high-interest rate environment, many businesses incur losses not because of weak operations but due to substantial financing costs, especially during startup and expansion phases. A seven-year window will allow businesses to stabilize and achieve profitability in a more realistic time frame. Capital-intensive projects often take longer to break even due to significant upfront investment in plant, machinery, and infrastructure. Losses generated through investment allowances reflect temporary timing differences and should be given an extended horizon to allow for proper recovery. This will reduce taxpayers' ability to manage tax liabilities, potentially increasing cash outflows especially in capital intensive industries where recovery spans longer periods.

			<ul style="list-style-type: none"> • Further, it will impact companies that had significant historical losses owing to past inefficiencies that have since been restructured and are now on a profit streak. For such companies historical losses should be allowed indefinitely provided that no new losses are accrued. • The clause will impact current and future start-ups given that most businesses in Kenya break-even way beyond 5 years. This may discourage opening/running of new business. • Further market distortion is brought about by the fact that in Tanzania, carry forward of losses is indefinite, while in Uganda, its 7 years with the subsequent 50% of the deficit being allowed indefinitely in succeeding years. • Capital intensive companies need this to recover their investment cost. Curtailing it to 5 years will seriously hamper businesses to survive and grow • Low profit margin businesses need a longer time to recover losses
5.	Clause 8 (d) Deletion of subsection 15 (5) that allowed the Commissioner to extend the period of deduction beyond 10 years.	We propose the deletion of this provision.	This proposal is based on the following justifications: <ul style="list-style-type: none"> • Under the current economic environment, high costs of production, high financing costs, rising labour costs, rising power costs and intense competition from imported products (some counterfeits and substandard products), many businesses are struggling to break even. • It is therefore not right for the National Treasury to deny these businesses an opportunity to claim tax losses against future profits.

6.	Clause 27 Removal of 100% Investment Deduction Allowance	We propose the deletion of this proposal of the Investment Deduction Allowance.	This is based on the following justifications: <ul style="list-style-type: none"> • This proposal will reduce investments in areas outside of Nairobi
7.	Clause 28 (b) (ii) & (iii) Deletion of paragraph (i) and (j) of the Third Schedule that remove the preferential 15% Tax Rate for the first 5 years for investments in Construction of Residential Units & Local Motor Vehicle Assembly.	We propose the deletion of this proposal	This is based on the following justifications: <ul style="list-style-type: none"> • This will discourage large-scale housing development and Local Motor Vehicle Assembly, making the projects less financially attractive. • This will also disincentivize investment in Kenya's focus area for manufacturing sector growth and local job creation.
8.	New Proposal Withholding Tax on Foreign Scrap Section 35, Income Tax Act The Tax Laws (Amendment) Act 2024 introduced a provision in the Income Tax Act mandating importers to pay 1.5% withholding tax on the importation of scrap.	We propose the removal of the Withholding Tax on the Importation of Scrap as follows: <ol style="list-style-type: none"> a) Delete section 35 (1) (t) which provides for withholding tax on payment to non-residents. b) Delete paragraph (w) of subsection (3) under Head B of the Third Schedule of the Act, which provides for the rate of 1.5% for the sale of scrap to non-residents. 	This proposal is based on the following justifications: <ul style="list-style-type: none"> • Scrap metal is a key raw material used for the production of semi-finished metal products used in the making of construction materials like steel rods (rebars), angles, and channels. • Importers of Scrap metal pay several local taxes, including VAT, Import Declaration Fee, Railway Development Levy, PAYE, and Corporate Tax, and adding withholding tax on foreign scrap that cannot be offset becomes a cost on the manufacturer. • Withholding tax on the payment to a non-resident person for the sale of scrap is charged at the rate of 1.5%. This is provided under section 35 of the Act and under the Third Schedule, Head B. • Unlike withholding tax on resident persons that can be offset against the total tax liability, withholding tax on

			<p>non-resident persons is treated as a final tax, and therefore cannot be offset. This is an extra cost to the importer of the critical raw material, which in turn increases the cost of the final output.</p> <ul style="list-style-type: none"> • The Tax discourages investors who wish to invest in Smelting activities. • Removal of the withholding tax on sale of scrap by non-residents will create a level playing field for Smelters who are doing captive production using Scrap Metal.
9.	New Proposal Section 12D – Minimum Tax	We propose the deletion of section 12D that provides for minimum tax.	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • Following the Court of Appeal ruling that determined minimum tax as unconstitutional, the repeal of this section of the Income Tax Act would align our tax legislation to the orders as determined by the Court.
VALUE ADDED TAX			
10.	Clause 36 (m) Amendment of the First Schedule that provides for the Exempt Supplies Deletion of paragraph 143 Inputs and raw materials used in the manufacture of	Retain VAT at 0% or exempt on Inputs and raw materials used in the manufacture of passenger motor vehicles	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • The electric vehicle industry demands a lot of upfront investment. Limiting the ability to claim input VAT means the cost will be passed over to the consumer. In the end, that slows down the up • The automotive sector has just gained momentum; there is need sustain the industry by having predictable policy environment • In 2021 the government passed Session Paper 1 of 2022 on National Automotive policy which seeks to revive the

	passenger motor vehicles are now vatable		sector, the introduction of VAT on inputs will disincentive investment in the sector <ul style="list-style-type: none"> • Introduction of VAT on input and raw materials will render the locally manufactured parts and components very expensive
II.	Clause 36 (n) Amendment of the First Schedule that provides for the Exempt Supplies Deletion of paragraph 144 Locally Manufactured passenger motor vehicles are now vatable	We propose Locally Manufactured Passenger Motor Vehicles be zero rated.	This is based on the following justification: <ul style="list-style-type: none"> • Promotion of Electric Vehicle (EV) Adoption <ul style="list-style-type: none"> ○ Zero-rating locally manufactured passenger motor vehicles (including EVs) will reduce their cost, making them more affordable for consumers. • Support for Local Manufacturing & Industrial Growth <ul style="list-style-type: none"> ○ Zero-rating will boost demand for locally manufactured vehicles, encouraging investment in domestic production. ○ This aligns with broader industrial policies aimed at enhancing local automotive manufacturing capabilities, including EV production • Competitiveness Against Imported Vehicles <ul style="list-style-type: none"> ○ If imported EVs enjoy tax exemptions or lower duties, locally manufactured vehicles should not be at a disadvantage. ○ Zero-rating ensures fair competition and prevents market distortion favoring imports. • Economic & Employment Benefits

			<ul style="list-style-type: none"> ○ Increased local production will create jobs in manufacturing, supply chains, and related sectors. ○ A thriving EV market can attract foreign direct investment (FDI) in clean energy and automotive technologies.
12.	<p>Clause 36 (o) Amendment of the First Schedule of the Act</p> <p>New Paragraph 155 Addition of inputs or raw materials for the manufacture of medicaments into VAT exempt status.</p> <p>155. Inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments as approved by the Cabinet Secretary in consultation with the Cabinet Secretary for the time being responsible for matters relating to health.</p>	We propose the deletion of this clause to retain inputs under zero-rated status	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • Local suppliers of inputs & raw materials will not be able to claim back the VAT they have paid on their inputs and thus will increase their cost which in turn will be passed to the local pharmaceutical manufacturers (prices to local manufacturers will increase up to 16%). • The amendments proposed in the Bill, moving the importation and local procured inputs & raw and materials from “zero rate VAT” to “exempt VAT” for the pharmaceutical industry will increase the cost of medicaments in the country • This will lead local manufacturers to transfer the higher production costs to consumers, making local manufacturing disadvantageous and less competitive, in both the local market and exports. <p>Difference between “zero rate VAT” to “exempt VAT” and its implications</p> <ul style="list-style-type: none"> • The difference between “Zero rate VAT” and “Exempt VAT” status is that where industries and / or commodities fall under “Zero rate VAT” status, Input VAT is claimable. However, where industries and / or commodities fall under “Exempt VAT” status, the manufacturers are not able to claim their Input VAT and

			<p>as such the Input VAT becomes part of the manufacturing cost as illustrated in the tables below:</p> <p>Table I: The impact of zero rate and exempt is completely different as shown in the table below:</p> <table><tr><td></td><td>Zero Rate Tax status</td><td>Exempt Status</td></tr><tr><td>Output VAT Charged</td><td>0%</td><td>0%</td></tr><tr><td>Input VAT Charged</td><td>16%</td><td>16%</td></tr><tr><td>Amount of input VAT that can be claimed back Eg. If kshs 100/- was paid as tax</td><td>Full amount (100%) Kshs 100/- can be claimed back</td><td>Nil (0%) Kshs 0/- can be claimed back</td></tr><tr><td>Refund position of input VAT paid</td><td>Full refund of input VAT paid (100% refund position)</td><td>No refund of input VAT paid (0% refund)</td></tr></table>		Zero Rate Tax status	Exempt Status	Output VAT Charged	0%	0%	Input VAT Charged	16%	16%	Amount of input VAT that can be claimed back Eg. If kshs 100/- was paid as tax	Full amount (100%) Kshs 100/- can be claimed back	Nil (0%) Kshs 0/- can be claimed back	Refund position of input VAT paid	Full refund of input VAT paid (100% refund position)	No refund of input VAT paid (0% refund)
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13.	<p>Clause 36 (o)</p> <p>Amendment of the First Schedule of the Act</p> <p>Paragraph 164</p>	<p>We propose to amend the clause to introduce a VAT exemption on inputs for the manufacture of packaging bags rather than on finished packaging.</p>	<p>The proposed amendment seeks to introduce a VAT exemption on packaging materials used for packaging tea and coffee.</p> <ul style="list-style-type: none">While the intention is to reduce packaging costs for tea and coffee farmers and traders, the proposed measure poses unintended consequences for local manufacturers.															

	<p>Inclusion of packaging materials for tea and coffee in the exempt category.</p>	<ul style="list-style-type: none"> • Packaging bags, particularly those used in tea and coffee packaging, are finished products manufactured locally in sufficient volume. • Exempting them from VAT, without a mechanism to claim VAT input, would increase production costs for local manufacturers. Under the VAT exemption status, input VAT becomes non-recoverable and is absorbed as part of the production cost. • The raw material for manufacturing the packaging that government seeks to exempt VAT is a Kraft paper which attracts the following taxes. See table below: <table border="1"> <tr> <th></th><th>Imported raw materials for manufacture of tea bags (4804.21.00; 4804.11.00; 4804.31.00; 4804.29.00; 4804.39.00)</th><th>Imported finished tea bags</th></tr> <tr> <td>VAT</td><td>16% (non-recoverable under exemption)</td><td>Exempt</td></tr> <tr> <td>Import duty</td><td>35%</td><td>Exempt (EACCMA, 5th Schedule)</td></tr> <tr> <td>EIPL</td><td>10%</td><td>Not Applicable</td></tr> <tr> <td>RDL</td><td>2%</td><td>2%</td></tr> <tr> <td>IDF</td><td>2.5%</td><td>2.5%</td></tr> <tr> <td>Total Tax</td><td>~65% (effective burden on local manufacturers)</td><td>4.5%</td></tr> </table> <ul style="list-style-type: none"> • Local manufacturers pay over 65% in taxes to import raw materials for manufacture of packaging while importers of finished products only pay 4.5%. This is a skewed policy promoting imports rather than locally manufactured packaging. 		Imported raw materials for manufacture of tea bags (4804.21.00; 4804.11.00; 4804.31.00; 4804.29.00; 4804.39.00)	Imported finished tea bags	VAT	16% (non-recoverable under exemption)	Exempt	Import duty	35%	Exempt (EACCMA, 5 th Schedule)	EIPL	10%	Not Applicable	RDL	2%	2%	IDF	2.5%	2.5%	Total Tax	~65% (effective burden on local manufacturers)	4.5%
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			<ul style="list-style-type: none"> The imbalance in duty for local manufacture of packaging have significantly eroded the Kenya's Exports as shown below: <p style="text-align: center;"><i>Source: ITC Trade Map, 2025</i></p>
14.	<p>Clause 36 (o) Amendment of the First Schedule of the Act</p> <p>New paragraph 158 Addition of supply of locally assembled and manufactured</p>	<p>We propose to amend the clause to read as follows:</p> <p>“The supply of locally assembled and manufactured mobile phones and inputs or raw materials locally purchased or imported and used</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> The amendment introduced by the Finance Bill 2025 proposes to make the supply of locally assembled and manufactured mobile phones exempt from VAT. Meanwhile, the components imported for their assembly remain standard rated. This mismatch will create negative fiscal and economic distortions.


