REPUBLIC OF KENYA

THE NATIONAL TREASURY

TAX EXPENDITURE REPORT 2026



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Foreword

The 2026 Tax Expenditure Report provides an assessment of revenue forgone through tax expenditures in 2025 and forms an important part of the Government's commitment to strengthening domestic revenue mobilisation, enhancing fiscal responsibility and ensuring that public resources are used efficiently to support Kenya's development priorities. This commitment is particularly important in the current environment of constrained fiscal space, elevated financing needs and competing demands for public resources. The global environment remains uncertain, with geopolitical tensions, trade and supply chain disruptions, and volatility in commodity and energy markets reinforcing the need for prudent fiscal management and stronger domestic resource mobilisation.

Tax expenditures are an important policy instrument for promoting investment and advancing social and economic objectives in support of the Government's Bottom-Up Economic Transformation Agenda. At the same time, they represent revenue forgone by the Government and should therefore be regularly quantified, monitored and evaluated alongside direct public expenditure to ensure that they remain targeted, effective and aligned with national priorities.

The 2026 Tax Expenditure Report builds on the progress made in previous editions to strengthen the measurement, analysis and reporting of tax expenditures. The Report provides disaggregated estimates across the following tax categories: Value Added Tax (VAT), Income Tax, Import Duty, Excise Duty, Railway Development Levy (RDL) and Import Declaration Fee (IDF), thereby enhancing transparency and providing a clearer basis for assessing the cost, distribution and effectiveness of tax incentives.

The Report indicates that total tax expenditure declined from a revised figure of Kshs. 284.4 billion (1.75 percent of GDP) in 2024 to Kshs. 262.6 billion (1.49 percent of GDP) in 2025. This decline reflects, among other factors, ongoing efforts to rationalize tax incentives and improve the efficiency of the tax system. Domestic VAT remained the largest source of tax expenditure at Kshs. 175.8 billion, accounting for 66.9 percent of the total, underscoring the importance of continued review and rationalisation of VAT-related incentives as part of broader efforts to strengthen domestic revenue mobilization and fiscal sustainability. At the same time, tax expenditure under Personal Income Tax, Corporate Income Tax, Domestic Excise Duty, IDF and RDL increased during the year while Import duty, VAT domestic and imports and Import Excise Duty decreased. These developments underscore the importance of continued review of the structure and effectiveness of tax expenditures to ensure that the resources forgone achieve clearly defined economic and social objectives.

Going forward, the Government will develop a Tax Expenditure Management Framework to inform the governance of tax expenditures by promoting clear eligibility criteria, defined policy objectives, appropriate sunset provisions, regular monitoring and evaluation, and greater transparency in reporting. High-cost tax expenditures will require particular attention, while incentives that demonstrably support investment, employment, social objectives and other national priorities will continue to be assessed within the broader fiscal and development framework

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CABINET SECRETARY

Preface

Tax expenditures constitute an implicit cost to the Exchequer and therefore require appropriate monitoring alongside direct public spending. In the context of constrained fiscal space, elevated financing needs and ongoing efforts to strengthen fiscal sustainability, it is important to maintain a clear understanding of the scale and distribution of revenue forgone through tax incentives. Regular estimation of tax expenditures supports transparency and provides a basis for assessing the fiscal implications of tax policy measures and informing their continued review within the broader revenue mobilization framework.

The 2026 Tax Expenditure Report quantifies the revenue forgone through tax expenditures incurred in 2025 and provides an important evidence base for tax policy and fiscal management, in line with the objectives of the Medium-Term Revenue Strategy (MTRS). The Report provides estimates of tax expenditures in the following tax categories: Value Added Tax; Income Tax; Import Duty; Excise Duty; Railway Development Levy and Import Declaration Fee. It also presents their distribution and trends, offering policymakers and other stakeholders a clearer view of the magnitude and composition of revenue forgone. The findings contribute to ongoing fiscal consolidation and domestic resource mobilisation efforts and provide useful evidence for the continued refinement of the tax policy framework in support of the Government's Bottom-Up Economic Transformation Agenda (BETA) and the objectives of the MTRS.

The preparation of the 2026 Tax Expenditure Report benefited from the concerted efforts and technical contributions of several stakeholders. I extend my appreciation to the teams at the National Treasury and the Kenya Revenue Authority for their dedication, technical expertise and valuable contribution to the preparation and quality assurance of the Report. I also acknowledge the support of the Public Financial Management Reforms Secretariat in providing technical input and facilitating the technical committee workshop. My appreciation further goes to ODI/TaxDev team for the technical assistance and expertise that supported the analytical work and contributed to the overall quality of the Report.

The findings of this Report provide a useful resource for policymakers, researchers, development partners and the general public in understanding the magnitude and composition of tax expenditures. The Report is intended to strengthen transparency and inform evidence-based consideration of tax policy measures, while supporting the Government's broader efforts to enhance domestic resource mobilisation, implement the MTRS and safeguard fiscal sustainability.

DR. CHRIS KIPTOO, CBS

PRINCIPAL SECRETARY/ THE NATIONAL TREASURY

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Abbreviations and Acronyms

AGOA	African Growth and Opportunity Act
BTS	Benchmark Tax System
BEV	Bioethanol Vapour
CET	Common External Tariff
CIF	Cost Insurance and Freight
CIT	Corporate Income Tax
CKD	Completely Knocked-Down
COMESA	Common Market for Eastern and Southern Africa
DEFCO	Defence Forces Canteen Organization
DTA	Double Taxation Agreement
EAC CET	East Africa Community Common External Tariff
EAC	East African Community
EACCMA	East African Community Customs Management Act
EPZ	Export Promotion Levy
FY	Financial Year
GDP	Gross Domestic Product
GTED	Global Tax Expenditures Database
HOSP	Home Ownership Savings Plan
HS	Harmonized System
ITA	Income Tax Act
IDF	Import Declaration Fee
KNBS	Kenya National Bureau of Statistics
KNTC	Kenya National Trading Corporation
MF&LA	Miscellaneous Fees and Levies Act
MTRS	Medium-Term Revenue Strategy
ODI	Overseas Development Institute
PAYE	Pay As You Earn
PIT	Personal Income Tax
PWD	Persons With Disabilities
RDL	Railway Development Levy
SEZ	Special Economic Zone
TaxDev	The Centre for Tax Analysis in Developing Countries
VAT	Value Added Tax

Executive Summary

The 2026 Tax Expenditure Report provides an estimate of the revenue forgone by the Government in 2025 as a result of tax incentives embedded within the tax system. The Report applies the internationally recognised "Revenue Forgone" approach, which estimates the tax revenue foregone from exemptions, deductions, preferential rates and other tax concessions relative to a defined benchmark tax system. The methodology does not account for potential behavioral responses by taxpayers to the introduction, modification or removal of tax incentives. Accordingly, the estimates presented represent indicative revenue forgone rather than the actual amount of revenue that would necessarily be recovered if the respective tax measures were withdrawn.

The Report covers tax expenditures across the following principal tax heads: Income Tax; Value Added Tax (VAT); Excise Duty; Import Duty; Import Declaration Fee (IDF); and Railway Development Levy (RDL). The analysis covers both domestic and import-related tax expenditures, where applicable. For each tax category, the Report identifies the relevant benchmark tax structure, the applicable tax expenditures and the estimated revenue forgone, providing a consistent basis for measuring and reporting tax expenditures. In 2025, total tax expenditure was estimated at Kshs. 262.6 billion, representing 7.7 percent decline compared to a revised figure of Kshs. 284.4 billion revenue forgone in 2024. As a percentage of GDP, tax expenditure declined to 1.49 percent in 2025 from a revised 1.75 percent in 2024. This represents a decline in both the absolute amount of revenue forgone and its share of GDP. The reduction is consistent with ongoing efforts to rationalize tax incentives and improve the efficiency of the tax system.

The Tax expenditure on Personal Income increased by 31.2 percent from Kshs. 7.7 billion in 2024 to Kshs. 10.0 billion in 2025. The increase was largely attributed to higher tax expenditure arising from the exemption for persons with disabilities. Tax expenditure on Corporate Income Tax increased by 42.7 percent, from Kshs. 21.4 billion in 2024 to Kshs. 30.5 billion in 2025. The increase was mainly attributed to a rise in the amount of investment allowance claimed on industrial buildings.

In 2025, tax expenditure on domestic VAT decreased from Kshs. 188.5 billion in 2024 to Kshs. 175.8 billion in 2025 mainly due to a decline in tax expenditure on zero-rated and exempt supplies. Tax expenditure relating to import VAT also decreased from Kshs. 16.0 billion in 2024 to Kshs. 12.8 billion in 2025, a decline of 20 percent. The decline was mainly attributable to lower values of qualifying import VAT reliefs during the year, together with changes in the composition of reliefs following the application of benchmark screening.

Tax expenditure on Domestic Excise Duty increased from Kshs. 14.1 billion in 2024 to Kshs. 18.9 billion in 2025. The increase was mainly attributable to the rise in excise duty exemptions on Completely Knocked Down (CKD) units, from Kshs. 3.5 billion in 2024 to Kshs. 8.1 billion in 2025. On the other hand, tax expenditure on Import Excise Duty declined from Kshs. 0.67 billion in 2024 to Kshs. 0.22 billion in 2025, mainly driven by reduction in raw sugar imported for processing by a licensed sugar refinery.

Tax expenditure on Import Duty declined significantly from Kshs. 33.4 billion in 2024 to Kshs. 8.2 billion in 2025, representing a 75.4 percent reduction. The decline was mainly driven by lower tax expenditure on duty-free milled rice and gazetted raw materials for animal feeds, partly offset by increased expenditure under the Essential Goods Support Programme (EGSP) and on duty-free brown or white milled sugar.

