

Cytonn Note on the Finance Bill 2026

On 30th April 2026, the Cabinet Secretary for the National Treasury and Economic Planning presented the [Finance Bill 2026](#) to the National Assembly for approval. In comparison to the Finance Bill 2025, which primarily introduced targeted amendments across tax laws aimed at broadening the tax base and improving administrative efficiency within the existing framework, the 2026 Bill reflects a further shift toward strengthening compliance systems and addressing revenue leakages, with limited emphasis on introducing new tax categories.

The raft of tax changes in the Finance Bill 2026 are geared towards expanding the tax base and increasing revenues through sealing revenue leakages to meet the government's budget for the fiscal year 2026/2027 of Kshs 4.8 tn, as well as reduce the budget deficit and borrowing. The government's projects to increase revenues to Kshs 3.6 tn in FY'2027/2026, an 6.8% increase from the projected Kshs 3.4 tn in the FY'2025/26 revised estimates.

Below is a summary of the major changes as per the FY'2026/27 budget estimates from the expected FY'2025/2026 supplementary budget:

| Cytonn Report: Comparison of 2025/26 and 2026/27 Fiscal Year Budgets as per the FY'2026/27 Budget Estimates | | | | | |
|---|---|----------------------------|---|-----------------------------|-----------------------------|
| | FY'2025/2026 Revised Estimates (a) | FY'2026/2027 BPS (b) | FY'2026/2027 Budget Estimates (c) | % change | |
| | | | | 2025/26 to 2026/27 (a/b) | 2025/26 to 2026/27 (b/c) |
| Total revenue | 3,399.1 | 3,534.2 | 3,629.7 | 6.8% | 2.7% |
| External grants | 39.9 | 54.4 | 43.6 | 9.3% | (19.9%) |
| Total revenue & external grants | 3,439.0 | 3,588.6 | 3,673.3 | 6.8% | 2.4% |
| Recurrent expenditure | 3,393.2 | 3,464.6 | 3,538.7 | 4.3% | 2.1% |
| Development expenditure & Net Lending | 758.4 | 753.4 | 749 | (1.2%) | (0.6%) |
| County governments + contingencies | 486.8 | 497.5 | 497.5 | 2.2% | 0.0% |
| Total expenditure | 4,638.4 | 4,715.5 | 4,785.2 | 3.2% | 1.5% |
| Fiscal deficit excluding grants | 1,199.4 | 1,126.9 | 1,111.9 | (7.3%) | (1.3%) |
| Deficit as % of GDP | 6.43% | 5.30% | 5.34% | (17.0%) | 0.8% |
| Net foreign borrowing | 225.8 | 225.5 | 116.2 | (48.5%) | (48.5%) |
| Net domestic borrowing | 973.6 | 901.4 | 995.7 | 2.3% | 10.5% |
| Total borrowing | 1,199.4 | 1,126.9 | 1,111.9 | (7.3%) | (1.3%) |
| GDP Estimate | 18,642.5 | 20,947.4 | 20,816.8 | 11.7% | (0.6%) |

Source: National Treasury

Key take-outs from the table include:

- i. The FY'2026/27 budget estimates point to a 3.2% increase of the budget, to Kshs 4.8 tn from Kshs 4.6 tn in the FY'2025/26 Supplementary Budget I,
- ii. Recurrent expenditure is set to increase by 2.1% to Kshs 3.53 tn, from Kshs 3.46 tn as per the Budget Policy Statement and a 4.3% increase from Kshs 3.4 tn as per the Supplementary Budget I FY'2025/26, while development expenditure and net lending is projected to decrease by 0.6% and 1.2% to Kshs 749.0 bn from Kshs 753.4 bn and Kshs 758.4 bn as per the FY'2026/27 Budget Policy Statement and the Supplementary Budget I FY'2025/26 respectively. Under recurrent

expenditures, interest payments expenditures and pension increased by 9.7% to Kshs 1.5 tn, from Kshs 1.3 tn, in the FY'2025/26 Supplementary Budget I,