	<p>mobile phones into the VAT exempt status.</p>	<p>for the local assembly and manufacture of mobile phones.”</p> <p>Alternate Proposal</p> <p>We propose to further exempt from VAT imported inputs or raw materials supplied to approved mobile phone assemblers/manufacturers in Kenya for local assembly and manufacture of mobile phones.</p> <p>We propose that the Government expand the VAT exemption on the supply of locally assembled digital devices, from just mobile phones to specifically include the following items:</p> <ul style="list-style-type: none"> a) Routers; b) Know Your Client and Point of Sale devices; c) Smart and Internet of Things devices such as smart meters, smart watches and smart CCTV cameras; d) Customer Premise Equipment devices; e) Modems and My Wireless Fidelity (“MiFi”); and f) Laptops, desktops, and tablets. 	<ul style="list-style-type: none"> • Manufacturers will no longer be able to claim VAT credits on imported components effectively raising production costs by 16%. Non-recoverable VAT burdens cash flow and reduces liquidity, especially for manufacturers that work on tight margins with clear social impact models. Since the VAT cannot be reclaimed, there is a risk of the irrecoverable cost being embedded in the final product price, reversing affordability gains and making locally assembled phones less competitive. Manufacturers responded in good faith to the GoK’s prior incentives. However, the new proposed amendments will force such manufacturers to reassess or absorb unanticipated losses. This will jeopardise the sustainability of their operations. The higher operational costs may slow down hiring or force manufacturers to reduce workforce size to stay afloat. This will in-turn undermine their job creation efforts. • The proposed amendment may also result in finished imported mobile phones (which may be under-declared or undervalued at ports) becoming cheaper than locally assembled ones, defeating the GoK’s purpose of supporting local industry. Simultaneously, as the cost for local assembly rises, mobile phones will become less accessible to the masses. This will threaten efforts to bridge the digital divide and will roll back gains made under the BETA agenda. • The ICT and digital device assembly sectors are still in their infancy. Frequent policy shifts discourage both domestic and foreign investors from making long-term
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			<p>capital commitments. Policy inconsistency also weakens the foundation of trust necessary for stronger public-private partnerships and discourages future cooperation. Instability will halt the sector's growth, delaying diversification of the economy.</p> <ul style="list-style-type: none"> • The mobile phone assembly sector, and indeed the broader ICT and digital device ecosystem in Kenya, remains in its infancy. It has only recently begun to gain momentum, in part due to government incentives, such as zero-rated VAT, which signalled a clear commitment to nurturing local manufacturing. The abrupt removal of such incentives undermines investor confidence, risks halting expansion plans, delay new hiring and reduce workforce capacity to remain viable and compel businesses to absorb losses, in the long term reducing tax revenues for the government. • Kenya's entry into local smartphone assembly marks a significant achievement on the continent. In January 2023, the country launched its first smartphone assembly plant, becoming one of only a handful of African nations, to take this critical step toward technological self-sufficiency. This milestone is not only a beacon of industrial potential but also a bold stride in enhancing digital access, creating employment, and building domestic manufacturing capacity. It is a strategic advantage that must be protected, not undermined by unpredictable policy shifts. • For context, the industry had projected substantial growth under the zero-rated regime. One large
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			<p>manufacturer, for example, had planned to grow its full-time workforce at its assembly plant from 450 to 600 workers and expand its sales network from 14,500 to 20,000 agents within a year, supported by a new assembly line, already under construction. If the proposed VAT change is implemented, that line will not operate at full capacity. This will have ripple effects across employment, supply chains, and tax remittances. Industry-wide projections indicate up to a 30% reduction in sales, a contraction in employment and a corresponding decline in tax revenues across PAYE, corporate tax channels and others.</p> <ul style="list-style-type: none"> • Beyond economic impact, the increased cost of locally assembled phones will constrain access for low-income consumers, threatening efforts to bridge the digital divide and undermining national digital inclusion goals. Mobile devices are essential for accessing education, financial services, healthcare and government programs – critical components of Kenya’s Bottom-Up Economic Transformation Agenda (BETA). • Though short-term VAT revenue from denied input credits may rise, stalling local manufacturing growth will reduce overall tax contributions (corporate tax, PAYE, excise etc) from manufacturers, telecoms and digital services. Digital devices are essential enablers of economic participation and access to government services. We propose that the GoK retain the zero-rated VAT status for locally assembled mobile phones to
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			<p>maintain affordability, business confidence and investment momentum and instead commit to a minimum 5-year policy stability period to enable manufacturers to plan and expand operations. Alternatively, if VAT reform is necessary, we appeal to the government to consider offsetting the impact by exempting input components used in the manufacture and/or assembly of mobile phones, so as to protect local manufacturers and consumers.</p> <table><tr><th></th><th>Prior to Finance Bill 2025</th><th>After Finance Bill 2025</th><th>Scenario 1: Input & Output Both Exempt</th><th>Scenario 2: Input & Output Both Vatable</th></tr><tr><td>VAT Status</td><td>Components vatable, phones Zero Rated</td><td>Components vatable, phones exempt</td><td>Components & phones exempt</td><td>Components & phones standard rated</td></tr><tr><td>Product Cost ex VAT</td><td>11,696</td><td>11,696</td><td>11,696</td><td>11,696</td></tr><tr><td>Input VAT on components</td><td>1,871</td><td>1,871</td><td>-</td><td>1,871</td></tr><tr><td>Total Product Cost</td><td>11,696</td><td>13,567</td><td>11,696</td><td>11,696</td></tr><tr><td>Output VAT</td><td></td><td></td><td></td><td>2,620</td></tr><tr><td>Input VAT Claimable</td><td>1,871</td><td></td><td></td><td>-1,871</td></tr><tr><td>Selling Price (ex Financing Income)</td><td>16,374</td><td>18,994</td><td>16,374</td><td>17,123</td></tr></table>		Prior to Finance Bill 2025	After Finance Bill 2025	Scenario 1: Input & Output Both Exempt	Scenario 2: Input & Output Both Vatable	VAT Status	Components vatable, phones Zero Rated	Components vatable, phones exempt	Components & phones exempt	Components & phones standard rated	Product Cost ex VAT	11,696	11,696	11,696	11,696	Input VAT on components	1,871	1,871	-	1,871	Total Product Cost	11,696	13,567	11,696	11,696	Output VAT				2,620	Input VAT Claimable	1,871			-1,871	Selling Price (ex Financing Income)	16,374	18,994	16,374	17,123
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15.	<p>Clause 36 (o) Amendment of the First Schedule of the Act</p> <p>New paragraph 159 Addition of motorcycles of tariff heading 8711.60.00 into the VAT exempt status.</p>	<p>We propose amendments to retain the supply of locally assembled electric motorcycle in Zero-Rated</p> <p>Further, introduce a 16% on fully built electric motorcycles of tariff 8711.60.00</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">Local assembly vs imported electric motorcycle: The VAT treatment risks tilting the market in favour of Fully Built Units and discouraging local value addition. In order to stimulate MFG, we propose to zero-rate under VAT. Under Duty Remission Scheme, no Tax refunds are needed as with a bonded warehouse MFG companies do not pay VAT upfront.Number of licenses local electric motorcycle assemblers: Ministry of industry has so far licensed																																								

			<p>over 20 electric motorcycle assemblers-the exempt status will render them uncompetitive as local inputs VAT (the 14-motorcycle requirement under Legal Notice 112 which attract VAT) shall part of their cost they cant claim input.</p> <ul style="list-style-type: none"> • Input VAT claim: Limiting the ability to claim input VAT means the cost will be passed over to the consumer. In the end, that slows down the uptake of electric motorcycle • Discourages localization: Jobs and Local Content: Assembly plants and component sourcing, especially batteries, offer significant employment potential, which is now at risk. • Ministry of industry is implementing a mandatory list of 14 component pursuant to legal Notice 112(Motorcycle regulations) starts to collapse. A few have also developed local content above the 14 components. The exemption status on electric motorcycle of HS code 8711.60.00 will erode the gains the industry has accrued since 2020
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			 <ul style="list-style-type: none"> ▪ Cost Competitiveness: Exempt status will encourage the importation of fully built units of motorcycles. ▪ Investment Signals: Reduced VAT recovery deters future investment in local assembly lines and battery infrastructure. ▪ Industrial Policy Misalignment: The policy undermines Kenya's EV industrial policy objectives of local manufacturing, job creation, and supply chain development.
16.	<p>Clause 36 (o) Amendment of the First Schedule of the Act</p> <p>New paragraph 161 Addition of supply of solar and lithium-ion batteries into the VAT exempt status.</p>	Retain as Zero Rated	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • This makes Lithium batteries more expensive as the most expensive component, thus eventually making the whole EV more expensive. • This proposal is based on the following justifications: • The removal of solar and lithium-ion batteries from the zero-rated column will increase the cost of production of locally manufactured batteries, making our exports more expensive.

			<p>Solar batteries</p> <ul style="list-style-type: none"> • Affordability for Low-Income Households: • Zero-rating VAT on solar lamp assembly ensures that the final products remain affordable for low-income households, facilitating wider adoption and contributing to poverty alleviation. • Economic Empowerment and Job Creation: • The local assembly of solar lamps fosters the growth of the green energy sector, creating employment opportunities and encouraging entrepreneurship. Retaining the zero-rated VAT status reduces production costs, making locally assembled solar lamps more competitive and affordable.
17.	<p>Clause 37 (e)</p> <p>Paragraph 31</p> <p>Change of VAT status from Zero rated to Exempt Electric Bicycles</p> <p>Amendment of the Second Schedule of the VAT Act to remove electric bicycles from zero-rated goods.</p>	<p>We propose amendments to retain the supply of locally assembled electric bicycles in Zero-Rated</p> <p>Further, introduce a 16% VAT on fully built electric bicycles</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> ▪ Cost Competitiveness: Exempt status will encourage the importation of fully built units of BICYCLES ▪ Investment Signals: Reduced VAT recovery deters future investment in local assembly lines and battery infrastructure. ▪ Industrial Policy Misalignment: The policy undermines Kenya's EV industrial policy objectives of local manufacturing, job creation, and supply chain development. ▪ Jobs and Local Content: Assembly plants and component sourcing, especially batteries, offer significant employment potential, which is now at risk. ▪ Legal notice 112: 14 components is now at risk