Tax expenditure on the Import Declaration Fee (IDF) increased from Kshs. 1.7 billion in 2024 to Kshs. 3.3 billion in 2025, representing a 94.8 percent increase. The increase was mainly driven by higher values of exempt imports, particularly capital goods, investment-related equipment, and renewable energy equipment, while the standard IDF rate remained unchanged at 2.5 percent. Similarly, tax expenditure on the Railway Development Levy (RDL) increased from Kshs. 1.0 billion in 2024 to Kshs. 2.9 billion in 2025, representing a 185.8 percent increase. The increase was mainly driven by higher values of exempt imports, particularly capital goods, investment-related equipment and renewable energy equipment, while the standard RDL rate remained unchanged at 2 percent.

Overall, the 2026 Tax Expenditure Report demonstrates progress in reducing the level of revenue forgone through tax expenditures, reflecting ongoing efforts to rationalise tax incentives and improve the efficiency of the tax system. At the same time, the significant revenue forgone through various tax incentives underscores the importance of continued review and assessment of their costs, effectiveness and contribution to national priorities.

Going forward, the Government will undertake impact analysis of tax expenditures to assess their economic and social benefits against the associated fiscal costs. The Government will also develop a comprehensive Tax Expenditure Management Framework to strengthen the governance, monitoring and evaluation of tax incentives. These measures will provide a stronger evidence base for policy decisions, support the rationalisation of less effective incentives, and ensure that well-targeted incentives remain aligned with national development objectives while contributing to broader revenue mobilisation and fiscal sustainability

INTRODUCTION

1.1 Background

Taxation is one of the most important ways through which the Government mobilises resources to provide public services and finance national development. A well-designed tax system therefore has to balance the need to raise adequate revenue with the broader objective of supporting economic activity and protecting households and businesses.

Tax policy, however, is not only about the taxes that Government collects. It also involves decisions on what is not taxed, what is taxed at a lower rate, or what is allowed as a deduction, exemption, credit or other form of preferential treatment. These measures are commonly referred to as tax expenditures.

At the same time, every tax incentive comes with a cost. Revenue forgone through tax expenditures represents resources that the Government could otherwise have collected and used to finance public priorities. This makes tax expenditures an important component of fiscal policy and calls for the same level of attention, transparency and accountability accorded to direct public expenditure.

To this end, tax expenditure reporting provides an important basis for making this assessment. By estimating the revenue forgone, the Report makes the cost of these policy choices more visible. It complements information on direct government expenditure and strengthens transparency in the management of public resources.

The preparation of the report further recognizes that tax expenditure is not necessarily equivalent to revenue that could automatically be collected if an incentive were removed. Taxpayers may change their behaviour in response to changes in taxation. Tax expenditure estimates should therefore be interpreted as an indication of the immediate fiscal cost of preferential tax treatment rather than as a direct estimate of additional revenue that would necessarily be realized by eliminating all tax incentives.

1.2 Benchmark Tax System

A benchmark tax system provides the reference point against which tax expenditures are identified and measured. Establishing a benchmark is therefore essential in determining whether a particular provision constitutes a deviation from the normal tax system and in estimating the revenue forgone as a result of such preferential treatment.

The benchmark is determined separately for each major tax head, taking into account the underlying structure, scope and design of the respective tax. This includes consideration of the applicable tax rates, tax base, taxable persons or transactions, thresholds, exemptions, deductions, allowances and other features that form part of the normal operation of the tax system.

For purposes of this Report, the benchmark tax system is established from Kenya's existing legal framework governing taxation. These include: the Income Tax Act, Cap 470; the Value Added Tax Act, Cap 476; the Excise Duty Act, Cap 472; and the Miscellaneous Fees and Levies Act, Cap 469C. For customs-related taxes, the benchmark takes into account the East African Community Common External Tariff, 2022; and the East African Community Customs Management Act, 2004. International agreements and obligations are also relevant in defining the benchmark**.**

1.3 Objectives of the Report

The overall objective of the 2026 Tax Expenditure Report is to estimate the value of revenue forgone through tax expenditures and provide information to support the effective management and review of tax incentives in Kenya.

The specific objectives are to:

i. Estimate tax expenditures across the tax categories;
ii. Analyze trends in tax expenditures over time;
iii. Enhance transparency, accountability and public awareness regarding tax expenditures; and
iv. Provide evidence-based policy recommendations to enhance the effectiveness, efficiency and management of tax expenditure measures.

1.4 Scope of the Report

The 2026 Tax Expenditure Report analyses tax expenditures for the year 2025 across the tax categories: Income Tax, Value Added Tax, Excise Duty, Import Duty, Import Declaration Fee and Railway Development Levy.

For each tax category, the Report identifies the applicable benchmark tax system and the tax expenditure. The Report also presents trends in tax expenditures over time and analyses their contribution across the different tax categories.

II.TAX EXPENDITURE ON INCOME TAX

2.1 Income Chargeable to Tax

Income tax is charged upon all income of a person which is accrued in or was derived from Kenya irrespective of their tax resident status. The income upon which tax is chargeable is income in respect of -

a) Gains or profits from - a business, employment or services rendered and a right granted to another person for use or occupation of property;

b) dividends;

c) interest and deemed interest;

d) royalties;

e) capital gains;

f) income accruing from a business carried over the internet or an electronic network including over a digital marketplace;

g) an amount deemed to be the income of a person under the Act or by rules made under the Act;

h) a natural resource income;

i) a pension, charge or annuity; and

j) gains from financial derivatives.

A person's taxable income is the difference between the person's total income and the total allowable deductions. Individuals and corporate bodies are the primary units of income taxation, which is a direct tax.

2.2 Income Tax Rates

Individuals are taxed on their income through graduated rates ranging from ten (10) percent to thirty-five (35) percent, while corporate bodies are taxed at a general rate of thirty (30) percent. In addition, non-resident corporate bodies or companies are further taxed on repatriated income at the rate of fifteen (15%). Further, certain payments made by a resident person or a person having a permanent establishment in Kenya to any other person are deemed income accrued in or derived from Kenya and are thus subject to withholding tax. The withholding tax rates are shown in Table 2.1.

Table 2. 1:Withholding Tax Rates

Income Description	Resident rates	Non-resident Rates
Management or professional fees or training fee	5%	20%
Contractual fees	3%	20%
Royalty or natural resource income	5%	20%
Dividends	15% while 5% for	15%

	qualifying dividends	
Interest - Government bearer bonds	15%	15%
Interest - Any other instruments	20%	25%
Sales promotion, marketing, advertising services, and transportation of goods (excluding air and shipping transport services)	5%	20%
Financial derivatives	-	15%
Digital content monetisation	5%	20%
Supply of goods to a public entity	0.5%	5%
Making or facilitating payment over a digital market place.	5%	20%
Withdrawals on betting	5%	5%

Note: *Where Kenya has entered into an Agreement for the Avoidance of Double Taxation (DTA) with other countries, the non-residents rates specified in the DTA take precedence over the rates specified in the Income Tax Act, Cap. 470. These rates differ from one DTA to another and varies across different income streams.*

2.3 Tax Expenditure on Personal Income Tax

Personal Income Tax (PIT) is charged on all the income of a person, whether resident or non-resident, which accrues in or derived from Kenya. Tax on personal income is on a graduated scale known as Pay As You Earn (PAYE) and is applicable to individuals engaged in gainful activities. Further, certain payments made by a resident person or a person having a permanent establishment in Kenya to any other person are deemed income accrued in or derived from Kenya and are thus subject to withholding tax.

The base of taxation of PAYE includes wages, salary, leave pay, sick pay, payment in lieu of leave, fees, commission, bonus, gratuity, and allowances such as subsistence, travelling, and entertainment which are received in respect of employment or services rendered. The base also includes other cash and non-cash benefits such as amounts received as compensation for the termination of a contract of employment or service; the value of premises provided by an employer to an employee for residential purposes; an amount paid by an employer as a premium for an insurance on the life of their employee and their dependants; club entrance and subscription fees allowed against employer's income; and the value of a motor vehicle provided to an employee by an employer.

PIT also includes tax on income from other gainful activities. These include payments deemed as income and are subject to withholding tax as well as those that are not subject to withholding tax such as residential rental income, capital gains, sole proprietorship and partnership income.

Note 1: Data has not yet been captured for tax expenditures arising from withholding taxes or capital gains tax, and such results are not presented in this report.

The PAYE tax bands are presented in Table 2.2.

Table 2. 2:PAYE Bands and Rates

PAYE Bands per annum (p.a)	Rate
On the first Kshs. 288,000	10%
On the next Kshs. 100,000	25%
On the next Kshs. 5,612,000	30%
On the next Kshs. 3,600,000	32.50%
On all income over Kshs. 9,600,000	35%

Note: *A resident individual is entitled to a tax relief of Kshs. 2,400 per month translating to Kshs. 28,800 per annum.*

Pension income is also subject to graduated tax bands and rates as shown in **Table 2.3.**

Table 2. 3:Pension Tax Band

Pension Tax Band	Rate
On the first Kshs. 288,000 p.a	10%
On the next Kshs. 100,000 p.a	25%
On all income amount in excess of Kshs. 388,000 p.a	30%

Note 2:

1) *Pension income is exempt from tax at the point of distribution if the following conditions are met;*
   i. *paid out upon attainment of the retirement age according to the rules of the scheme.*
   ii. *paid to employees who have been in the scheme for at least twenty (20) years.*
   iii. *paid to an employee who withdraws from the Scheme due to ill health prior to attainment of the retirement age.*
   iv. *paid to beneficiaries of a deceased employee.*
2) *Effective 1st July, 2025, gratuity payments became tax exempt.*

2.3.1 Personal Income Tax Benchmarks

The PIT benchmarks considered in this report are contributions to pension schemes and social security funds, personal reliefs and income paid to diplomats and privileged persons.

2.3.2 Tax Expenditure on Personal Income Tax

The tax expenditure on PIT comprises of tax reliefs and exempt incomes to taxpayers which are meant to reduce tax burden and meet certain desired outcomes. These reliefs and exempt incomes include insurance relief, mortgage interest deductions, exemptions relating to income earned by persons with disability (PWD), pension withdrawals and gratuity. The exemption for PWD is subject to a maximum income of Kshs. 150,000 per month.