- iii. The budget deficit is projected to decline by 7.3% to Kshs 1.1 tn representing 5.3% of GDP from the projected Kshs 1.2 bn which is 6.4% of GDP in the FY'2025/26 Supplementary Budget I; in line with the International Monetary Fund's (IMF's) recommendation, in a bid to reduce Kenya's public debt requirements,
- iv. Total revenue and grants are projected to increase by 6.8% to Kshs 3.7 tn, from Kshs 3.4 tn in the FY'2025/26 Supplementary Budget I, supported by measures already in place to boost revenue performance. KRA is being strengthened through technology investment to modernise the tax framework, improve compliance, broaden the tax base and seal leakages under the National Tax Policy and Medium-Term Revenue Strategy. Non-tax revenue collections across MDAs are being enhanced through service-based reforms, while Treasury Single Account automation, accrual-based accounting under IPSAS standards, and pension administration digitisation are expected to strengthen expenditure discipline and reduce fiscal leakages. Structural rationalisation of state corporations under the Government-Owned Enterprises Act 2025 further aims to reduce contingent liabilities on the exchequer
- v. Total borrowing is expected to decline by 7.3% to Kshs 1.1 tn from Kshs 1.2 tn as per the FY'2025/26 Supplementary Budget I, in a bid to reduce Kenya's public debt burden. The Present Value of total public debt stood at 65.3% of GDP as at June 2025, 10.3% points above the approved benchmark of 55.0% of GDP as set by the EAC Monetary Union Protocol, the World Bank Country Policy and Institutional Assessment Index, and the IMF threshold. Notably, the debt ratio is projected to marginally worsen to 65.6% in 2026 before embarking on a gradual declining path to 65.0% in 2027, 64.2% in 2028 and 63.1% by 2029, still remaining above the 55.0% benchmark throughout the forecast horizon, underscoring the urgency of the Government's fiscal consolidation effort, and,
- vi. Debt financing of the 2026/27 budget is estimated to consist of 89.5% domestic debt and 10.5% foreign debt, from 81.2% domestic and 18.8% foreign as per the FY'2025/26 Supplementary Budget I.

Against this backdrop of fiscal consolidation and constrained fiscal space, the Finance Bill 2026 introduces a series of targeted measures that aim to broaden the tax base, strengthen tax administration, seal revenue leakages, and enhance compliance across various sectors of the economy. The Bill largely shifts away from broad-based tax rate increases and instead places greater emphasis on expanding withholding tax mechanisms, tightening filing and compliance timelines, enhancing taxation of digital and platform-based transactions, and improving enforcement efficiency within the existing tax framework. Below we highlight some of the key proposed tax changes, effective from 1st July 2026, contained in the Finance Bill 2026 and the implications.

a) Under the Income Tax Act, the Bill proposes to:

1. Introduce a tax amnesty on penalties and interest for tax liabilities relating to periods up to 31st December 2025, provided the principal tax is paid by 31st December 2026. This is expected to encourage settlement of outstanding tax obligations, improve voluntary compliance, and enhance revenue collection without increasing tax rates.
2. Introduce a 1.5% withholding tax on the sale of scrap metal, expanding the tax net into sectors perceived to have historically low compliance levels while improving traceability of transactions within the scrap metal value chain.
3. Introduce withholding tax on interchange fees and merchant service fees arising from card payment transactions. This effectively brings Visa, Mastercard, and other card-processing related

payments into the withholding tax framework, broadening the tax base within the financial services ecosystem.

4. Introduce a 20.0% withholding tax on winnings from gambling activities, enhancing taxation within the betting sector and increasing revenue collection from gaming-related transactions.
5. Increase the Monthly Residential Rental Income Tax rate to 10.0% from 7.5%, increasing the government's revenue collection from landlords while potentially exerting upward pressure on rental prices, particularly within the lower-middle income housing segment.
6. Introduce a 10.0% tax on rental income earned by non-resident persons from property situated in Kenya, expanding the tax base to include non-resident property owners earning Kenyan-source rental income.
7. Introduce taxation on the importation of second-hand clothes and similar items through a deemed profit mechanism equivalent to 5.0% of the customs value, with the tax payable upon importation and treated as a final tax. This is expected to enhance revenue collection from the mitumba sector while increasing operating costs for importers and traders.
8. Clarify the definition of immovable property by separating land-related interests from mining and petroleum rights, reducing ambiguity in tax interpretation and strengthening legal clarity in taxation of extractive and property-related transactions.
9. Require taxpayers to compute objection and appeal timelines using calendar days instead of working days, effectively shortening the practical response period available to taxpayers and increasing compliance pressure in tax disputes.
10. Expand the scope of withholding tax to selected digital and platform-based transactions, enhancing monitoring and taxation of the digital economy while increasing compliance obligations for digital service providers.
11. Introduce measures aimed at strengthening enforcement of tax compliance among informal sector participants and hard-to-tax sectors, supporting the government's broader revenue mobilization agenda.

b) Under the Excise Duty Act, the Bill proposes to:

1. Introduce a 25.0% excise duty on smartphones, mobile phones, telephone sets, and other communication devices upon activation on a local mobile network. This proposal is expected to increase the cost of imported mobile devices, particularly affecting consumers purchasing imported or second-hand phones, while also expanding government revenue collection from the rapidly growing telecommunications and electronics market.
2. Introduce a 50.0% excise duty on antique and vintage motor vehicles that are at least thirty years old. This proposal is expected to target luxury and collector assets, significantly raising the cost of acquiring and importing historic automobiles into the country, while also expanding government revenue collection from high-net-worth hobbyists and the luxury automotive sector.
3. Introduce a detailed definition of "amount deposited" for purposes of betting and gambling excise duty to include money, cash equivalents, tokens, credits, and similar instruments used in gambling transactions. This broadens the excise duty base by capturing alternative forms of value used in betting and gaming platforms, reducing loopholes within digital gambling ecosystems.
4. Introduce definitions for "virtual asset" and "virtual asset service provider" by linking them to the Virtual Asset Service Providers Act, 2025. This aligns the Excise Duty Act with the emerging digital asset regulatory framework and strengthens the government's ability to tax virtual asset-related transactions.
5. Extend excise duty exemptions to goods imported or acquired for official use by the National Intelligence Service (NIS), including machinery, equipment, supplies, and motor vehicles. This lowers procurement costs for strategic national security operations.
6. Introduce excise duty measures targeting selected digital and technology-related transactions, reflecting the government's continued shift toward taxation of emerging digital economic activities.

c) Under the Value Added Tax (VAT) Act, the Bill proposes to:

1. Exempt scrap metal from VAT, reducing input costs for recyclers and manufacturers dependent on recycled raw materials while potentially formalizing activity within the recycling sector.
2. Exempt inputs and raw materials used in the manufacture of animal feeds and pharmaceutical products from VAT, lowering production costs for manufacturers and potentially supporting affordability within the agriculture and healthcare sectors.
3. Exempt dialyzers used in kidney treatment from VAT, reducing treatment costs for dialysis patients and improving affordability of renal healthcare services.
4. Exempt goods and services used in public-private partnership infrastructure projects from VAT subject to approval by the Cabinet Secretary, lowering project costs and potentially encouraging private sector participation in infrastructure development.
5. Introduce VAT on selected digital and platform-based financial services, broadening taxation within the digital economy and increasing the tax burden on fintech and platform-based financial service providers.
6. Grant VAT relief on selected renewable energy and electric mobility products including electric buses and bicycles, supporting the government's transition toward green mobility and clean energy adoption.
7. Expand VAT administration and compliance measures aimed at strengthening revenue collection efficiency and reducing tax leakages within the VAT framework.

d) Under the Tax Procedures Act, the Bill proposes to:

1. Reduce the income tax return filing period from six months to four months after the end of the accounting period, accelerating compliance timelines and enhancing the Kenya Revenue Authority's ability to reconcile taxes earlier. This may however increase compliance pressure for businesses with complex reporting structures.
2. Require nil returns to be filed within one month after the end of the year of income, tightening compliance obligations even for inactive taxpayers and enhancing taxpayer monitoring.
3. Introduce a tax amnesty programme on penalties and interest for liabilities accrued up to 31st December 2025, provided principal taxes are settled by 31st December 2026. This is expected to improve voluntary compliance, encourage settlement of historical tax liabilities, and support short-term revenue collection.
4. Compute objection and appeal timelines using calendar days instead of working days, effectively shortening the practical response period available to taxpayers and increasing the urgency of tax dispute management.
5. Enhance enforcement powers available to the Kenya Revenue Authority (KRA) in relation to compliance monitoring, tax recovery, and administration of digital transactions.

The Finance Bill 2026 reflects the government's continued preference for administrative revenue mobilization and compliance enhancement as opposed to politically sensitive broad-based tax increases. The proposals place significant emphasis on expanding withholding tax coverage, tightening filing and enforcement timelines, enhancing taxation of digital and informal sector transactions, and improving the efficiency of tax collection within the existing framework. This approach is likely informed by the need to sustain fiscal consolidation efforts while minimizing the political and economic disruption associated with aggressive tax hikes.

The proposals come at a time when Kenya continues to face elevated debt servicing obligations, constrained fiscal space, and growing pressure to strengthen domestic revenue mobilization. While inflation currently at 5.6% as of April 2026 well within the CBK's target range of 2.5%-7.5%, inflationary pressures still remain, particularly from the potential pass-through effects of new tax measures, exchange rate movements, and food and energy price volatility. Additionally, despite the continued easing of the monetary policy stance and gradual decline in lending rates, private sector credit uptake remains relatively

constrained amid cautious business sentiment and subdued consumer demand. As such, the success of the Finance Bill 2026 will largely depend on implementation efficiency, taxpayer compliance, and the government's ability to balance revenue mobilization objectives with maintaining a conducive environment for investment, consumption, and private sector growth.