18.	<p>Clause 37 (g)</p> <p>Paragraph 33</p> <p>Change of VAT status from Zero rated to Exempt for Electric Buses</p> <p>Amendment of the Second Schedule of the VAT Act to remove electric buses from zero-rated goods.</p>	<p>We propose to retain the supply of locally assembled buses in Zero-Rated</p> <p>Further, introduce a 16% VAT on fully built imported electric buses</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • Local assembly vs imported electric buses: The VAT treatment risks tilting the market in favour of Fully Built Units and discouraging local value addition. In order to stimulate MFG, we propose to zero-rate under VAT. Under Duty Remission Scheme, no Tax refunds are needed as with a bonded warehouse MFG companies do not pay VAT upfront. • Number of licenses local electric buses assemblers: Ministry of industry has so far licensed over 4 electric buses assemblers (Roam Electric, Basigo, Isuzu, AVA among others) -the exempt status will render them uncompetitive as local inputs VAT (the 14-motorcycle requirement under Legal Notice 112 which attract VAT) shall part of their cost they can't claim input. • Input VAT claim: Limiting the ability to claim input VAT means the cost will be passed over to the consumer. In the end, that slows down the uptake of electric vehicles. • Discourages localization: Jobs and Local Content: Assembly plants and component sourcing, especially batteries, offer significant employment potential, which is now at risk. • Ministry of industry is implementing a mandatory list of 14 component pursuant to legal Notice 112(Motorcycle regulations) starts to collapse. A few have also developed local content above the 14 components. The
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			<p>exemption status on electric motorcycle of Hs Code 87.02 will erode the gains the industry has accrued since:</p> <ul style="list-style-type: none"> ▪ Cost Competitiveness: Exempt status will encourage the importation of fully built units of BUSES ▪ Investment Signals: Reduced VAT recovery deters future investment in local assembly lines and battery infrastructure. ▪ Industrial Policy Misalignment: The policy undermines Kenya's EV industrial policy objectives of local manufacturing, job creation, and supply chain development.
19.	<p>New Proposal</p> <p>Amendment of the Second Schedule to provide for Zero rating of locally manufactured buses</p>	<p>Amendment of the Second Schedule to provide for Zero rating of locally manufactured buses</p> <p>Or</p> <p>Amendment of the First Schedule to Exempt both the buses and inputs for the manufacturer of buses</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • To support the growth of the local vehicle body-building industry between 1995 and 2014, the government implemented a VAT zero-rating policy. This policy successfully spurred industry expansion, increasing the number of manufacturers from fewer than two to over 30. • However, in 2014, the government reinstated VAT on buses, raising production costs. As a result, industry volumes plummeted by more than 50%. After peaking at 3,500 buses in 2014 (the year VAT was reintroduced), production dropped sharply to just 1,590 buses by 2024.

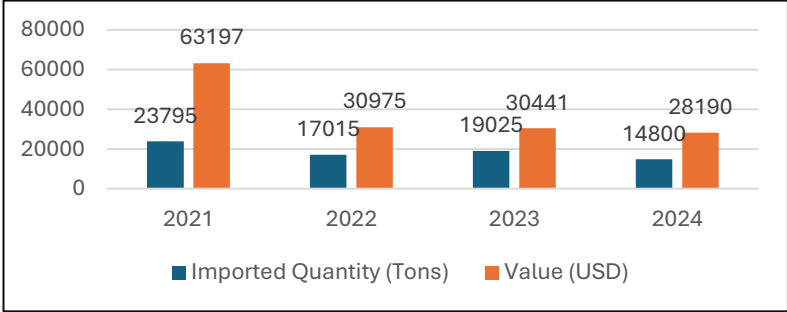
			<table><tr><th>Yr</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th></tr><tr><td>Annual Vol.</td><td>3,500</td><td>3,000</td><td>2,800</td><td>615</td><td>879</td><td>1,265</td><td>937</td><td>844</td><td>1,377</td><td>1,174</td><td>1,590</td></tr></table> <p>Data source: KABS</p> <p>This will further:</p> <ul style="list-style-type: none">• This will reduce the cost of buses and consequently increase industry volumes• It will increase competitiveness and enable the sector to reclaim and boost sales to EAC market• It will increase employment from current 1,500 people to approximately 5,000 as was the case in 2014.	Yr	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Annual Vol.	3,500	3,000	2,800	615	879	1,265	937	844	1,377	1,174	1,590
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20.	<p>Clause 37 (a) Amendment of the Second Schedule on Zero Rated Supplies.</p> <p>Deletion of Paragraph II Removal of inputs or raw materials for the manufacture of medicaments from VAT zero-rated status.</p> <p>II. Inputs or raw materials (either produced locally or imported)</p>	<p>We propose to retain paragraph II under Second Schedule on Zero-Rated Supplies.</p> <p>Inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved from time to time by the Cabinet Secretary in consultation with the Cabinet Secretary responsible for matters relating to health.</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">• Local suppliers of inputs & raw materials will not be able to claim back the VAT they have paid on their inputs and thus will increase their cost which in turn will be passed to the local pharmaceutical manufacturers (prices to local manufacturers will increase up to 16%).• The amendments proposed in the Bill, moving the importation and local procured inputs & raw and materials from “zero rate VAT” to “exempt VAT” for the pharmaceutical industry will increase the cost of medicaments in the country																								


supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved from time to time by the Cabinet Secretary in consultation with the Cabinet Secretary responsible for matters relating to health.		<ul style="list-style-type: none">This will lead local manufacturers to transfer the higher production costs to consumers, making local manufacturing disadvantageous and less competitive, in both the local market and exports. <p>The difference between “zero rate VAT” to “exempt VAT” and its implications</p> <ul style="list-style-type: none">The difference between “Zero rate VAT” and “Exempt VAT” status is that where industries and / or commodities fall under “Zero rate VAT” status, Input VAT is claimable. However, where industries and / or commodities fall under “Exempt VAT” status, the manufacturers are not able to claim their Input VAT and as such the Input VAT becomes part of the manufacturing cost as illustrated in the tables below: <p>Table I: The impact of zero rate and exempt is completely different as shown in the table below:</p> <table><tr><th></th><th>Zero Rate Tax status</th><th>Exempt Status</th></tr><tr><td>Output VAT Charged</td><td>0%</td><td>0%</td></tr><tr><td>Input VAT Charged</td><td>16%</td><td>16%</td></tr><tr><td>Amount of input VAT that can be</td><td>Full amount (100%)</td><td>Nil (0%)</td></tr></table>		Zero Rate Tax status	Exempt Status	Output VAT Charged	0%	0%	Input VAT Charged	16%	16%	Amount of input VAT that can be	Full amount (100%)	Nil (0%)
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21.	<p>New Proposal</p> <p>Credit adjustment vouchers (CAVs)-Credit for input tax against output tax</p> <p>Outstanding Refunds arising from zero rated supplies adjusted/ assessed using the formula before 17th June 2019 under Legal Notice No. 86 published in the Kenya Gazette Supplement No. 84 dated 17th June 2019.</p>	<p>Introduce provisions to allow for refund of excess tax arising from zero rated supplies adjusted/ assessed using the formula before 17th June 2019 under Legal Notice No. 86 published in the Kenya Gazette Supplement No. 84 dated 17th June 2019.</p> <p>The amendments should read as follows:</p> <p>Amend Section 17 (5) to introduce new sub-section (e) and provisio to read as follows:</p> <p>(f) such excess arose from the formula before 17th June 2019 under Regulation</p>	<p>The proposed amendments are based on the following justification:</p> <p>A. To address outstanding Refunds Arising from the previous VAT Formula under Regulation 8 (2) of the Value Added Tax Regulations, 2017</p> <ul style="list-style-type: none">• In 2019, the National Treasury changed the VAT Formula to address the concerns arising from the Formula that disadvantaged exporters of taxable goods since they could not recover their input VAT and led to perpetual refund position by export manufacturers.• The change was made by replacing the Formula that determines the amount due as a refund to a registered person who makes taxable supplies at both the general rate and zero rate under Regulation 8 of the Value Added Tax Regulations,						

	<p>Regulation 8 (2) of the Value Added Tax Regulations, 2017</p>	<p>8 (2) of the Value Added Tax Regulations, 2017 and.</p> <p>(g) such excess arose from the formula before 17th June 2019 under Regulation 8 (2) of the Value Added Tax Regulations, 2017 may be applied against any tax payable under this Act or any other written law, or is due for refund pursuant to section 47(4) of the Tax Procedures Act, 2015; and</p> <p>"Provided further that, notwithstanding Section 17(5)(f), a registered person who prior to the commencement of Section 17(5) (e) and (f), has a credit arising from the formula under Regulation 8 (2) of the Value Added Tax Regulations, 2017, may make an application for a refund of the excess tax from the commencement date of the Regulations.</p>	<p>2017. The new Formula has addressed the refund concerns.</p> <ul style="list-style-type: none"> • However, the refunds arising from the old formula have not been addressed and have led to outstanding refunds. • After deducting VAT Refund, persons are still in refund position. When applying under the Itax System, capital expenditure, - Tax headings not there that is why they concentrate on export. • This proposal seeks to: <ul style="list-style-type: none"> (i). create a legal mechanism to facilitate payment of such outstanding refunds owed to manufacturers. (ii). Seek to have in place provisions recognizing refunds that can arise from the old Formula. (iii). Include retrospective provisions allowing for payments of prior claims from the date of the commencement of the application of the formula under the Value Added Tax Regulations, 2017 to the date of the new Formula which commenced in June 2019. (iv). Provide for off set of refunds from the VAT Act and any other tax law. <p>B. To address refund for excess input credit after VAT refunds are paid under the VAT Formula</p> <ul style="list-style-type: none"> • There still exist outstanding refunds after Formula is utilized.
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			<ul style="list-style-type: none"> • The refunds are attributable to capital expenditure such as machinery or spares. This is especially after VAT on machinery was introduced in April 2020 under the Tax Laws (Amendment) Act, 2020. • The ITAX system of KRA includes the requirement to upload capital expenditure items such as machinery and spare parts together with other manufacturing inputs. • There are three (3) possible solutions to address this challenge: <ol style="list-style-type: none"> i. Introduce legal amendments with provisions recognizing refunds arising after the VAT Formula is applied; or ii. Separate the capital expenditure items captured on the KRA Itax system which causes an increase in credit refunds; or iii. Exemption of VAT on Machinery to ensure it is not captured under the ITax system as capital expenditure input items. The removal of VAT on machinery has benefits to the manufacturing sector such as promoting long term investments.
22.	New Proposal Promotion of Locally Manufactured Textile Products	Revert Fabrics of Heading 5407 back to VAT 16%	<ul style="list-style-type: none"> • The Tax (Amendment) Act 2024 amended the VAT Act to exempt goods of Chapter 5407. • Fabrics of Heading 5407 are intermediate products used in the manufacture of garments and are locally manufactured by Textile Mills. • Notably, this proposal was not subjected to public participation as it was not in the bill

<p>Second Schedule of the Act, Paragraph 154 – Exemption of fabrics of tariff heading 5407 and used clothing and footwear of tariff heading 6309</p> <p>Taxable goods of Chapter 5407 and Chapter 6309 imported as raw materials for manufacture of textile products in Kenya upon recommendation of the Cabinet Secretary responsible for investments, trade and industry.</p>		<ul style="list-style-type: none"> • The figure below shows that the quantity being imported into the country has been on a decline from 23,795MT in 2021 to 14,800MT in 2024. This implies growth in consumption of locally manufactured fabric of chapter 5407. • Estimated local production capacity is 25 Million Square Meters per year. • Exemption from IDF and RDL is therefore not a welcome move as it will only encourage imports to the detriment of local manufacturers.  <p>Source: Tendata</p>
	<p>Revert Used Clothing and Footwear of Heading 6309 back to VAT 16%</p>	<ul style="list-style-type: none"> • Used clothing, footwear, and other worn articles are finished products and cannot be used as raw materials. • Data shows that Kenya has been importing these products majorly from Pakistan, India & China. • Exemption from RDL & IDF therefore, will encourage importation of used clothing and as a result make Kenya a dumping ground for worn footwear and clothing • In addition, this will have adverse effects on the environment as currently the textile sector has been flagged as a major contributor to environmental degradation.