The tax expenditure on Personal Income Tax (PIT) increased from Ksh 7,654.0 million in 2024 to Ksh 10,043.0 million in 2025 (**Table 2.4**). This increase was largely attributable to a rise in tax exemptions granted to persons with disabilities, which increased by approximately Ksh 3.0 billion in 2025.

A PIT microsimulation model is being developed and evaluated to complement the existing returns-based approach and support more detailed analysis of Personal Income Tax (PIT) expenditure, including the distributional and revenue implications of various PIT exemptions, reliefs, and tax policy changes. The model is currently under evaluation and, therefore, its estimates are not used to determine the headline PIT tax expenditure figures presented in this Report. The estimates presented in **Annex I** are indicative of tax expenditure associated with the model.

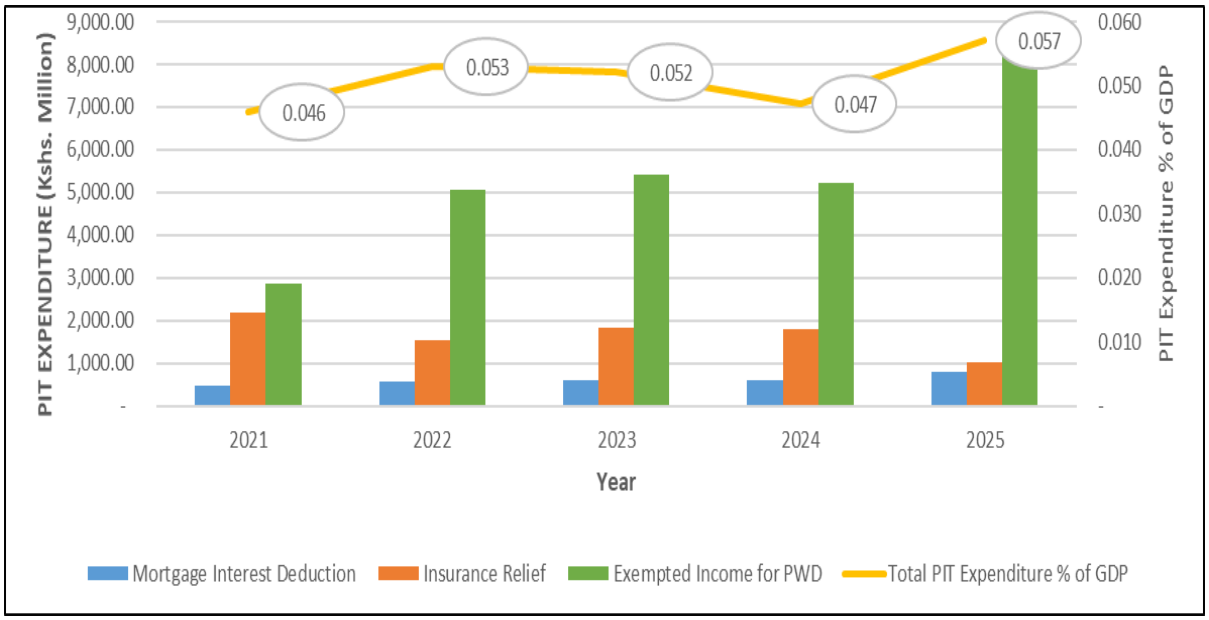
Table 2. 4:Tax Expenditure on PIT

TE No.	*TE Item*	*Legal Reference*	*Ratinale*	*Revenue Forgone (KShs. Millions)*				
				2021	**2022**	**2023**	**2024**	**2025**
PITTE 01	Mortgage Interest deduction	Section 15(3)(b) of the ITA.	Allows homeowners to lower their taxable income by the amount of interest they pay on a loan they take to construct, purchase or improve premises occupied by them during that year of income for residential purposes.The amount of deduction is thirty thousand shillings per month or three hundred and sixty thousand shillings per year.	488.5	579.7	601.4	615	805
PITTE 02	Insurance relief	Section 31 and paragraph 2 of Head A of the Third Schedule of the ITA.	A tax incentive designed to lighten the financial burden on resident taxpayers who invest in life, health, or education policies for themselves, their spouses or their children.The amount of the relief is 15% of the amount of premiums paid but shall not exceed sixty thousand shillings per annum	2,175.80	1,537.10	1,816.30	1,809.00	1,009.00
PITTE 03	Exempted Income for PWD	Legal Notice No. 36 of 2010 paragraph 4(2).(The Persons With Disabilities (Income Tax Deductions and Exemption) Order).	To promote social equity, financial inclusion, and economic independence by offsetting the higher cost of living associated with managing a disability.The	2,858.00	5,046.50	5,411.90	5,230.00	8,229.00
PITTE 04	Pension Withdrawals	Paragraph 53 of the First Schedule of the ITA	To provide relief for senior citizens who have diligently served the country.	-	-	-	-	Data not available
PITTE05	Gratuity		Equity and fairness with the retirees	-	-	-	-	Data not available
Total PIT Expenditure				5,522.3	7,163.3	7,829.6	7,654.0	10,043.0
Nominal GDP				12,027,662	13,489,642	15,033,610	16,232,295	17,577,557
Total PIT % GDP				**0.046**	**0.053**	**0.052**	**0.047**	**0.057**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

In relation to GDP, tax expenditure on Personal Income Tax increased from 0.047 percent in 2024 to 0.057 percent in 2025(**Figure 2.1**)

Figure 2. 1:Tax Expenditure on PIT



Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

2.4 Corporate Income Tax

Corporate Income Tax (CIT) is a tax charged on corporate entities such as limited liability companies and cooperative societies on their annual income that is accrued in or derived from Kenya. The standard corporate tax rate in Kenya is thirty (30) percent. However, non-resident corporate bodies or companies are further taxed on repatriated income at the rate of fifteen (15%) percent. To incentivize certain sectors or economic activities, the government provides preferential CIT rates for such sectors or economic activities. These sectors or activities include housing, motor vehicle assembly, shipping, carbon market or emission trading, manufacture of human vaccine, entities operating in Special Economic Zones (SEZ) and Export Promotion Zones (EPZ).

2.4.1 Corporate Income Tax Benchmarks

The benchmark for CIT is the statutory standard or general corporate income tax rate in effect at any given time (currently at 30.0 percent). In addition, CIT benchmark has been considered in relation to investment allowances in respect of capital expenditures incurred on buildings, machinery, fibre optic cable and farm works. In this case, the benchmark is taken to be, the lower rate of investment allowance applied to an asset in subsequent years of use of the asset where the investment allowance rate in the first year of use is higher. Further, the non-residents tax rates specified in the DTAs are also considered as benchmarks.

Prior to 2024, a 10.0 percent investment allowance was considered as a benchmark and any allowance above 10.0 percent was regarded as an accelerated investment allowance rate hence resulting in a tax expenditure, that is, the tax expenditure being the difference between the higher

investment allowance rate and 10 percent (benchmark). The tax expenditures for previous years have been recalculated using the methodology described above.

2.4.2 Tax Expenditure on Corporate Income Tax

Given the benchmark tax regime described in section 2.4.1, tax expenditure in relation to buildings, machinery and farm works is the difference between the higher investment allowance rate of fifty (50) percent in the first year of use of the asset and the benchmark rate of twenty-five (25) percent in the subsequent years of use of the asset. The investment allowance in these assets are calculated based on additional investments made in the year 2025. This varies from reports prior to 2024 where tax expenditure was calculated on total investment. Table 2.5 shows the investment allowances on buildings, machinery, farm works and indefeasible right to use fibre optic cable by telecommunication companies.

Table 2. 5:: Investment Allowance

Capital expenditure incurred on:	**Rate of Investment Allowance**
(a) Buildings	
(i) Hotel building	*50% in the first year of use*
(ii) Building used for manufacture	*50% in the first year of use*
(iii) Hospital buildings	*50% in the first year of use*
(iv)Petroleum or gas storage facilities	*50% in the first year of use*
(v) Residual value to item (a)(i) to (a)(iv)	*25% per year, in equal instalments*
(vi) Educational buildings including student hostels	*10% per year, in equal instalments*
(vii) Commercial building	*10% per year, in equal instalments*
(viii) Industrial building	*10% per year, in equal instalments*
(ix)Dock	*10% per year, in equal instalments*
(b) Machinery	
(i) Machinery used for manufacture	*50% in the first year of use*
(ii) Hospital equipment	*50% in the first year of use*
(iii)Ships or aircrafts	*50% in the first year of use*
(iv)Residual value items (b)(i) to (b)(iii)	*25% per year, in equal instalments*

(v) Motor vehicles and heavy earth moving equipment	*25% per year, in equal instalments*
(vi)Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	*25% per year, in equal instalments*
(vii) Furniture and fittings	*10 % per year, in equal instalments*
(viii) Telecommunications equipment	*10% per year, in equal instalments*
(ix)Filming equipment by a local film producer licensed by the Cabinet Secretary responsible for filming	*25% per year, in equal instalments*
(x) Machinery used to undertake operations under a prospecting right	*50% in the first year of use and 25% per year, in equal instalments*
(xi)Machinery used to undertake exploration operations	*50% in the first year of use and 25% per year, in equal instalments*
(xii) Other machinery	*10% per year, in equal instalments*
(c) Purchase or an acquisition of an indefeasible right to use fibre optic cable by a telecommunication operator	10% per year, in equal instalments
(d) Farm works	50% in the first year of use and 25% per year, in equal instalments

In addition to the investment allowances on plants and machinery, tax expenditure also arose from reduced CIT rates offered to specific economic sectors or activities. These sectors or activities include housing, motor vehicle assembly, shipping, carbon market or emission trading manufacture of human vaccine, Export Promotion Zones (EPZs) and Special Economic Zones (SEZs). **Table 2.6** shows the reduced CIT rates for these economic sectors or activities.

Table 2. 6: Preferential CIT Rates

No	Sector/Activity	CIT Rate
1	A company that constructed at least one hundred residential units annually.	15%
2	A company whose business is local assembling of motor vehicles	15% (for the first five years)
3	A company operating a carbon market exchange or emission trading system that is certified by the Nairobi International Financial Centre Authority.	15% for the first ten years

4	A company operating a shipping business.	15% for the first ten years
5	A company undertaking the manufacture of human vaccines.	10%
6	EPZ enterprises which do not engage in any commercial activities	0% for the first ten years & 25% for the next ten years.
7	Special economic zone enterprises	10% for the first ten years & 15% for the next ten years.

In 2025, these preferential CIT rates were not utilized except for those relating to EPZ and SEZ entities and construction of at least one hundred residential housing units per annum. The amount of corporate income tax forgone by the government as a result of preferential CIT rates for SEZ and EPZ in 2025 were Kshs. 594.91 million and Kshs. 1,927.91 million respectively totaling to Kshs. 2,522.82 million. **Table 2.7** shows tax expenditure on CIT from 2021 to 2025.

Table 2. 7: Tax Expenditure on CIT (Kshs. Millions)

TE No.	*TE Item*	*Legal Reference*	*Rationale*	*Revenue Forgone (Kshs. Millions)*				
				2021	**2022**	**2023**	**2024**	**2025**
CITTE 01	Accelerated investment allowance for Plant and Machinery	Second Schedule paragraph 1(b) of the ITA.	Encourage investment by allowing businesses to depreciate assets at a faster rate.	29,100.60	26,799.70	16,462.60	7,360.90	8,858.50
CITTE 02	Accelerated Investment allowance for Building	Second Schedule paragraph 1(a) of the ITA.		5,314.70	10,186.20	7,268.00	4,507.00	1,995.20
CITTE 03	Accelerated investment allowance for Industrial Building	Second Schedule paragraph 1(a) of the ITA.		6,285.70	8,497.80	10,618.20	6,604.90	16,582.20
CITTE 04	Accelerated investment allowance for farm works	Second Schedule Paragraph 1(d) of the ITA		1,641.80	2,075.70	1,216.20	1,135.70	556.3
CITTE 05	Preferential CIT rates for EPZ and SEZ	Third Schedule Head B paragraph 2(f) and 2(h) of the ITA.	To promote export, FDI and industrial development.	0	0	0	1,675.00	2,522.82
CITTE 06	Preferential CIT rate for residential units	Third Schedule Head B paragraph 2(f) and 2(i) of the ITA.	To promote development of affordable housing.	-	-	-	107.6	-
Total Tax Expenditure on CIT				**42,342.80**	**47,559.40**	**35,565.00**	**21,391.10**	**30,515.02**
Nominal GDP				**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.00**
Total Tax Expenditure on CIT as a % of GDP				**0.35**	**0.35**	**0.24**	**0.13**	**0.17**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

The total tax expenditure on CIT increased from Kshs. 21,391.10 million (0.13 percent of GDP) in 2024 to 30,515.02 million (0.17 percent of GDP) in 2025, representing a 42.65 percent increase. This significant increase is attributed to an increase in the amount claimed as investment allowance for industrial buildings which increased by Kshs. 9,977.3 million from 2024 to 2025.

A total of 1,369 firms reported positive industrial-building investment (cost), of which 583 were new investors in 2025 while 786 were repeat investors. New investors accounted for approximately Kshs. 71.7 billion, equivalent to 32.4% of investment value, while repeat investors accounted for Kshs. 149.4 billion, or 67.6%. This indicates that the 2025 profile was driven mainly by continued investment by existing firms, although new investors still contributed nearly one-third of the total value.

Investment was concentrated in a few capital-intensive sectors. Real Estate Activities accounted for approximately Kshs. 97.2 billion (43.9%), followed by Manufacturing at Kshs. 33.6 billion (15.2%), Education at Kshs. 20.0 billion (9.0%), and Accommodation and Food Services at Kshs.

17.1 billion (7.7%). Together, these four sectors accounted for about 76% of industrial-building investment in 2025.

The largest observed investment was approximately Kshs. 37.1 billion by a firm classified under Real Estate Activities, specifically real estate activities with own or leased property. This single investment represented about 16.8% of all industrial-building investment reported in 2025. A second sizeable real-estate investment of about Kshs. 6.8 billion reported in 2025 was undertaken by a new investor. More broadly, the top five investors accounted for about 23.5% of total investment, the top 10 for 27.9%, and the top 20 for 34.8%.

Similarly, tax expenditure as a result of preferential CIT rates for EPZ and SEZ also increased by Kshs. 847.82 million. The preferential CIT rate for residential units was not utilized. The trend of tax expenditure on CIT is represented in **Figure 2.2**.

Figure 2. 2: Tax Expenditure on CIT (Kshs. Millions)



The total income tax expenditure increased from Kshs. 29,045.10 million (0.179 percent of GDP) in 2024 to Kshs. 40,558.02 million (0.231 percent of GDP) in 2025(**Table 2.8**). The increase is mainly attributable to exemption of PWD under PIT which increased by Kshs. 2,999 million and investment allowance for Industrial Building under CIT which increased by Kshs. 9,977.30 million.

Table 2. 8: Total Tax Expenditure on Income Tax (Kshs. Millions)

	2021	2022	2023	2024	2025
Tax Expenditure on PIT	5,522.30	7,163.20	7,829.70	7,654.00	10,043.00
Tax Expenditure on CIT	42,342.70	47,559.50	35,565.00	21,391.10	30,515.02
Total Tax Expenditure on Income Tax	**47,865.00**	**54,722.70**	**43,394.70**	**29,045.10**	**40,558.02**
Nominal GDP	**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.00**
Total Tax Expenditure on Income Tax as a % of GDP	**0.398**	**0.406**	**0.289**	**0.179**	**0.231**

III. TAX EXPENDITURE ON VALUE ADDED TAX

3.1 Overview

Value Added Tax (VAT) is a consumption tax imposed on the supply and importation of taxable goods and services in Kenya. It is charged at each stage of the production and distribution chain where value is added, with the ultimate burden borne by the final consumer. A person whose taxable supplies are, or are expected to be, at least Kshs. 5.0 million in any period of 12 months is required to register for VAT.

Registered persons charge VAT on taxable supplies and claim input VAT incurred on qualifying purchases. VAT payable to the Government is the difference between output tax and allowable input tax. The principal VAT treatments are the general rate of 16 percent, zero-rating at 0 percent and exemption.

This Chapter presents tax expenditure on VAT for 2025 and the trend over the reported years, covering domestic and import VAT. The official estimates use data from tax returns and import administrative records (the returns-based approach). A model based primarily on macroeconomic data (the model-based approach) is also applied on an indicative basis to support validation and more detailed analysis.

3.2 VAT Benchmark

The VAT benchmark is the reference VAT system used to identify tax expenditure. The general VAT rate of 16 percent is the reference rate, while treatments regarded as normal features of the VAT system or established benchmark exclusions are also included in the benchmark. Benchmark classifications adopted in the 2025 Tax Expenditure Report are carried forward to support consistency and comparability, except where an explicit review warrants a change. A change in statutory VAT treatment, for example from zero-rating to exemption, does not by itself change the benchmark status of a supply. For purposes of this Report, a tax expenditure is an exemption or zero-rating that falls outside the adopted VAT benchmark. Not every exempt or zero-rated supply therefore constitutes tax expenditure. The sector-level application of the benchmark to exempt VAT data is summarized in **Annex II**, while the supporting legal provision classification is set out in **Annex IV**.

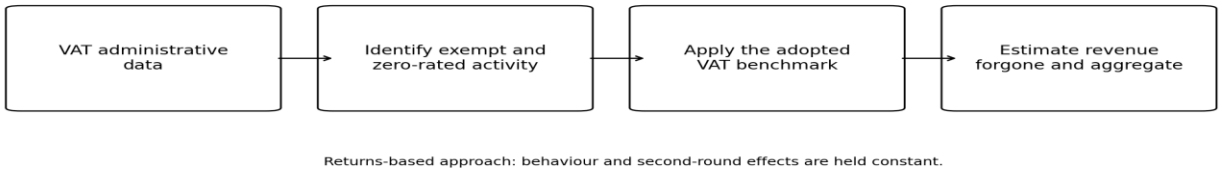
3.3 Methodology for Estimating Tax Expenditure on VAT

There are two broad approaches to estimating tax expenditure on VAT: using data from tax returns (the returns-based approach, currently used by Kenya) or using a model based primarily on macroeconomic data (the model-based approach). The returns-based approach remains the methodology applied in this Report.

Under the returns-based approach, exempt and zero-rated activity is identified from domestic and import administrative data, screened against the adopted VAT benchmark using the classification in **Annex III**, and benchmark items are excluded before the remaining revenue forgone is aggregated. For the tax expenditure on zero rated supplies all exports are treated as benchmark and

are excluded from the computation. The estimates are static and do not incorporate behavioral or wider macroeconomic responses.

Figure 3. 1: Determination of Tax Expenditure using the Returns-Based Approach



Tax expenditure on VAT = VAT under the benchmark - VAT actually payable after application of qualifying relief

Exempt supplies = (Exempt sales - Exempt purchases) × 16 percent

Zero-rated supplies = (Zero-rated sales - Zero-rated purchases) × 16 percent

For domestic VAT, the estimates are derived from net exempt and zero-rated activity and then subjected to benchmark screening. Import VAT estimates are derived from administrative relief records and classified against the same benchmark principle.

3.3.1 Methodological Development: Model-Based Approach

The model-based approach relies primarily on macroeconomic data. A VAT model is being developed and evaluated to complement the returns-based approach and support more detailed analysis of tax expenditure on VAT. The model uses the 2016 Kenya Supply and Use Table to trace flows of goods and services across the economy. It estimates VAT collected on final consumption together with unrecoverable VAT on inputs, enabling it to capture supply-chain interactions and activity that may not be fully represented in VAT returns.