			<ul style="list-style-type: none"> Mitumba has been a major source of frustration for domestic industries as in 1992, there were 54 textile mills in Kenya and only four are remaining and 80 garment manufacturers but only 30 are remaining. This has been attributed to the mitumba. 
23.	New Proposal VAT exemption on inputs for local manufacturing of denatured bioethanol for cooking - 2207.20.00	<p>We propose to amend the First Schedule of the Act to exempt inputs for local manufacturing of denatured bioethanol for cooking to read as follows:</p> <p>“Inputs and raw materials locally purchased or imported for the manufacture of denatured bioethanol for cooking”</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> VAT Act 2013 provides a VAT exemption for “the supply of denatured ethanol of tariff number 2207.20.00.” This exemption has already resulted in significant benefits to Kenyan households, sugarcane farmers, and the nation as a whole. However, additional major contributors to the cost of ethanol cooking fuel also include VAT on inputs used in the manufacture of denatured ethanol, including molasses, transport, and electricity. Because the output (denatured ethanol) is VAT exempt, but the inputs are non-exempt, local ethanol producers

			<p>are at a disadvantage versus imported supply and are passing on the non-claimable portion of their input VAT as costs, which drives up the retail price of ethanol cooking fuel to Kenyan households.</p> <ul style="list-style-type: none"> • In Kenya, the sugar and sugar by-products industries stand as fundamental pillars of the economy, contributing significantly to employment, rural development, and food security. • With a rich history dating back to the early 20th century, this sector plays a pivotal role by offering livelihoods to thousands of Kenyan families and addressing the nation's economic needs. Specifically focusing on deriving ethanol from sugarcane propels the growth of the agro-processing sector, aligning with the East African Community's vision for value-addition within the community. • This approach ensures a stable market for our sugar producers, contributing to the sustainability of the sugar industry and improving farmers' livelihoods. • The extension of VAT exemption on inputs used in the production of denatured ethanol will support the growth of the local agro-processing industry by allowing local producers to recover input VAT. This reduction in costs will improve the competitiveness of local ethanol cooking fuel and reduce the costs of ethanol cooking to Kenyan households, driving higher demand and achieving targets for the green energy transition set out in the Kenya National Cooking Transition Strategy.
EXCISE DUTY			

24.	Clause 42 (a) (iii)	We propose as follows: a) Amend the unit of measure to align with the EAC CET tariff book to read as follows: excise duty rate of 35% of Ksh. 300 per SQM , whichever is higher for float glass; <table border="1"><tr><th colspan="2">Calculation of the Specific Duty on Float Glass - Tariff 7005</th></tr><tr><td>CIF</td><td>Ksh700.00</td></tr><tr><td>import duty (CET rate - 10%)</td><td>Ksh70.00</td></tr><tr><td>Excisable value</td><td>Ksh770.00</td></tr><tr><td>Value of the excise duty (35%)</td><td>Ksh269.50</td></tr><tr><td>Average specific duty</td><td>Ksh 300/M2</td></tr></table> b) Exempt all glass processors sourcing float glass to produce toughened and laminated glass from the excise duty. Tanzania and Uganda have similar exemptions since there is no local producer of such.	Calculation of the Specific Duty on Float Glass - Tariff 7005		CIF	Ksh700.00	import duty (CET rate - 10%)	Ksh70.00	Excisable value	Ksh770.00	Value of the excise duty (35%)	Ksh269.50	Average specific duty	Ksh 300/M2	This proposal is based on the following justifications: <ul style="list-style-type: none">• Float glass is a critical raw material for the glass processing industry in Kenya.• The float glass is used to produce safety glass of tariff 7007, Multiple-walled insulating units of glass of tariff 7008, & Glass mirrors of tariff 7009.• The industry was taken by surprise in April 2025 when there was the introduction of excise duty on float glass of 35% or Ksh. 200/kg, which was initially charged on 7007.• The glass industry is looking for the differential between those importing finish glass and misdeclaring raw float glass to get low duty and those genuine processors who further process float glass to produce toughened or laminated glass. There is a thin physical difference between the float glass of tariff line 7005 and the safety glass of tariff line 7007. Regional Competitiveness <ul style="list-style-type: none">• The table below shows that Kenya is uncompetitive across the region.• Tanzania and Uganda have given DRS at 10% and 0% respectively for the float glass used to manufacture toughened and laminated glass of tariff 7007, while Kenya has introduced an excise duty on the entire tariff heading 7005 with no exemptions. <table border="1"><tr><th>Key Taxes on Float</th><th>Kenya-before the Excise Duty Amendm ent Act, 2025</th><th>Kenya-After the Excise Duty Amendm ent Act, 2025</th><th>Kenya-After Finance Bill 2025 using Ksh. 200/kg</th><th>Uganda</th><th>Tanzania</th></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td></tr></table>	Key Taxes on Float	Kenya-before the Excise Duty Amendm ent Act, 2025	Kenya-After the Excise Duty Amendm ent Act, 2025	Kenya-After Finance Bill 2025 using Ksh. 200/kg	Uganda	Tanzania						
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Float Glass	Amendment of the First Schedule of the Act to vary the excise duty on Imported Float glass of tariff 7005 to 35% of excisable value or KSh.200 per kg, whichever is higher ";																										

		<p>clearance. The unit of measure should always align with the EAC tariff book for ease of administration.</p> <ul style="list-style-type: none">• The table below shows the impact of this misalignment of the unit of measurement.• When applying 35%, the price of the imported float glass will increase from Ksh. 700 /M2 to Ksh. 945/M2 on the flip side, when applying the specific duty of Ksh. 200/kg imported float glass will increase from Ksh. 700/M2 to Ksh. 2400/M2, this is based on the average that one square meter of float glass goes for 12 kg. These discrepancies are caused by the misalignment on the unit of measurement. <table><tr><th>Key Taxes on Float Glasses</th><th>Kenya-before the Excise Duty Amendment Act, 2025</th><th>Kenya-After the Excise Duty Amendment Act, 2025 (Using 35%)</th><th>Kenya-After the Finance Bill 2025 using Ksh. 200/kg</th><th>% difference between the Ad Valorem and specific duty</th></tr><tr><td>Price</td><td>700</td><td>945/m2</td><td>2400/m2</td><td>153%</td></tr></table>	Key Taxes on Float Glasses	Kenya-before the Excise Duty Amendment Act, 2025	Kenya-After the Excise Duty Amendment Act, 2025 (Using 35%)	Kenya-After the Finance Bill 2025 using Ksh. 200/kg	% difference between the Ad Valorem and specific duty	Price	700	945/m2	2400/m2	153%
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Price	700	945/m2	2400/m2	153%								
	<p>Delete the date in the Excise Duty (Amendment) Act, 2025 backdating to December, yet the Act came into place last month.</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">• The Excise Duty (Amendment) Act, 2025 came into force in April 2025. The Bill backdated the entry into force on the proposals to December 2025.• The High Court in Petition 253 of 2018, Okiya Omtatah Okoiti v Cabinet Secretary, National Treasury & 3 others [2018] eKLR, held that the Provisional Collection of Taxes and Duties Act was unconstitutional. In finding										


			<p>so, the Court stated that “A declaration that the Finance Bill 2018, or any parts or provisions thereof, including on taxation, cannot be implemented before the Bill becomes the Finance Act after it goes through the parliamentary legislative process laid out in the Constitution for approval and adoption by Parliament, and assent by the President.”</p> <ul style="list-style-type: none"> • Consequently, the Excise Duty (Amendment) Act 2025, in purporting to back date the coming into force of the provisions of the Act, was unconstitutional. • We therefore propose that the Excise Duty (Amendment) Act 2025 come into force on the date after its assent.
25.	<p>Clause 42 (a) (vi)</p> <p>Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages.</p> <p>Excise introduced at a rate of Ksh. 500 per litre</p>	<p>Change the rate from KES sh. 500 per litre to KES 250 per litre</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • We appreciate the govt’s effort to change the excise regime on undenatured extra neutral alcohol from ABV-based to volume-based and reducing the tax rate from KES 964/litre to KES 500/litre • However, the taxes charged on Ethanol by both Tanzania and Uganda is very low, which will still encourage smuggling into Kenya. Please see the table below, where Kenya is at KES 500/litre while Tanzania and Uganda is at KES 239.29 (Tsh5000) and KES 88.64 (Ush 2,500) per litre respectively

			<table> <tr> <th>Current Kenya ENA excise rate per liter</th><th>Proposed Finance Bill 2025 for ENA</th><th>Tanzania ENA excise rate per liter</th><th>Uganda ENA excise rate per liter</th></tr> <tr> <td>Kes 964</td><td>KES 500</td><td>Tzs 5000/litre (KES 239.29)</td><td>Ush 2,500 (Kes. 88.64) or 80% of value</td></tr> </table>	Current Kenya ENA excise rate per liter	Proposed Finance Bill 2025 for ENA	Tanzania ENA excise rate per liter	Uganda ENA excise rate per liter	Kes 964	KES 500	Tzs 5000/litre (KES 239.29)	Ush 2,500 (Kes. 88.64) or 80% of value
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Kes 964	KES 500	Tzs 5000/litre (KES 239.29)	Ush 2,500 (Kes. 88.64) or 80% of value								
			<ul style="list-style-type: none"> Proposed excise rate for ENA is 5.6 times the Uganda rate thus reducing cash flow and making local manufacturing in Kenya uncompetitive. Further excise rate reduction will reduce the incentive for unscrupulous individuals from smuggling Ethanol into Kenya, which has exacerbated the problem of illicit alcohol trade. Alcohol Beverage Association of Kenya (ABAK) commissioned Euromonitor to publish a 2025 illicit alcohol report which estimates Ethanol smuggling volume at 81,455 hectolitres of pure alcohol (7% of illicit alcohol volume in Kenya) with a value of KES 23billion, with a fiscal loss of KES 9 billion for govt. The study was done with the support from government ministries, departments and agencies concerned with escalating problem of illicit alcohol in Kenya. <p>Expected Outcomes</p> <ul style="list-style-type: none"> Increased govt. revenue collection from reduction in illicit ethanol which is used by counterfeiters Reduced public health impact from manufacturers of sub-standards spirits 								