The model remains under evaluation and does not determine the headline estimates in this Report. Its outputs are provisional, and the estimates presented in **Annex III** are indicative of tax expenditure associated with selected provisions of the VAT Act. Further alignment of policy mappings, benchmark classifications and reference-year assumptions is required before any future full adoption.

3.4 Total Tax Expenditure on VAT

Total tax expenditure on VAT, comprising domestic and import VAT, is estimated at Kshs. 188.6 billion in 2025, compared with Kshs. 204.5 billion in 2024, representing a decline of 7.8 percent. Tax expenditure on Domestic VAT accounted for Kshs. 175.8 billion while tax expenditure on import VAT accounted for Kshs. 12.8 billion (**Table 3.1**).

Table 3. 1: Total Tax Expenditure on VAT, Kshs. Million

Tax Expenditure Category	2021	2022	2023	2024	2025
Tax Expenditure on Domestic VAT	131,711.40	157,772.00	215,834.00	188,498.00	175,823.10
Tax Expenditure on Import VAT	36,781.40	53,167.30	26,733.20	15,959.90	12,769.30
Total Tax Expenditure on VAT	**168,492.80**	**210,939.30**	**242,567.20**	**204,457.90**	**188,592.40**
Nominal GDP	**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.20**
Total Tax Expenditure on VAT (% of GDP)	**1.4**	**1.56**	**1.61**	**1.26**	**1.07**

Source: *Kenya Revenue Authority, Kenya National Bureau of Statistics and National Treasury computations*

Total tax expenditure on VAT rose from Kshs. 168.5 billion in 2021 to Kshs. 242.6 billion in 2023, before declining in 2024 and 2025. The 2025 decline was driven mainly by lower tax expenditure on domestic exempt supplies and import VAT. Year-on-year movements reflect changes in the value and composition of benchmark-screened transactions, together with changes in statutory VAT treatment, including the movement of specified agricultural inputs from zero-rated to exempt status and the introduction of selected new exemptions and zero-rated supplies under the Tax Laws (Amendment) Act, 2024 and Finance Act, 2025.

3.5 Tax Expenditure on Domestic VAT

Tax expenditure on domestic VAT decreased from Kshs. 188.5 billion in 2024 to Kshs. 175.8 billion in 2025, a decline of 6.7 percent. Tax expenditure associated with exempt supplies declined by 15.9 percent, while that associated with zero-rated supplies declined marginally by 1.0 percent.

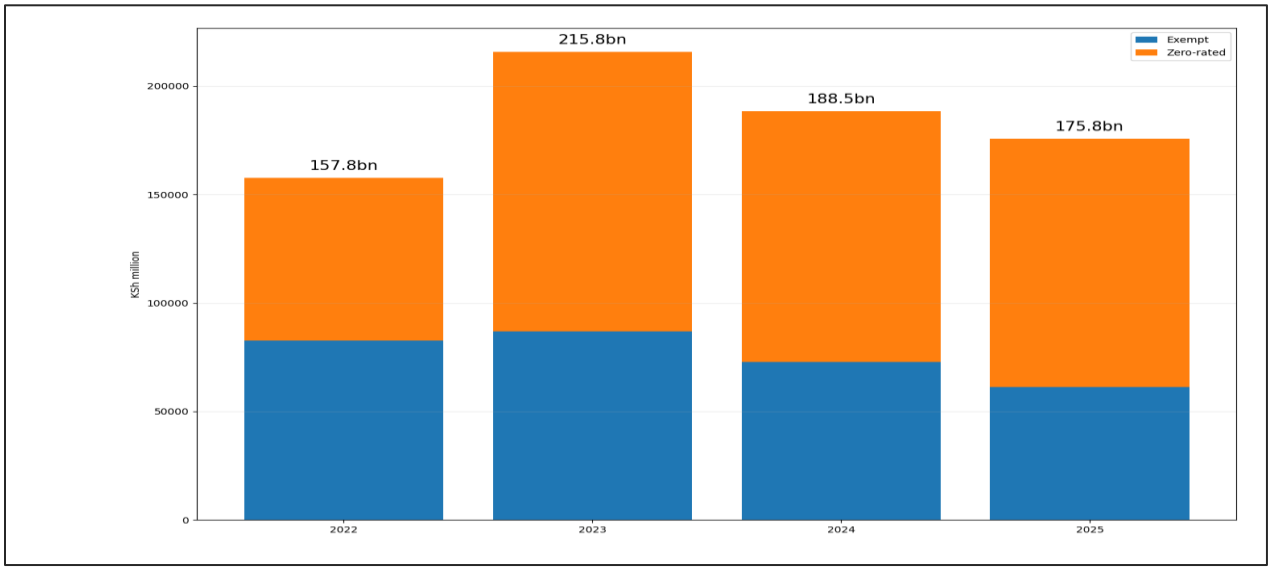
Table 3. 2: Tax Expenditure on Domestic VAT, Kshs. Million

Tax Expenditure Category	Legal provision	Rationale	2022	2023	2024	2025
Exempt supplies	VAT Act, 1st Schedule	*Various*	82,600.00	86,829.00	72,684.00	61,130.50
Zero-rated supplies	VAT Act, 2nd Schedule	*Various*	75,172.00	129,005.00	115,814.00	114,692.60
Total Tax Expenditure on Domestic VAT			**157,772.00**	**215,834.00**	**188,498.00**	**175,823.10**
Nominal GDP			**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.20**
Domestic VAT Tax Expenditure (% of GDP)			**1.17**	**1.44**	**1.16**	**1.00**

Source: *Kenya Revenue Authority, Kenya National Bureau of Statistics and National Treasury computations.*

Zero-rated supplies accounted for 65.2 percent of domestic VAT expenditure in 2025 and exempt supplies for 34.8 percent. The decline reflects lower benchmark-screened net activity in several sectors. Amendments during the period also shifted selected supplies between exempt and zero-rated treatment; such shifts affect the composition of the estimates but do not necessarily change benchmark status. Tax expenditure on domestic VAT declined from 1.16 percent of GDP in 2024 to 1.00 percent in 2025.

Figure 3.1: Tax Expenditure on Domestic VAT by Treatment, 2022-2025



Source: *Kenya Revenue Authority and National Treasury computations.*

3.5.1 Tax Expenditure on Exempt Supplies

Tax expenditure associated with exempt supplies decreased by 15.9 percent, from Kshs. 72.7 billion in 2024 to Kshs. 61.1 billion in 2025. Lower estimates in Information and Communication, Human Health and Social Work Activities, Administrative and Support Service Activities and Construction more than offset increases in Agriculture, Forestry and Fishing and Manufacturing. The declines primarily reflect lower values of net exempt activity reported in VAT returns after benchmark screening.

Agriculture, Forestry and Fishing was the largest contributor in 2025 at Kshs. 15.1 billion, followed by Information and Communication at Kshs. 14.5 billion. Administrative and Support Service Activities contributed Kshs. 7.9 billion, Manufacturing Kshs. 6.3 billion and Human Health and Social Work Activities Kshs. 5.9 billion. The increases in Agriculture and Manufacturing are read together with the zero-rated trends because amendments to the VAT Act changed the statutory treatment of selected agricultural and production inputs during the period (**Table 3.3**).

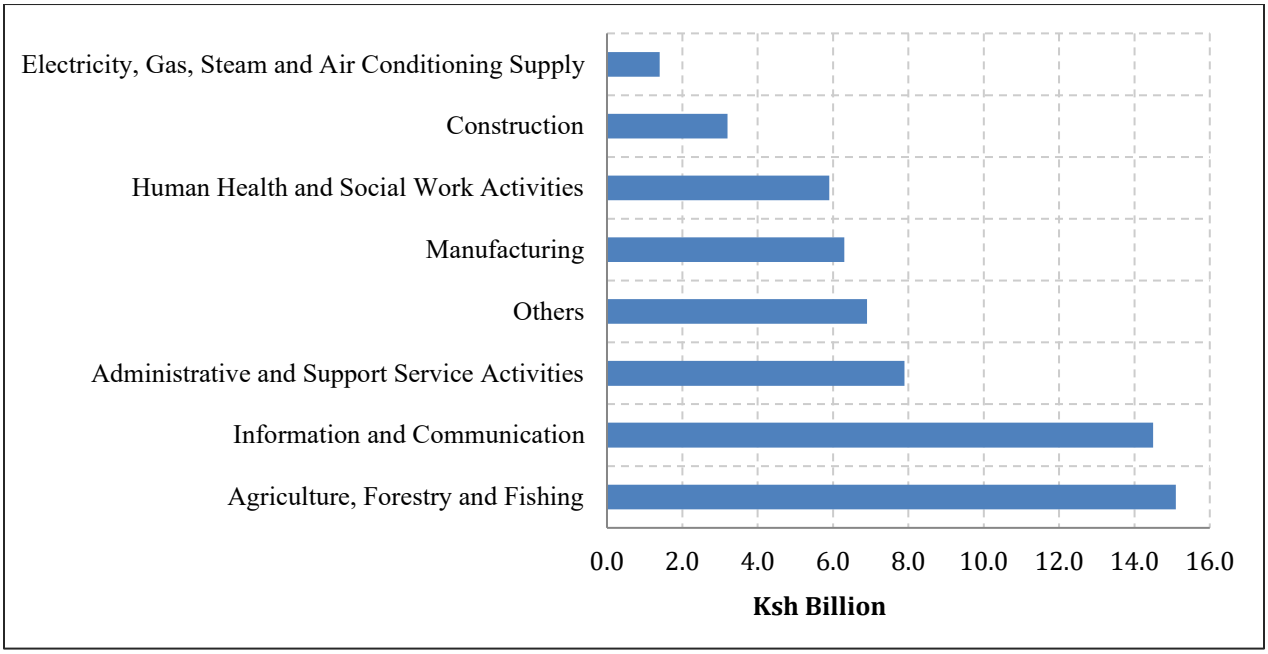
Table 3. 3: Tax Expenditure on Exempt Supplies by Sector, 2024-2025, Kshs. Million

Sector	2024 (Kshs. Mn)	2025 (Kshs. Mn)	2025 Share (%)	Change (%)
Agriculture, Forestry and Fishing	6,131.0	15,059.9	24.6	145.6
Information and Communication	23,788.0	14,453.8	23.6	-39.2
Administrative and Support Service Activities	10,615.0	7,874.8	12.9	-25.8

Manufacturing	2,822.9	6,337.3	10.4	124.5
Human Health and Social Work Activities	13,459.0	5,863.5	9.6	-56.4
Construction	5,159.0	3,177.4	5.2	-38.4
Electricity, Gas, Steam and Air Conditioning Supply	0.0	1,413.9	2.3	n.m.
Others	10,709.1	6,949.9	11.4	-35.1
Total	72,684.0	61,130.5	100.0	-15.9

Source: Kenya Revenue Authority and National Treasury computations.

Figure 2.3: Tax Expenditure on Exempt Supplies by Sector, 2025



Source: Kenya Revenue Authority and National Treasury computations.

3.5.2 Tax Expenditure on Zero-Rated Supplies

Tax expenditure associated with zero-rated supplies remained broadly stable, declining by 1.0 percent from Kshs. 115.8 billion in 2024 to Kshs. 114.7 billion in 2025. Declines in Manufacturing and Agriculture were largely offset by higher zero-rated activity in Electricity, Gas, Steam and Air Conditioning Supply. In estimating tax expenditure, zero-rated exports were excluded from all sectors as part of the VAT benchmark, consistent with the destination principle under which exports are not subject to domestic VAT.

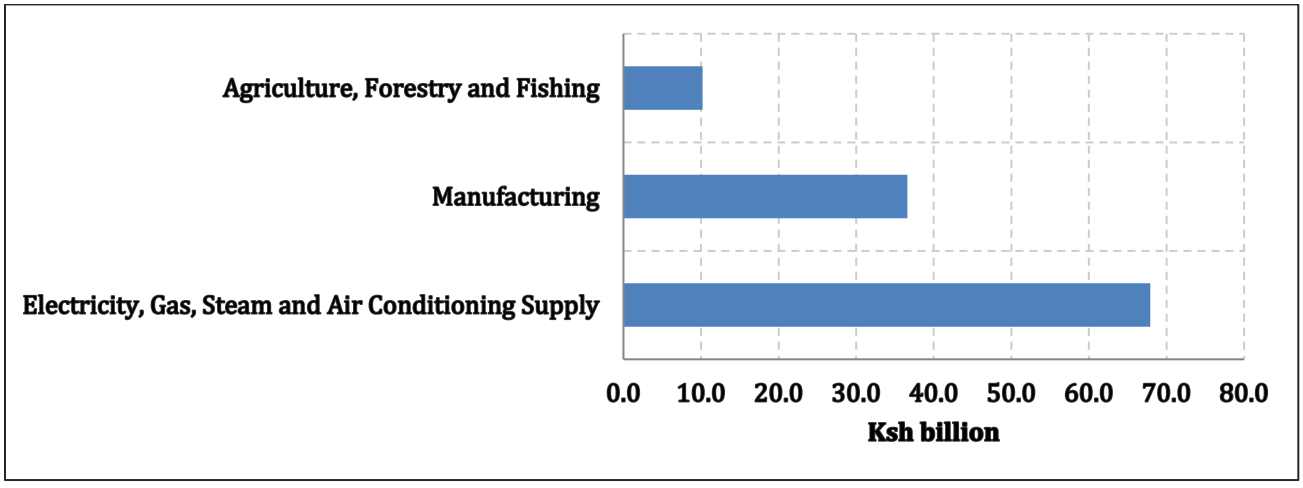
Electricity, Gas, Steam and Air Conditioning Supply increased from Kshs. 35.0 billion in 2024 to Kshs. 67.9 billion in 2025 and accounted for 59.2 percent of the 2025 estimate. Manufacturing declined from Kshs. 65.0 billion to Kshs. 36.6 billion, while Agriculture, Forestry and Fishing declined from Kshs. 15.9 billion to Kshs. 10.2 billion. The estimates therefore relate only to qualifying zero-rated supplies remaining after benchmark screening, including the exclusion of exports. The movements principally reflect changes in net zero-rated activity reported in VAT returns, together with some compositional effects from supplies whose statutory treatment changed between zero-rating and exemption.

Table 3. 4: Tax Expenditure on Zero-Rated Supplies by Sector, 2024-2025

Sector	2024 (Kshs. Mn)	2025 (Kshs. Mn)	2025 Share (%)	Change (%)
Manufacturing	64,956.0	36,615.9	31.9	-43.6
Agriculture, Forestry and Fishing	15,900.0	10,188.9	8.9	-35.9
Electricity, Gas, Steam and Air Conditioning Supply	34,958.0	67,887.8	59.2	94.2
Total	115,814.0	114,692.6	100.0	-1.0

Source: Kenya Revenue Authority and National Treasury computations.

Figure 3.3: Tax Expenditure on Zero-Rated Supplies by Sector, 2025



Source: Kenya Revenue Authority and National Treasury computations.

In summary, the total tax expenditure on VAT is estimated at Kshs. 188.6 billion in 2025, equivalent to 1.07 percent of GDP, compared with Kshs. 204.5 billion (1.26 percent of GDP) in 2024. The 2025 estimate comprises Kshs. 175.8 billion in tax expenditure on domestic VAT and Kshs. 12.8 billion in tax expenditure on import VAT. The decline mainly reflects lower benchmark-screened

transaction values in several domestic sectors and imports, partly offset by higher zero-rated activity in Electricity, Gas, Steam and Air Conditioning Supply.

Changes in VAT policy during the period also affected the composition of the estimates. In particular, agricultural pest-control products and inputs, fertilizers and fertilizer-manufacturing inputs were moved from zero-rated to exempt status under the Tax Laws (Amendment) Act, 2024. This contributed to the shift between exempt and zero-rated activity observed in Agriculture and Manufacturing. Other measures, including exemptions for denatured ethanol, locally consumed tea, mosquito repellents and related manufacturing inputs and services, as well as zero-rating of packaging materials for tea and coffee, provided some offsetting upward effect on preferentially treated activity during 2025.

The returns-based approach remains the methodology for estimating tax expenditure on VAT in the 2026 Report. The model-based approach estimates are presented in Annex III on an indicative basis to support methodological assessment and further refinement of VAT tax expenditure estimation.

IV. TAX EXPENDITURE ON EXCISE DUTY

4.1 Overview

Excise duty is a tax imposed on goods and services locally manufactured or imported into Kenya and specified in the First Schedule of the Excise Duty Act Cap 472. Key excisable products consist of: beer, wines and spirits, other alcoholic drinks, bottled water, soft drinks, cosmetics, some plastic articles, cigarettes, fuels, motor vehicles, and additional manufactured tobacco and its substitutes. Excisable services encompass telephone and internet data services, fees for money transfer services, various charges from financial institutions, and gaming and lottery. The regulations that govern the application of excise duty are detailed in the Excise Duty Act, Cap. 472. The Government imposes Excise Duty to generate revenue to support budget and to discourage consumption of certain products and services that have negative externalities.

4.2 Excise Duty Benchmark

Excisable goods and services are contained in the First Schedule of the Excise Duty Act, Cap 472 while the exempt goods and services are in the Second Schedule of the Excise Duty Act, Cap 472. The same schedules represent the benchmarks, with exceptions for items which are considered as tax expenditures. The list of goods and services that are considered as benchmarks are shown in **Annex V.**

4.3 Tax Expenditures on Domestic Excise Duty

Tax Expenditures in respect of domestic excise duty arises from exemptions provided under the Excise Duty Act, 2015 Cap 472. Specifically:

(a) Exemption of alcoholic and non-alcoholic beverages supplied to the Kenya Defence Forces Canteen Organization (DEFCO), as provided in the Second Schedule, Part A, Item 12; and

(b) Excise Duty remission on beer or wine made from sorghum, millet, cassava, or any other agricultural products (excluding barley) grown in Kenya, pursuant to Section 7(2).

This report has considered the above exemptions as tax expenditure on domestic excise duty.

4.4 Estimation of Tax Expenditure on Domestic Excise

This section presents a comprehensive analysis of the tax expenditure on domestic excise tax, focusing on the remission granted for Keg beer (produced from sorghum, millet, and cassava), the excise duty exemption for both alcoholic and non-alcoholic beverages supplied to DEFCO and exemption on Completely Knocked Down (CKDs) units. This analysis is as shown in Table 4.1.

Table 4. 1: Tax Expenditure on Domestic Excise Duty, Kshs. million

Tax Expenditure Item	Legal reference	Rationale		Revenue forgone(Ksh Millions)			
			2021	2022	2023	2024	2025
Alcoholic Beverages(DEFCO)	Second schedule, Part A,Item 12 of Excise Duty Act	Reduce the cost of living for service members	1433.1	732.6	680.9	711.8	808.4
Non-alcoholic Beverages(DEFCO)	Second schedule, Part A,Item 12 of Excise Duty Act	Reduce the cost of living for service members	4.3	5.3	14.7	17.1	17.9
Keg Beer(Sorghum, Millet and Cassava)	Part II, Section 7(2) of Excise Duty Act	Create markets for Kenya farmers` produce,support small holders farmers and rural economies,promote investment in local manufacturing	6,244.10	7,297.70	9,484.10	9,972.30	9,952.50
Completely Knocked Down(CKDs) units	SECOND SCHEDULE, Part A, item 16 of Excise Duty Act	To protect and promote local manufacturing, To create employment	-	-	286.20	3,452.60	8,136.00
Total Tax Expenditure on Domestic Excise Duty			7,681.500	8,035.600	10,465.900	14,153.800	18,914.800
Nominal GDP			**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.00**
Expenditure on Domestic Excise Duty (%of GDP)			0.064	0.060	0.070	0.087	0.108