26.	<p>Clause 42 (a)(vi)</p> <p>Introduction of excise duty on polymers of tariff 3920.43.90, 3920.10.90 and 3919.90.90 at a rate of 25% or Kshs. 200 per Kg, whichever is higher.</p>	<p>Delete the proposed introduction of Excise Duty on polymers of tariff 3920.43.90, 3920.10.90 and 3919.90.90 at a rate of 25% or Kshs. 200 per Kg, whichever is higher.</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">Tariff 3920.43.90 is a generic tariff covering various products including PVC laminates and PVC edge banding not locally manufactured.PVC Edging and laminates are raw materials used in the finishing of furniture such as tables. The duty significantly increases the cost of locally manufactured furniture.On PVC Edge banding, introduction of specific duty of Kshs. 200 per Kg, increases the excise duty payable on raw materials from 25% to 65% as illustrated below: <table><tr><th></th><th>CFR Cost (Ksh)</th><th>Unit</th><th>Weight/Unit (kg)</th><th>Import Duty @ 25%</th><th>Excise duty @ 25%</th><th>Excise duty @ Ksh 200/kg</th><th>Total Duty and Excise as a % of CFR</th></tr><tr><td>Printed PVC Edge banding</td><td>9</td><td>Per Metre</td><td>0.023</td><td>2.25</td><td>2.81</td><td>4.53 ~50%</td><td>6.78 ~75%</td></tr><tr><td>Printed PVC Laminates</td><td>655</td><td>Per SQM</td><td>2.120</td><td>163.75</td><td>204.69</td><td>424 ~65%</td><td>587.75 ~90%</td></tr></table> <ul style="list-style-type: none">On PVC laminates, introduction of specific duty of Kshs. 200 per Kg, increases the excise duty payable on raw materials from 25% to 50%.Removal of excise duty on PVC edge banding will enhance competitiveness of local furniture manufacturers through reduced cost of production.Further, the HS Code covers raw materials used in manufacturing packaging products such as Plastic-based labels for bottles, food containers, cosmetics, and pharmaceuticals, durable industrial labels and barcoding solutions, Surface protection films used for packaging electronics, glass, or metal surfaces, temporary adhesive films applied during product transport		CFR Cost (Ksh)	Unit	Weight/Unit (kg)	Import Duty @ 25%	Excise duty @ 25%	Excise duty @ Ksh 200/kg	Total Duty and Excise as a % of CFR	Printed PVC Edge banding	9	Per Metre	0.023	2.25	2.81	4.53 ~50%	6.78 ~75%	Printed PVC Laminates	655	Per SQM	2.120	163.75	204.69	424 ~65%	587.75 ~90%
	CFR Cost (Ksh)	Unit	Weight/Unit (kg)	Import Duty @ 25%	Excise duty @ 25%	Excise duty @ Ksh 200/kg	Total Duty and Excise as a % of CFR																				
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			<ul style="list-style-type: none"> Removal of excise duty will reduce the cost of packaging and labelling materials.
27.	<p>New Proposal</p> <p>Imported Gas Cylinders First schedule of the Excise Duty Act.</p> <p>Excise Duty on Imported gas cylinders at the rate of 35%</p>	Exempt Industrial and Medical gas cylinders of tariff code – 7311.00.90 from the excise duty	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> Industrial and medical gas cylinders are high-pressure containers for storing and transporting industrial gases. These kinds of gas cylinders are critical for various sectors of the economy, specifically the health sector. However, they are not manufactured in Kenya or in the region. Importing this kind of gas cylinder attracts a 35% excise duty, which was introduced in Kenya in 2019, primarily aimed at promoting local manufacturing and reducing reliance on imports for the LPG cylinders, which at that time, under the EAC CET, has no distinct description from other compressed gas cylinders. In February 2025, the EAC CET tariff on gas cylinders (7311) was split to cater for LPG cylinders (7311.00.10, which are manufactured in sufficient quantities, and the other compressed gas cylinders (7311.00.90), which at the moment are not manufactured in the Country and the region. This split allows the formation of appropriate policies to guide the taxation part. <p>It is with this justification; the industrial and medical gas cylinders should be exempted from the excise duty of 35%.</p>
28.	<p>New Proposal</p> <p>Imported Printing Ink</p>	Amend the Excise duty Act to remove excise duty on inks of tariff: 3215.11.00 and 3215.19.00	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> Printing inks are special products used in printing and consist of pigment or pigments of the required color.


	<p>First Schedule of the Excise Duty Act</p> <p>Excise Duty on Imported printing ink of tariff 3215.11.00 and 3215.19.00 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin at the rate of 15%.</p>		<p>Inks are intermediate products used in the manufacturing process to provide final finish to the product description/labelling.</p> <ul style="list-style-type: none"> • The following inks are manufactured locally: <ul style="list-style-type: none"> ○ Offset printing inks ○ Solvent based printing inks ○ Water based flexo inks ○ NCPU inks ○ Gravure inks. ○ Screen printing inks ○ Metal decorating inks & can coating ○ Reverse printing flexo inks ○ Anti-freeze inks • The following inks are not locally manufactured: <ul style="list-style-type: none"> ○ UV inks ○ Heat transfer inks ○ Security inks ○ Metallic hot foil (liquid, paste forms etc) • Inks not manufactured in Kenya are high speciality inks used in cheque printing, anti-counterfeit labels among others. • However, all inks are classified within the two HS codes making it difficult to distinguish between locally manufactured and those not manufactured locally. Manufacturers using speciality inks therefore face competitive disadvantage in the region to high cost of inks occasioned by excise duty. Since introduction of excise duty on inks (quarter one 2025), label
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			<div>manufacturers experienced a drop in exports by 5% due to the high cost of production as shown:</div> <div><div>5% export of labels drop in Q1 2025.</div></div>																						
29.	<div>New proposal</div> <div>The First Schedule to the Excise Duty Act</div>	<div>Introduce excise duty on safety glass 7007.19 and 7007.29 at a rate of 35% of Ksh. 500 per SQM, whichever is higher. This is a product made locally from float glass.</div> <table><tr><th colspan="2">Calculation of the Specific Duty on safety glass - Tariff 7007</th></tr><tr><td>CIF</td><td>Ksh1,130.00</td></tr><tr><td>Import duty</td><td>Ksh113.00</td></tr><tr><td>Excisable value</td><td>Ksh1,243.00</td></tr><tr><td>Value of excise duty</td><td>Ksh435.05</td></tr><tr><td>Average specific duty</td><td>Kshs 500/M2</td></tr></table>	Calculation of the Specific Duty on safety glass - Tariff 7007		CIF	Ksh1,130.00	Import duty	Ksh113.00	Excisable value	Ksh1,243.00	Value of excise duty	Ksh435.05	Average specific duty	Kshs 500/M2	<div>This Proposal is based on the following justifications:</div> <ul style="list-style-type: none">• Tariff code 7007 is a finished product produced from float glass.• Currently, there are seven (7) glass processors in Kenya that have a combined output of more than 500,000m² a month. Their production capacity for finished glass is more than sufficient to meet the demand within our country• Glass processors generate a tremendous amount of revenue for the government through taxes and economic activity.• Kenyan Glass Processors directly employ over 5,000 Kenyans and more than 10,000 indirectly. The final product produced covers a variety of safety glass types. This includes bulletproof glass, vehicle glass, balcony glass, and building facades, among other applications that protect Kenyans' lives. <div>Regional Competitiveness</div> <table><tr><th>Key Taxe(s)</th><th>Kenya- after the Excise Duty Amendment of 2025</th><th>Uganda</th><th>Tanzania</th><th>Rwanda</th></tr><tr><td>IDF</td><td>2.5</td><td>0</td><td>0</td><td>2.5</td></tr></table>	Key Taxe(s)	Kenya- after the Excise Duty Amendment of 2025	Uganda	Tanzania	Rwanda	IDF	2.5	0	0	2.5
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RDL	2%	0%	1.5%	1.5%														
Import Duty (CET rate -10%)	10%	25% (Stay)	35% (Stay)	10%														
Total	14.5%	25%	36.5%	14%														
30.	<p>New Proposal</p> <p>Acrylic Polymers</p> <p>First Schedule of the Excise Duty Act</p> <p>Excise Duty on Imported Emulsion B.A.M of 3906.90.00 at the rate of 20%</p>	Amend the Excise duty Act to remove excise duty on acrylic polymers of Hs code 3906.90.00.	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">Tariff 3906.90.00 is a generic tariff covering various polymers with different grades used in the manufacture of<ul style="list-style-type: none">inks,automotive paints,PaintsLeather treatment.KAM together with the Ministry of Industry through a joint verification established that the local installed capacity for emulsion BAM (3906.90.00) is 2,400 tons/year against a															

			<p>demand of 23,584 tons/year (See Resins Verification Report, 2023).</p> <ul style="list-style-type: none"> • The locally available capacity is limited to acrylic resins for a limited range of ordinary paint. The verification report showed that acrylic resins for manufacture of inks, automotive paints and leather treatment are not manufactured locally. • Further, B2B engagements between ink manufacturers and local resin manufacturers have indicated that for acrylic resins for manufacture of inks, automotive paints and leather treatment cannot be manufactured locally due to the lack of raw materials. • Currently manufacturers are forced to import this resin making the manufacturing of inks, paints uncompetitive leading a reduction in exports and an influx in imports of finished paints. • The excise duty makes the product expensive making local exports uncompetitive. • To accommodate SMEs using the product in the leather sector since the sector has many members in MSMEs
31.	<p>New Proposal</p> <p>Imported Unsaturated Polyester</p> <p>First Schedule of the Excise Duty Act</p>	<p>Amend the Excise duty Act to remove Excise Duty on Unsaturated Polyester of Hs code 3907.91.00 for manufacture of powder coating paints.</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • Unsaturated polyester is a raw material used in the manufacture of paints and inks. It appears in <ul style="list-style-type: none"> ○ Solid - used in the manufacture of powder coating paint, not locally manufactured ○ Liquid state – manufacture of liquid-based paint, locally manufactured for paint manufacturers.

	Excise Duty on Imported Unsaturated Polyester of 3907.91.00 at 20%.		<ul style="list-style-type: none"> Local resin manufacturers only manufacture unsaturated polyester in liquid form. B2B engagements have revealed that local resin manufacturers are unable to manufacture unsaturated polyester in solid state hence the need to exempt them from excise duty. The current excise duty negatively impacts manufacturers of powder coating paints as well as ink manufacturers as they are forced to pay excise duty, yet the product is not locally manufactured. As such, there is need to support the local powder coating manufacturers as the local resin manufacturer develops capacity to manufactures. This will allow the growth of the powder coating industry. Currently, there are only two powder coating paint manufacturers. Exemption from excise duty for the raw material will allow growth in the industry and enhance competitiveness of local manufacturing.
32.	<p>New Proposal</p> <p>Imported Saturated Polyester</p> <p>First Schedule of the Excise Duty Act</p> <p>Excise Duty on Imported Saturated Polyester of 3907.99.00 at 20%.</p>	Amend the Excise duty Act to remove Excise Duty on Saturated Polyester of Hs code 3907.99.00 for manufacture of biodegradable/ compostable and inks.	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> Saturated polyester is a raw material used in the manufacture of paints, inks and biodegradable products such as planting tubing's/bags, bin-liners. It appears in <ul style="list-style-type: none"> Solid - used in the manufacture of powder coating paint, not locally manufactured Liquid state – manufacture of liquid-based paint, locally manufactured for paint manufacturers. <p>Impact on biodegradable products</p>

			<ul style="list-style-type: none"> • The Government through the National Environment Management Authority (NEMA) issued directives to manufacturers of plastics planting tubing/bags to transition to 100% biodegradable materials. • To comply with the Government directive manufacturers, use saturated polyester as the key raw material for manufacture of biodegradable products. • Local resin manufacturers have indicated inability to manufacture saturated polyester forcing local plastic manufacturer to import the product. • The imposition of excise duty on the saturated polyester (pellets) increases the cost of production of the biodegradable products such as planting tubings/bags. • The price of a single seedling bag will increase by 20%, this increase contradicts Kenya's commitment towards 100% transition in biodegradable products as well as the commitment towards 15 billion trees by 2032. <p>Impact on Powder coated Paint</p> <ul style="list-style-type: none"> • Powder coated paint is an emerging industry in Kenya, with only two investors in the country with a monthly installed capacity of 50,000 tons. Since 2024, the industry started exporting powder coated paints to various countries including West Africa. • Saturated polyester is a major ingredient accounting for over 60% of the finished product. Saturated polyester is not locally manufactured (see attached B2B resolution)
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			<ul style="list-style-type: none">• Currently imported powder coating is cheaper compared to locally manufactured, local manufacturers have continued to lose market to imports.• Currently saturated polyester attracts 10% import duty, addition of 20% excise further put local manufacturers at a competitive disadvantage. <div><p>36% price increase and 38% higher than imported finished powder coated paint</p><table><tr><th>Category</th><th>Before Finance Bill 2025</th><th>After Finance Bill 2025</th></tr><tr><td>Imported</td><td>520.00</td><td>520.00</td></tr><tr><td>Locally Manufactured</td><td>550.00</td><td>720.00</td></tr></table></div>	Category	Before Finance Bill 2025	After Finance Bill 2025	Imported	520.00	520.00	Locally Manufactured	550.00	720.00
Category	Before Finance Bill 2025	After Finance Bill 2025										
Imported	520.00	520.00										
Locally Manufactured	550.00	720.00										
33.	New Proposal First Schedule of the Excise Duty Act	I. Amend the Excise duty Act to Exempt ink and automotive paints manufacturers from excise duty on <ul style="list-style-type: none">- 3903.90.00 Polymers of styrene, in primary forms.- 3903.20.00 Styrene-acrylonitrile (SAN) copolymers	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">• The National Resins verification report established that there is no sufficient local capacity to manufacture resins. Resins are used for various industries including:<ul style="list-style-type: none">○ Ink manufacturing○ Automotive paints○ Leather○ Normal paint○ Packaging and Biodegradable materials									