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

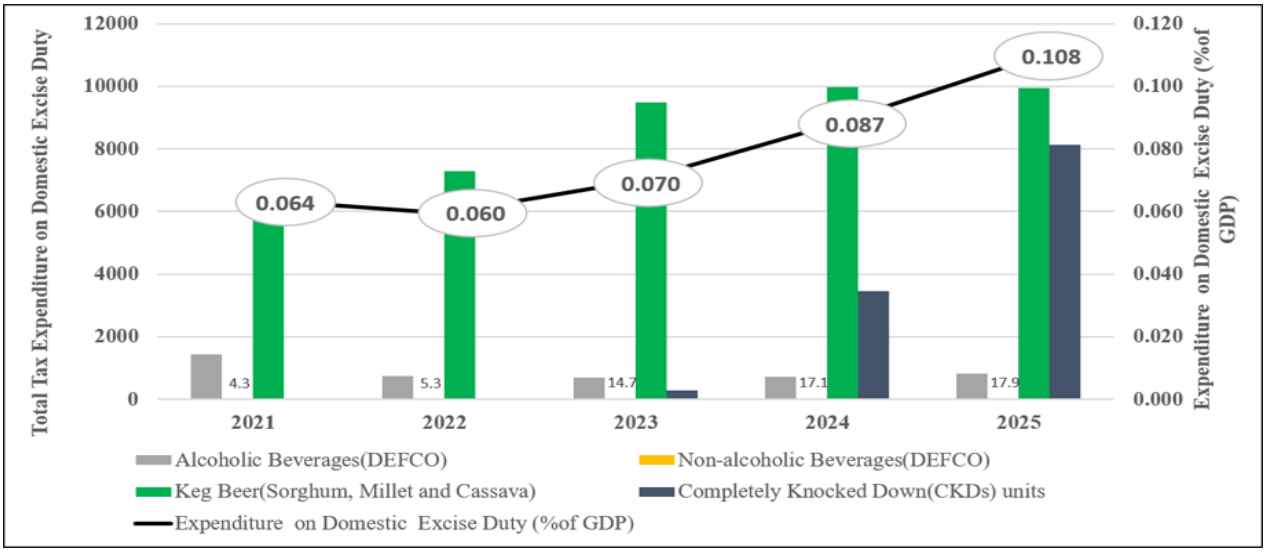
The total tax expenditure on domestic excise duty increased from Kshs. 14.2 billion in 2024 to Kshs. 18.9 billion in 2025. Excise duty (domestic) tax expenditure as a share of Nominal GDP increased by 0.021 per cent to 0.108 per cent in 2025. The increase is largely attributable to increase in excise duty exemption on completely Knocked Down (CKDs) unit from Kshs. 3.5 billion in 2024 to Kshs. 8.1 billion in 2025. The increase in CKD exemptions indicate higher levels of local motor vehicle assembly, reflecting the impact of government incentives aimed at promoting domestic vehicle assembly.

Tax expenditures on alcoholic beverages supplied to the Defence Forces Canteen Organization (DEFCO) increased from Kshs. 711.8 million in 2024 to Kshs. 808.4 million in 2025. The increase is attributed to increase in excise rate on alcoholic beverages and quantities delivered to DEFCO.

Tax expenditures on non-alcoholic beverages supplied to the Defence Forces Canteen Organization (DEFCO) slightly increased from Kshs. 17.1 million in 2024 to Kshs. 17.9 million in 2025.

Tax expenditure on keg beer remained relatively the same at Kshs. 10.0 billion. This is due to the continued application of the Duty Remission Scheme on beer brewed from locally sourced sorghum, millet, and cassava. This points to a sustained consumption of keg beer, driven by affordability, availability, and strong consumer demand. The incentive not only promotes local agricultural value chains and supports smallholder farmers but also sustains keg beer as a more accessible option for low-income groups, reinforcing its role as a key driver of market expansion despite the transition to a volumetric excise tax regime.

Figure 4. 1: Tax Expenditure on Domestic Excise Duty



Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

4.5 Tax Expenditure on Import Excise Duty

Import excise duty is levied on excisable goods imported into the country. Laws and Regulations governing the imposition of excise duty are contained in the Excise Duty Act, Cap 472. The base for excisable taxable value for charging excise duty on imported products is the CIF value plus the applicable import duty.

4.6 Benchmarks on Excise Duty on Imports.

Excisable goods are contained in the First Schedule of the Excise Duty Act, Cap 472 while the exempt goods are in the Second Schedule of the Excise Duty Act, Cap 472. Some of the exempt excisable goods, which are considered benchmarks, are contained in the Second Schedule of the Excise Duty Act, Cap 472 **(Refer to Annex V).**

4.7 Estimation of Tax Expenditure on Import Excise Duty

This section presents analysis of tax expenditure on import excise duty. Revenue forgone decreased from Kshs. 674.5 million in 2024 to Kshs. 224.8 million in 2025. The decrease in tax expenditure is attributed to reduction in raw sugar imported for processing by licensed sugar refinery. This analysis is as shown in Table 4.2

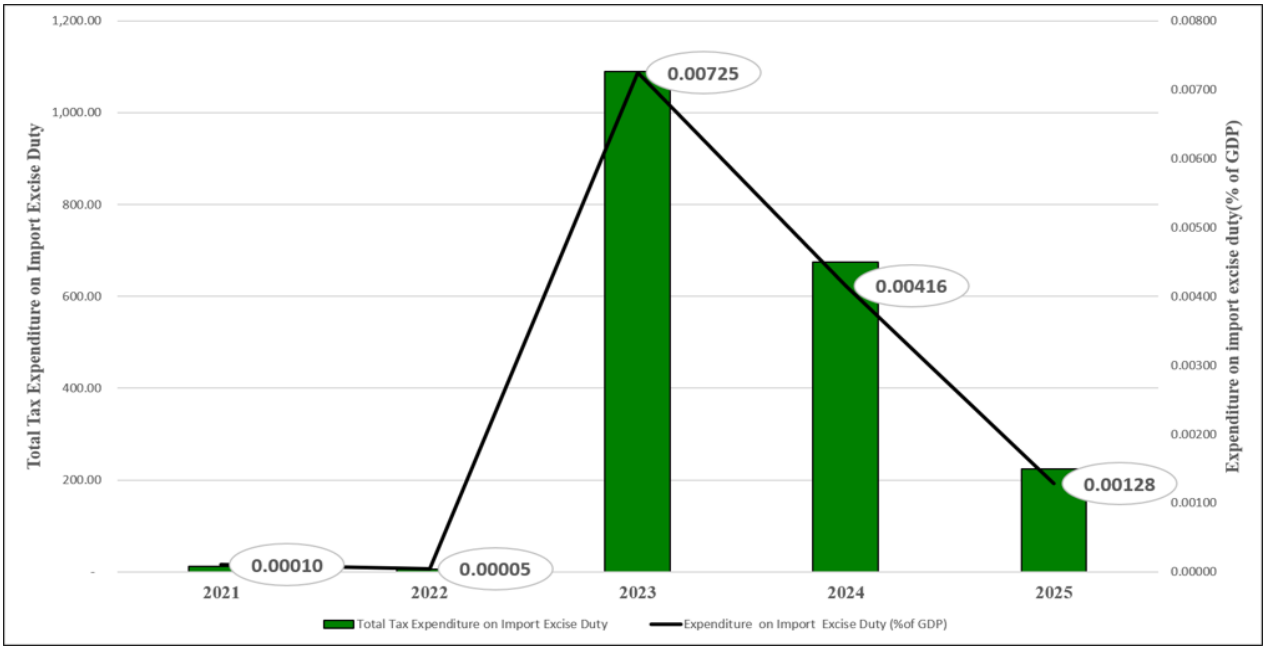
Table 4. 2: Tax Expenditure on Imports Excise Duty

Tax Expenditure Item	Legal Reference	Rationale	Revenue forgone (Ksh Million)				
			2021	2022	2023	2024	2025
Blind persons	SECOND SCHEDULE Part A, item 4 of Excise Duty	To promote mobility, accessibility and independence of persons with disabilities by reducing the tax cost of acquiring a motor vehicle adapted or	12.249	6.293	4.350	1.750	2.332
Defence Forces Canteen Organisation	SECOND SCHEDULE Part A, item 11 of Excise Duty Act Cap. 472	To reduce the cost of security and defence operations by providing tax relief on goods procured for the official use of the Kenya Defence Forces and National Police Service.	-	-	96.75	84.60	168.5
Importation of brown or white mill sugar	FIRST SCHEDULE, Part 1,paragraph 1 of Excise Duty Act	Address domestic supply shortages	-	-	988.9	588.1	54
Total Tax Expenditure on Import Excise Duty			**12.25**	**6.29**	**1,090.00**	**674.45**	**224.83**
Nominal GDP			**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,224,478.50**	**17,577,557.00**
Expenditure on Import Excise Duty (%of GDP)			0.00010	0.00005	0.00725	0.00416	0.00128

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

Figure 4.2 shows the trend of tax expenditure on import excise duty for the period 2021 to 2025. Notably, tax expenditure on import excise duty as a percentage of GDP decreased from 0.00416 percent in 2024 to 0.00128 percent in 2025.

Figure 4. 2:: Trend of Tax Expenditure on import Excise Duty (2021-2025)



Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

V. TAX EXPENDITURE ON IMPORTS

5.1 Overview

Kenya is a member of the East African Community (EAC) Customs Union. Imports are therefore administered within the legal framework of the East African Community Customs Management Act (EACCMA), 2004 and the East African Community Common External (CET) Tariff. Import duty is generally charged on the customs value of imported goods, which comprises of the cost, insurance and freight value, at the applicable tariff rate. The CET contains the standard tariff bands of 0%, 10%, 25%, 35% and higher rates for selected sensitive products, depending on the level of processing and regional policy. Preferential rates apply to qualifying goods originating from the EAC Partner States, COMESA member states or other partner countries under trade agreement that meet the prescribed criteria.