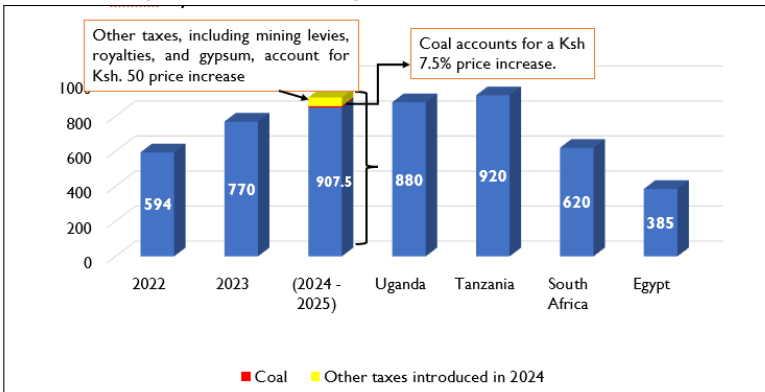
		<ul style="list-style-type: none"> - 3905.21.00 Vinyl acetate copolymers - 3907.50.00 -Alkyd resins <p>2. Amend the Excise duty Act to reduce the excise duty on the following resins from 20% to 10%:</p> <ul style="list-style-type: none"> - 3903.90.00 Polymers of styrene, in primary forms. - 3903.20.00 Styrene-acrylonitrile (SAN) copolymers - 3905.91.00 Vinyl acetate copolymers - 3907.50.00 -Alkyd resins 	<ul style="list-style-type: none"> ○ Adhesive for manufacturing rubber • Currently, there is local manufacturing of resins of tariff: 3903.90.00, 3903.20.00, 3905.91.00, 3907.50.00. However, grades for ink manufacturing and leather are not locally manufactured hence the need for exemption. • In addition, imposition of 20% excise duty is significantly high leading unintended increase in the cost of production for paint manufacturers. • This has led to significant level of diversion of trade as paint imports have started increasing against the initial trend before the imposition of excise duty. While the sale of local resins has not increased. • There is therefore need to reduce the excise duty to 10% while exempting ink and automotive manufacturers as the resin is not locally manufactured. • Rubber manufactures import Vinyl Acetate Ethylene Copolymers. (VAE Copolymers) to manufacture adhesives for industrial use. • VAE is a copolymer formed through the polymerization of Vinyl Acetate & Ethylene in an aqueous medium. Since Ethylene is a gas, it is liquified under high pressure and pumped into the reactor to facilitate the copolymerization process with Vinyl Acetate. This process involves sophisticated technology which is why only a limited number of companies worldwide are capable of producing this copolymer. Notably, there are no companies undertaking this specific polymerization process in the Middle East & Africa.
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			<ul style="list-style-type: none"> • These VAE Copolymers are a base raw material for making various type of adhesives locally which are used in many different industries. • Excise duty on this base raw material heavily impacts the local production of adhesives against imported finished alternatives and also heavily impacts the industries using these adhesives for manufacture of their products.
34.	<p>New Proposal</p> <p>Articles of Plastic</p> <p>First Schedule of the Excise Duty Act</p> <p>Excise on Articles of plastic of tariff heading 3923.30.00 at the rate of 10%</p>	Remove Excise Duty of 10% on Articles of plastic of tariff heading 3923.30.00 and 3923.90.90	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • The tariff heading 3923.30.00 and 3923.90.90 are for packaging materials used in furthering manufacturing processes eg food and beverage, agro-processing, industrial packaging among others. • Packaging materials are not finished goods in themselves, but they are used as inputs in the manufacturing processes. • Introduction of excise duty on articles of plastics both local and imports disadvantages local manufacturers and increases the cost of locally produced packaging materials and finished packaged products. • The cost of locally manufactured goods increases with finished imports becoming more competitive in the local market, as the packaging for finished imports does not attract excise duty. Also exports from Kenya become uncompetitive in the region as the packaging cost increase is transferred to the consumer. • Increased prices have an impact on local start-ups specifically SME's that will compete with established companies, with the benefit of economies of scale, thus

			<p>the environment possesses a challenge. Further, companies that have internal capacity to manufacture packaging materials will have an added advantage over SME's sourcing from commercial manufacturers.</p> <ul style="list-style-type: none">• The excise duty does not apply to imported finished goods and to products manufactured by self-moulding companies. This affects commercial blowers/moulders of packaging materials, employment opportunities, leads to loss of government revenue.• The prices for packaging for products will increase as follows: <table><tr><th colspan="2">Pre-Tax Laws Amendment Act 2024</th><th colspan="3">After-Tax Laws Amendment Act 2024</th></tr><tr><th>Type of plastics</th><th>Ksh</th><th>Ksh</th><th>Price difference</th><th>% change</th></tr><tr><td>20Ltr Jerrycan</td><td>200.00</td><td>220.00</td><td>20</td><td>10</td></tr><tr><td>5Ltr Jerrycan</td><td>92.80</td><td>102.08</td><td>9.28</td><td>10</td></tr><tr><td>3Ltr Jerrycan</td><td>46.40</td><td>51.04</td><td>4.64</td><td>10</td></tr><tr><td>2Ltr Jerrycan</td><td>40.60</td><td>44.66</td><td>4.06</td><td>10</td></tr><tr><td>1Ltr Jerrycan</td><td>30.16</td><td>33.18</td><td>3.02</td><td>10</td></tr></table>	Pre-Tax Laws Amendment Act 2024		After-Tax Laws Amendment Act 2024			Type of plastics	Ksh	Ksh	Price difference	% change	20Ltr Jerrycan	200.00	220.00	20	10	5Ltr Jerrycan	92.80	102.08	9.28	10	3Ltr Jerrycan	46.40	51.04	4.64	10	2Ltr Jerrycan	40.60	44.66	4.06	10	1Ltr Jerrycan	30.16	33.18	3.02	10
Pre-Tax Laws Amendment Act 2024		After-Tax Laws Amendment Act 2024																																				
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1Ltr Jerrycan	30.16	33.18	3.02	10																																		
35.	<p>New Proposal</p> <p>Allowance for spirits processing and transit losses.</p> <p>Section 12 (1) of the Excise Duty Act provides as follows: This section shall apply where the First Schedule specifies a rate of excise duty payable by reference to a</p>	<p>We propose as follows:</p> <p>a) Amend the Excise Duty Act 2015 and Regulations 2020 to provide for an allowance for spirits processing and transit losses.</p> <p>b) Delete Section 36 (2) and replace it with: -</p> <p>2) Where the Commissioner under paragraph (1) directs ascertainment by the volume shall be calculated—</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">• The process of measuring volume of Spirits sold by distillers or received by manufacturers of spirits has changed due to the introduction of mass flow meter which are approved by Weights and Measures for custody transfer application. Temperature influences ethanol volume readings. When the readings are taken at warmer temperatures, the ethanol quantity is usually higher as opposed to a colder temperature. This lack of standardisation normally results in significant losses.																																			

	<p>quantity measured by volume or weight.</p> <p>Under Regulation 36(1) “The volume of spirits contained in any container may be ascertained for any purpose by weight, measure or gauge as the Commissioner may direct.”</p> <p>Under Regulation 36(2)- “Where the commissioner under paragraph directs ascertainment by weighing, the volume shall be calculated : -</p>	<p>a) by use of a mass flow meter at twenty degrees centigrade with an accuracy of +/-3% of the measured volume in liters</p>	<ul style="list-style-type: none"> • Prior to 2015, the Customs and Excise tax law in Kenya used to provide for a 1% spirits process and transit loss allowance on excisable raw materials. • Regulations in other jurisdictions such as South Africa, Europe, US and UK provide for allowances for spirits processing losses. <p>Expected outcomes.</p> <ul style="list-style-type: none"> • Manufacturers will be shielded from paying excess taxes due to variations in readings at ethanol source and destination and due to evaporation, that happens in transit. • Increase competitiveness of legally produced Spirits products which are under pressure from the threat of illicit products
36.	<p>New Proposal</p> <p>Removal of excise duty for the leather sector</p>	<p>Remove excise duty on Imported paints, varnishes and lacquers of heading 3210.00.10, 3208.90.10, 3209.90.90</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • Used for processing finished leather. Leather sector is one of the government priorities and is expected to provide employment and support value addition. • To enhance competitiveness of leather in the local and international markets. • There is no local manufacturer for this product for the leather sector. • Leather Products will be available locally with fair prices. • Job creation in leather industry • Have fair competition with international leather markets
37.	<p>New Proposal</p>	<p>We propose for Excisable input/raw materials used in the</p>	<p>This is based on the following justifications:</p>

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			<p>sector. All factors put together will likely see the rise of the cement prices increase by close to Ksh. 57 if not addressed</p>  <table><tr><th>Year/Region</th><th>Price (Ksh)</th></tr><tr><td>2022</td><td>594</td></tr><tr><td>2023</td><td>770</td></tr><tr><td>(2024 - 2025)</td><td>907.5</td></tr><tr><td>Uganda</td><td>880</td></tr><tr><td>Tanzania</td><td>920</td></tr><tr><td>South Africa</td><td>620</td></tr><tr><td>Egypt</td><td>385</td></tr></table> <p>Other taxes, including mining levies, royalties, and gypsum, account for Ksh. 50 price increase</p> <p>Coal accounts for a Ksh 7.5% price increase.</p> <p>■ Coal ■ Other taxes introduced in 2024</p> <p>Data Source KAM Computation</p> <ul style="list-style-type: none">The sectors likely to be impacted is the construction industry and, more so, the Affordable Housing program. With all the additional taxes, for every 100,000 housing units, the cost of cement will go up by approximately 1.1 billion.	Year/Region	Price (Ksh)	2022	594	2023	770	(2024 - 2025)	907.5	Uganda	880	Tanzania	920	South Africa	620	Egypt	385
Year/Region	Price (Ksh)																		
2022	594																		
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Uganda	880																		
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South Africa	620																		
Egypt	385																		
39.	<p>New Proposal</p> <p>Cosmetics and Beauty Products</p> <p>First Schedule of the Excise Duty Act</p> <p>Excise Duty on Cosmetics and Beauty products of tariff heading</p>	<p>Amend the Excise Duty Act to remove excise duty on cosmetics of heading – 3304, 3305, 3306 & 3307</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">It should also be noted that most of the raw materials for manufacture of cosmetics in Kenya are subject to excise duty such glass bottles, resins and plastic tubes. This has significantly impacted the manufacture of cosmetics leading to some leading firms to close, such as, wig manufacturers.Kenya has the highest excise tax rate in the region, which makes our product uncompetitive.This has led to trade diversion while there has been an increase in the imports of cosmetics products from the region.																

	No. 3303, 3304, 3305 and 3307 at the rate of 15%		<ul style="list-style-type: none"> • If this is not reverted Kenya will become a net importer of cosmetics leading to massive job losses as well as loss of government revenue. • Medium term revenue Strategy document proposed the harmonization of excise taxes across the region.
TAX PROCEDURES			
40.	Clause 47 (m) (v) Amendment of section 42 (14) by deleting paragraph (e) that restricts the Commissioner from issuing a notice where the taxpayer has appealed a decision.	We propose the deletion of this provision.	This is based on the following justifications: <ul style="list-style-type: none"> • This proposal, if passed, will give the Commissioner powers to issue an agency notice after a tribunal or court decision, without granting taxpayer time to appeal. The law provides 30 days to appeal after the decision is made. • With the proposal taxpayers will be required to pay the tax in dispute and then appeal. This denies a taxpayer's right to full determination of their case before paying and gives the Commissioner an unfair advantage to collect tax in dispute.
41.	Clause 50 (a) Amendment of section 47 (1)(a) of the Act to remove input VAT as one of the taxes that can be offset by overpaid tax.	We propose the deletion of this proposal. Or In the alternative, we propose to substitute the phrase “and input value added tax” with “including VAT payable on imports.”	This proposal is based on the following justifications: <ul style="list-style-type: none"> • This proposal will impact import input VAT for the petroleum subsector who have been advocating for the operationalization of the offsets. • The alternative proposal seeks to enhance better compliance by the taxpayers by capturing VAT payable on imports. • To further support genuine taxpayers, KRA should avoid cash refunds and allow set off of taxes that are usually payable by corporations that are going concerns e.g. corporation tax, instalment tax, import tax, PAYE etc.
42.	Clause 50 (b)	Retain the current period of 90 days.	This proposal is based on the following justifications:

	Amendment of section 47 (2) of the Act by increasing the time the Commissioner shall determine an application for offset of overpaid tax from 90 to 120 days.		<ul style="list-style-type: none"> • The time period to refund is already long enough as it is. Extending it even further will hurt the cash flows for taxpayers. • Currently it takes several months to even get the offset approval and even more time is spent to get the refund adjustment voucher. • Taxpayers have quite often been compelled to obtain bank loans to keep running, yet they are legitimately owed billions in refunds.
43.	Clause 50 (c) Amendment of section 47 (4A) of the Act by increasing the time the Commissioner takes to ascertain an application for offset where an audit has been undertaken from 120 days to 180 days.	Retain the current period of 120 days.	
44.	Clause 52 Deletion of section 59A (1B) Removal of Data Privacy Exception for Personal Data and Trade Secrets	We propose the deletion of this clause.	This is based on the following justifications: <ul style="list-style-type: none"> • The clause in the Bill conflicts with existing legal frameworks, both local and international. • The clause goes against Article 31 – Right to Privacy of The Constitution of Kenya (2010). KRA would have the right to demand access to personal and private data, which could infringe on the Constitutional right to privacy. • Deletion of the clause violates several sections of the Data Protection Act, 2019 including but not limited to Section 25,26, 29, and 31 • Kenya, as a regional tech and financial hub, risks undermining investor confidence and international data

			<p>transfer agreements if it weakens its data protection framework</p> <ul style="list-style-type: none"> • Forcing disclosure of proprietary business information could violate intellectual property rights and deter innovation and investment. • Businesses may relocate data operations to jurisdictions with stronger protection. This will of course be preceded by retrenchment and increased unemployment; a problem that Kenya is severely grappling with. • The deletion could lead to constitutional petitions and judicial reviews, potentially invalidating tax assessments based on unlawfully obtained data.
45.	<p>Clause 54 Deletion of section 77 (2)</p> <p>Exclusion of weekends and public holidays in computation of days for submission of objections and appeals</p>	We propose the deletion of this clause.	<p>This is based on the following justifications:</p> <ul style="list-style-type: none"> • This shortens the window for filing objections and appeals.
46.	<p>New Proposal</p> <p>VAT Tax Refund Fund</p>	<p>Introduce new provisions establishment of a fund to cater for all refunds as follows:</p> <p>Introduce a new Section 24 A to the Public Finance Management Act to read as follows:</p>	<p>This proposal is made on the following justification:</p> <ul style="list-style-type: none"> • A tax refund is the excess amount of tax that a taxpayer has paid to the Government arising from any of the taxes. It therefore should not be considered as Government revenue and reimbursed upon confirmation of the same. • The payment of refunds in the country has faced a lot of delays and affected the liquidity of businesses, especially

		<p>Establishment of a Tax Refund Fund</p> <p>(1) There is established a fund to be known as the Tax Refund Fund which shall be administered by the Cabinet Secretary of matters relating to Finance.</p> <p>(2) There shall be paid into the Fund 1% of the monthly tax-</p> <p>a) Collected from any tax law including, the Tax Procedures Act, Income Tax Act, Excise Duty Act, Value Added Tax, and Miscellaneous Fees and Levies Act; and</p> <p>b) for the purpose of payment of refunds arising from excess and/or erroneous payment of tax under any tax law including, the Tax Procedures Act, Income Tax Act, Excise Duty Act, Value Added Tax, and Miscellaneous Fees and Levies Act.</p> <p>(3) Payment from the Fund shall be made without undue delay to cover all amounts owed by the Government payable as refunds.</p> <p>(4) Not later than three months after the end of each financial year, the</p>	<p>for manufacturers. The delays have been attributed to the process of reversing back the money once it has been paid into the national consolidated fund.</p> <ul style="list-style-type: none"> • The Government has acknowledged the challenges of refunds and has over the years addressed backlogs of refunds owed to manufacturers. However, the issue continues to recur and there is a need for a sustainable solution. • This proposal seeks to address this issue sustainably by having the amounts of refund paid promptly by the Kenya Revenue calculated: • If this proposal is adopted, it will enhance cash flow for businesses and reduce the cost of doing business.
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		<p>National Treasury shall prepare and submit to the Auditor-General financial statements for that year in respect of the Tax Refund Fund.</p> <p>(5) The Cabinet Secretary may by notice in the Gazette provide for the mode of administration of the Fund established under subsection (1).</p> <p>Or</p> <p>Enact a dedicated Tax Refund Bill 2019 to provide for refunds of Tax under powers given to the Cabinet Secretary of the National Treasury under Section 24 (3) of The Public Finance Management.</p>	
47.	VAT Special Table	<p>We propose an overhaul of the VAT special table to protect compliant companies.</p>	<p>The consequences of this law are as follows:</p> <ul style="list-style-type: none"> • Penalising an innocent party in a transaction, even when they have complaint with the VAT act and paid in full • Reputational damage of the supplier especially where the mistake was not purposely committed • Cashflow constraints for businesses, which may lead to adjustment of prices to cover for VAT not claimed. This will lead to inflation and competitiveness of Kenyan products impacting on taxes and employment • Penalties and interest loaded automatically in the ledger. KRA procedures are not very friendly when it comes to

			<div>correcting their own errors and takes years, triggering unnecessary audits.</div> <div><div></div><div>• Administrative burden to the business that are already struggling to be competitive</div><div>• No prior communication/notification and the system is opaque</div><div>• This situation has created uncertainty, unfairness and inability to determine the cost of production for the business.</div></div>																																								
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48.	<div>Clause 59 (a)</div> <div>Amendment of the Third Schedule to the Act</div> <div>Imposition of 10% EIPL on Semi-finished products of iron or non-alloy steel.</div>	<div>We propose to reduce EIPL rate on Semi-finished products of iron or non-alloy steel to 0%</div>	<div>This proposal is based on the following justification:</div> <div><div></div><div>• The Export and Promotion Levy Rate has not brought in the exports needed for the country and made the steel products in the country less competitive, losing significant market share to neighbouring countries Tanzania and Uganda, where such rates do not apply.</div></div> <table><tr><td>Name of tax</td><td>Kenya: Before the introduction of EIPL</td><td>Kenya before the Finance Bill 2025</td><td>Kenya After Finance Bill 2025</td><td>Uganda</td><td>Tanzania</td><td>Rwanda</td><td>Burundi</td></tr><tr><td>EIPL</td><td>-</td><td>17.5%</td><td>10%</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Import duty</td><td>10%</td><td>10% (Stay)</td><td>10%</td><td>0%</td><td>0%</td><td>0%</td><td>0%</td></tr><tr><td>IDF</td><td>2.5%</td><td>2.5%</td><td>2.5%</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>RDL</td><td>1.5%</td><td>2%</td><td>2%</td><td>-</td><td>-</td><td>-</td><td>-</td></tr></table>	Name of tax	Kenya: Before the introduction of EIPL	Kenya before the Finance Bill 2025	Kenya After Finance Bill 2025	Uganda	Tanzania	Rwanda	Burundi	EIPL	-	17.5%	10%	-	-	-	-	Import duty	10%	10% (Stay)	10%	0%	0%	0%	0%	IDF	2.5%	2.5%	2.5%	-	-	-	-	RDL	1.5%	2%	2%	-	-	-	-
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				AUL	-	-	-	-	-	0.2 %	-
				QIF	-	-	-	-	-	0.2 %	-
				Total	14.5%	32%	24.5%	1.5 %	1.5 %	1.9 %	0%
				<ul style="list-style-type: none"> • The proposal to remove the levy altogether will still allow the local manufacturers of raw material to be competitive at 14.5%, i.e., import duty of 10%, IDF & RDL at 4.5%. • Due to these 32% import duties, there has been a serious negative impact on the Kenyan manufacturers, among the impacts are: • Loss of export market: There has been huge demand of rebars, which is a product from billets in neighbouring countries, and Kenyan industries are unable to supply them because of the high price. The high prices of rebars is due to that the prices of local Raw materials are equal to the price of the finished goods in these countries. The Imported Raw material (Billets) is approximately US\$480 to \$490, while the local one is approximately US\$650. If the industry adds the production cost, the finished goods come to approximately US\$600 using Imported Raw Materials, while it will be approximately US\$770 using 							

			<p>local Raw materials. The market price of the finished goods is approximately US\$650 to US\$680.</p> <ul style="list-style-type: none"> • Increase in the local prices of finished goods by 20%: the impact of this is that the construction industry, the affordable housing program will be the hardest hit. Over the past few years, construction has shown a decline due to the increased cost of construction materials. This decline in construction activities is a bad indicator for the economy. • Trade agreements signed by the Kenyan government, such as AfCFTA & COMESA: The Export & Investment Promotion Levy is considered a non-tariff barrier and therefore is illegal as per the treaties signed. South Africa & Egypt have already raised complaints of the NTBs created by Kenya with regard to the EIPL and that they would reciprocate in a similar manner to exports of products such as Tea & Coffee from Kenya. Mauritius recently lost a case in the COMESA court for imposing a similar protectionist tax. • Single supplier: There is only 1 manufacturer selling Billets. This practice is not good for industry as the same manufacturer has a downstream production, hence eroding fair competition in the industry. This is further compounded by the fact that our neighbours do not have the duty & levy burden that Kenyan manufacturers have. • Encouraging trading: Most of the Kenyan manufacturers are becoming traders and are contemplating selling products manufactured in Uganda or Tanzania. There are more than 25 Mills in Kenya that
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			<p>are facing this stark future. The table below shows a case example of rebars import trend from 2020 to 2024. From the table below, it is clear that our EAC counterparts, Uganda and Tanzania, are now entering the Kenyan market, in 2023. On the other hand, Kenya is also losing the export market, in 2023, Kenya exported 48,679 tons of tariff line 7214 while in 2024 the exports declined drastically to 17,767 tons, this is a 63% decline.</p> <table><tr><th>Imports – 7214 in Tons</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th></tr><tr><td>Egypt</td><td></td><td></td><td></td><td></td><td>14969</td></tr><tr><td>Uganda</td><td></td><td></td><td>6059</td><td>466</td><td>7644</td></tr><tr><td>China</td><td>355</td><td>204</td><td>133</td><td>638</td><td>2786</td></tr><tr><td>Tanzania</td><td></td><td></td><td>139</td><td>64</td><td>721</td></tr><tr><td>India</td><td>4</td><td>6</td><td>11</td><td>5</td><td>14</td></tr><tr><td>Others</td><td>384</td><td>714</td><td>152</td><td>5</td><td>15</td></tr><tr><td>Total</td><td>743</td><td>924</td><td>6,494</td><td>1,178</td><td>26,149</td></tr></table> <ul style="list-style-type: none">Concerns on quality: The manufacturers have raised concerns about the quality of the local billets supplied and therefore forcing industry to source the billets elsewhere, since the steel standard should not be a subject of compromise. A few months ago, KEBS flagged several substandard steel products on the market, which was not a good indication.	Imports – 7214 in Tons	2020	2021	2022	2023	2024	Egypt					14969	Uganda			6059	466	7644	China	355	204	133	638	2786	Tanzania			139	64	721	India	4	6	11	5	14	Others	384	714	152	5	15	Total	743	924	6,494	1,178	26,149
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49.	<p>Clause 59 (b) Amendment of the Third Schedule to the Act</p> <p>Imposition of 10% EPIL on Bars and rods of iron or non-alloy steel, hot rolled, less than 14mm in diameter.</p>	<p>We propose to reduce EIPL rate on Bars and rods of iron or non-alloy steel, hot rolled, less than 14mm in diameter to 0%</p>	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none">• The Export and Promotion Levy Rate has reduced the competitiveness of the wire rod coils market, which has again lost the country significant market share against neighbouring countries where similar levies and duties do not apply as shown in the comparative table below: <table><tr><th>Name of tax</th><th>Kenya before the EIPL</th><th>Kenya before the Finance Bill 2025</th><th>Kenya After Finance Bill 2025</th><th>Uganda</th><th>Tanzania</th><th>Rwanda</th><th>Burundi</th></tr><tr><td>EIPL</td><td>-</td><td>17.5 %</td><td>10%</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Import duty</td><td>25%</td><td>25%*</td><td>25%</td><td>0%(DRS)</td><td>0% (DRS)</td><td>0% (DRS)</td><td>0% (DRS)</td></tr></table>	Name of tax	Kenya before the EIPL	Kenya before the Finance Bill 2025	Kenya After Finance Bill 2025	Uganda	Tanzania	Rwanda	Burundi	EIPL	-	17.5 %	10%	-	-	-	-	Import duty	25%	25%*	25%	0%(DRS)	0% (DRS)	0% (DRS)	0% (DRS)
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IDL	-	-	-	1.5%	1.5%	1.5%	-
AUL	-	-	-	-	-	0.2%	-
QIF	-	-	-	-	-	0.2%	-
Total	29%	47%	39.5%	1.5%	1.5%	1.9%	0%

- The proposal to remove the levy altogether will still allow the local manufacturers of raw material to be competitive at 29.5%, i.e., import duty of 25%, IDF & RDL at 4.5%.
- Due to these 47% import duties, there has been a serious negative impact on the Kenyan manufacturers. Among the impacts are:
- **Loss of export market and encouragement of local trading:** There has been a sharp decline in the export market for some of the products manufactured by wire rods. A case example, nails of chapter 7317, shows that in 2023, Kenya exported **18,820 tons, with more than 60%** being the EAC market. A year later, in 2024, the exports declined to **13,504 tons, which is a 28% decline in the export market**. In a similar period, there was a gradual increase in imports, where Kenya imported 29% more in 2024 compared to 2023 of the same products.

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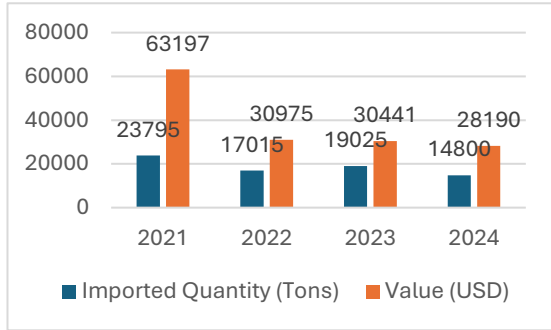
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Total	29%	47%	39.5%	1.5%	1.5%	1.9%	0%
<ul style="list-style-type: none"> The proposal to remove the levy altogether will still allow the local manufacturers of raw material to be competitive at 29.5%, i.e., import duty of 25%, IDF & RDL at 4.5%. Due to these 47% import duties, there has been a serious negative impact on the Kenyan manufacturers, among the impacts are: Loss of export market and encouragement of trading: There has been a sharp decline in the export market for some of the products manufactured by wire rods. A case example, nails of chapter 7317, shows that in 2023, Kenya exported 18,820 tons, with more 							

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51.	New proposal Amendment of the Third Schedule to the Act	Amend the Miscellaneous Fees And Levies Act to remove kraft paper of HS code: 4804.21.00; 4804.31.00, 4804.11.00,	<p>This proposal is based on the following justifications:</p> <ul style="list-style-type: none"> • The Government has committed to reducing the cost of packaging – especially environmentally friendly packaging.

Delete kraft paper of 10% EIPL on paper and paper board.	4804.29.00 4804.39.00 from the list of products attracting EIPL.	<ul style="list-style-type: none">• However, inputs for manufacture of packaging remain higher than imported finished packaging. Raw materials for packaging manufacturing are not locally manufactured – they include bleached sack kraft, unbleached sack kraft, bleached kraftliner and unbleached kraftliner.• The Table below shows the tax comparison between raw materials and finished imported packaging <table><tr><td></td><td>Imported finished tea bags</td><td>Imported raw materials for manufacture of tea bags</td></tr><tr><td>VAT</td><td>Exempt</td><td>16%* (non-recoverable under exemption)</td></tr><tr><td>Import duty</td><td>Exempt</td><td>35%</td></tr><tr><td>EIPL</td><td>Not Applicable</td><td>10%</td></tr><tr><td>RDL</td><td>2%</td><td>2%</td></tr><tr><td>IDF</td><td>2.5%</td><td>2.5%</td></tr><tr><td>Total Tax</td><td>4.5%</td><td>~65% (effective burden on local manufacturers)</td></tr></table> <p>The imbalance in duty for local manufacture of packaging have significantly eroded the Kenya's Exports as shown below:</p>		Imported finished tea bags	Imported raw materials for manufacture of tea bags	VAT	Exempt	16%* (non-recoverable under exemption)	Import duty	Exempt	35%	EIPL	Not Applicable	10%	RDL	2%	2%	IDF	2.5%	2.5%	Total Tax	4.5%	~65% (effective burden on local manufacturers)
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			<p>Exports of Packaging</p> <p>Reduction in exports due to Covid-19 - Global logistics reduction</p> <p>Exports stabilising after Covid -19</p> <p>Finance Act 2023 Introduced - Introduction of EIPL on raw materials</p> <p>Finance Bill 2025 - Introduce VAT exemption on finished packaging - EAC CMA EXEMPTS PACKAGING MATERIAL FOR TEA AND COFFEE FROM IMPORT DUTY - Exports expected to be terminated</p> <p>Quantity (tons)</p> <p>2020 2021 2022 2023 2024</p> <p>COMESA EAC Linear (COMESA) Linear (EAC)</p> <p>Source: ITC Trade Map, 2025</p> <p>This trend has led to the downsizing of paper packaging industries – leading to job losses and government revenue.</p>
52.	New Proposal Promotion of Locally Manufactured Textile Products	We propose to amend the Miscellaneous Fees and Levies Act to remove IDF and RDL exemptions on secondhand clothes and fabrics of heading 6309 and 5407 respectively, as follows:	This proposal is based on the following justifications: <ul style="list-style-type: none"> • The Tax Laws Amendment Act introduced IDF and RDL exemption on secondhand clothes and fabrics, of headings 6309 and 5407 respectively. • Used clothing, footwear, and other worn articles are finished products and cannot be used as raw materials.

		<p>a) Delete paragraph (xxxi) appearing in Part A of the Second Schedule.</p> <p>b) Delete paragraph (xvii) appearing in Part B of the Second Schedule.</p>	<ul style="list-style-type: none"> • Data shows that Kenya has been importing these products majorly from Pakistan, India & China. • Exemption from RDL & IDF therefore, will encourage importation of used clothing and as a result make Kenya a dumping ground for worn footwear and clothing • In addition, this will have adverse effects on the environment as currently the textile sector has been flagged as a major contributor to environmental degradation. • Mitumba has been a major source of frustration for domestic industries as in 1992, there were 54 textile mills in Kenya and only four are remaining and 80 garment manufacturers but only 30 are remaining. This has been attributed to the mitumba. • Both the value and quantities of import under Chapter 6309 have been on an upward trajectory: <table border="1"> <thead> <tr> <th>Chapter 6309</th><th>2021</th><th>2022</th><th>2023</th></tr> </thead> <tbody> <tr> <td>Quantity (Tons)</td><td>183,502</td><td>177,382</td><td>197,821</td></tr> <tr> <td>Value (USD)</td><td>172,676</td><td>169,438</td><td>188,428</td></tr> </tbody> </table> <p>Source: Tendata</p> <ul style="list-style-type: none"> • Fabrics of Heading 5407 are intermediate products used in the manufacture of garments and are locally manufactured by Textile Mills. • Notably, this proposal was not subjected to public participation as it was not in the bill • The figure below shows that the quantity being imported into the country has been on a decline from 23,795MT in 	Chapter 6309	2021	2022	2023	Quantity (Tons)	183,502	177,382	197,821	Value (USD)	172,676	169,438	188,428
Chapter 6309	2021	2022	2023												
Quantity (Tons)	183,502	177,382	197,821												
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			<p>2021 to 14,800MT in 2024. This implies growth in consumption of locally manufactured fabric of chapter 5407.</p> <ul style="list-style-type: none">Exemption from IDF and RDL is therefore not a welcome move as it will only incentivize imports to the detriment of local manufacturers. <div><table><tr><th>Year</th><th>Imported Quantity (Tons)</th><th>Value (USD)</th></tr><tr><td>2021</td><td>23795</td><td>63197</td></tr><tr><td>2022</td><td>17015</td><td>30975</td></tr><tr><td>2023</td><td>19025</td><td>30441</td></tr><tr><td>2024</td><td>14800</td><td>28190</td></tr></table></div> <p>Source: Tendata</p> <ul style="list-style-type: none">The figure below shows that imports of chapter 5407 have been on an upward trajectory.	Year	Imported Quantity (Tons)	Value (USD)	2021	23795	63197	2022	17015	30975	2023	19025	30441	2024	14800	28190
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			<div data-bbox="1240 191 2020 657"><p>Quanties (Tons)</p><table><tr><th>Year</th><th>Quanties (Tons)</th></tr><tr><td>2019</td><td>24,397</td></tr><tr><td>2020</td><td>22,341</td></tr><tr><td>2021</td><td>24,407</td></tr><tr><td>2022</td><td>27,404</td></tr><tr><td>2023</td><td>25,217</td></tr></table></div> <div data-bbox="1240 665 1373 697"><p>Source: ITC</p></div>	Year	Quanties (Tons)	2019	24,397	2020	22,341	2021	24,407	2022	27,404	2023	25,217
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