The Fifth Schedule of the EACCMA, 2004 provides for exemptions under Part A and Part B. The category includes goods imported for Partner States' Armed Forces and Police, Commonwealth and Other Governments, Diplomatic and First Arrival Privileges, Donor Agencies with Bilateral or Multilateral Agreements with the Partner States. Further, the Immunities and Privileges Act, Cap 179 exempts privileged persons and institutions.

Section 140(1) of the EACCMA provides for import duty remission by approved manufacturers for manufacture of goods in a Partner State.

Import Declaration Fee (IDF) of 2.5% and Railway Development Levy (RDL) of 2% on customs value are administered under the Miscellaneous Fees and Levies Act (MF&LA). The levies are charged on goods imported or purchased before clearance through Customs. Part A and Part B of the Second Schedule to the MF&LA lists goods that are exempt from IDF and RDL respectively. The benchmark tax system for IDF and RDL is contained in **Annex VI**.

5.2 Tax Benchmarks for Taxes on Imports, IDF and RDL

Import Duties are charged at rates of 0%, 10%, 25%, 35% and sensitive band depending on the level of processing and regional policy. Some goods classified as sensitive attract rates above 35%. Goods originating from EAC, COMESA, and other partner states are accorded preferential rates, while exemptions are provided for under the Fifth Schedule of the EACCMA. Similarly, IDF and RDL have benchmark rates of 2.5% and 2% of Customs Value, respectively, following amendments introduced in the Finance Act, 2023. Deviations in the form of reduced rates or exemptions constitute tax expenditures.

5.3 Tax Expenditure on Imports, IDF and RDL

In 2025, total tax expenditure relating to import duty, IDF and RDL was Kshs. 14.3 billion (0.08 percent of GDP), representing a 60.3 percent decrease from Kshs. 36.1 billion reported in 2024 (**Table 5.1**).

Table 5. 1:Tax Expenditure on Import Duty, IDF and RDL

Tax Expenditure Category	Legal Reference	Rationale	2021	2022	2023	2024	2025
Import duty	EACCMA, 2004 & EAC CET; exemptions under the Fifth Schedule (s.114) and s.140 (Duty Remission Scheme); privileged persons/institutions under the Immunities and Privileges Act, Cap 179	Lowers input costs for manufacturers, supports industrialization, and honors diplomatic, donor-funded, and humanitarian exemptions	4,825.30	13,589.40	63,049.40	33,422.50	8,208.90
IDF	S.140(1), MF&LA, Cap 469C — IDF at 2.5% of customs value; exemptions under Second Schedule Part A	Cuts input costs for approved manufacturers and affordable housing; honors diplomatic and donor-funded exemptions	4,454.50	11,831.90	5,545.00	1,671.00	3,255.40
RDL	S.140(1), MF&LA — RDL at 2% of customs value; exemptions under Second Schedule Part B	Funds railway development while exempting diplomatic, donor-funded, and EAC-origin goods	1,099.00	2,900.60	1,587.20	1,002.60	2,865.30
Total Tax Expenditure on Import Duty, IDF & RDL			**10,378.80**	**28,321.90**	**70,181.60**	**36,096.10**	**14,329.60**
Nominal GDP			**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.00**
Total Tax Expenditure on Import Duty, IDF & RDL (% of GDP)			**0.09**	**0.21**	**0.47**	**0.22**	**0.08**

Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

a) Import Duty

A review of tax expenditure on import duty indicates a decrease from Kshs. 33.4 billion in 2024 to Kshs. 8.2 billion in 2025 representing a 75.4 percent decline. The decrease is mainly attributed to lower tax expenditure on duty-free milled rice, which declined from Kshs. 21.7 billion to Kshs. 6.9 billion and on gazetted raw materials for animal feeds. The reduction was partly offset by an increase under the Essential Goods Support Programme from Kshs. 68.6 million in 2024 to Kshs. 907.0 million and an increase duty free brown or white milled sugar from 250.4 million to 428.3 million in 2025. Tax expenditure on import duty disaggregated at item level is presented in **Annex VII(Table A.7).**

b) Import Declaration Fee (IDF)

Tax expenditure on the Import Declaration Fee increased from Kshs. 1.7 billion in 2024 to Kshs. 3.3 billion in 2025, representing an increase of 94.8 percent. The increase was mainly attributable to higher values of exempt imports comprising specialized solar and wind-energy equipment, project goods not funded by aid, capital goods, plant and machinery for investment, agricultural and horticultural inputs, relief goods for emergency use, and aircraft parts and spare parts. The increase therefore reflects expansion in the value of imports qualifying for exemption rather than a change in the standard IDF rate, which remained at 2.5 percent during the period under review. Further details on tax expenditures on IDF are presented in **Annex VII(Table A.8).**

c) Railway Development Levy (RDL)

Tax expenditure on the Railway Development Levy increased from Kshs. 1.0 billion in 2024 to Kshs. 2.9 billion in 2025, representing an increase of 185.8 percent. The increase was mainly attributable to higher values of exempt imports comprising project goods not funded by aid, specialized solar and wind-energy equipment, capital goods, plant and machinery for investment, aircraft parts and spare parts, agricultural and horticultural inputs, relief goods for emergency use, and packaging and raw materials for the manufacture of medicaments. The increase therefore reflects expansion in the value of imports qualifying for exemption rather than a change in the standard RDL rate, which remained at 2 percent during the period under review. Detailed breakdown of tax expenditure on RDL is presented in **Annex VII (Table A.9).**

5.4 Strategic Implications

In summary, the tax expenditures on imports in 2025 served distinct but interconnected policy objectives:

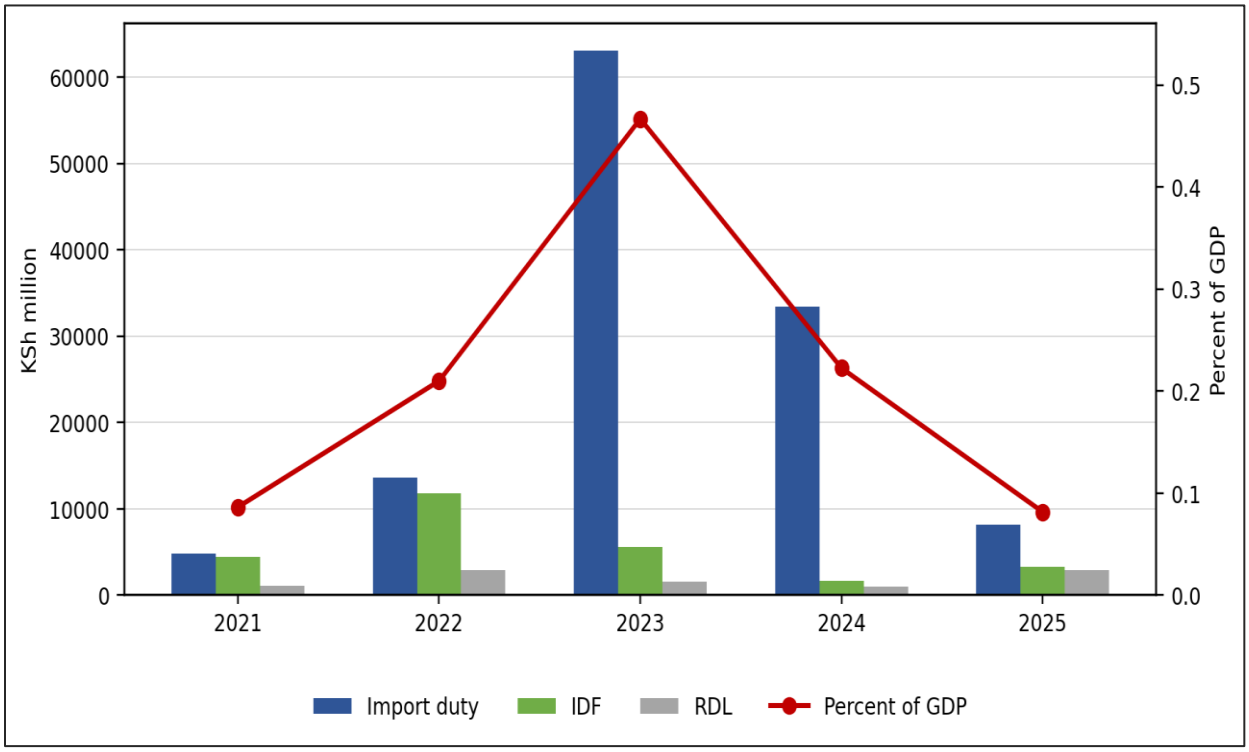
1. Short-term relief and stability: The rice and animal feed exemptions were emergency measures to ensure food security and stabilize prices for consumers.
2. Strategic long-term reform: The change in the sugar regime marked a significant policy shift towards a more market-oriented and competitive industry.
3. Industrial development: The E.G.S.P. continued to function as a tool for fostering local manufacturing and economic growth.

These rationales demonstrate a government approach that attempts to balance immediate social welfare concerns with longer-term economic restructuring goals

The contraction in tax expenditure on imports highlights a policy shift towards greater revenue predictability and reduced reliance on ad hoc exemptions. However, the continued use of Gazette Notices for granting exemptions points to the need for codification of exemption criteria in law and transparent publication of relief measures. At the regional level, Kenya's exemption practices must align more closely with EAC CET provisions to minimize distortionary impacts on intra-EAC trade. Legal integrity also demands that all tax expenditures be properly anchored in statute to comply with Article 210 of the Constitution.

Figure 5.1 shows that tax expenditure on imports increased from Kshs. 10.4 billion in 2021 to a peak of Kshs. 70.2 billion in 2023, mainly reflecting higher import-duty expenditure associated with temporary concessions on selected products. It subsequently declined to Kshs. 36.1 billion in 2024 and Kshs. 14.3 billion in 2025, reducing its share of GDP from 0.47 percent in 2023 to 0.08 percent in 2025. Although tax expenditure on IDF and RDL increased in 2025, the overall decline was driven by the substantial reduction in import-duty expenditure, particularly on duty-free rice and sugar.

Figure 5. 1:: Tax Expenditure on Imports by Component (2021 to 2025)



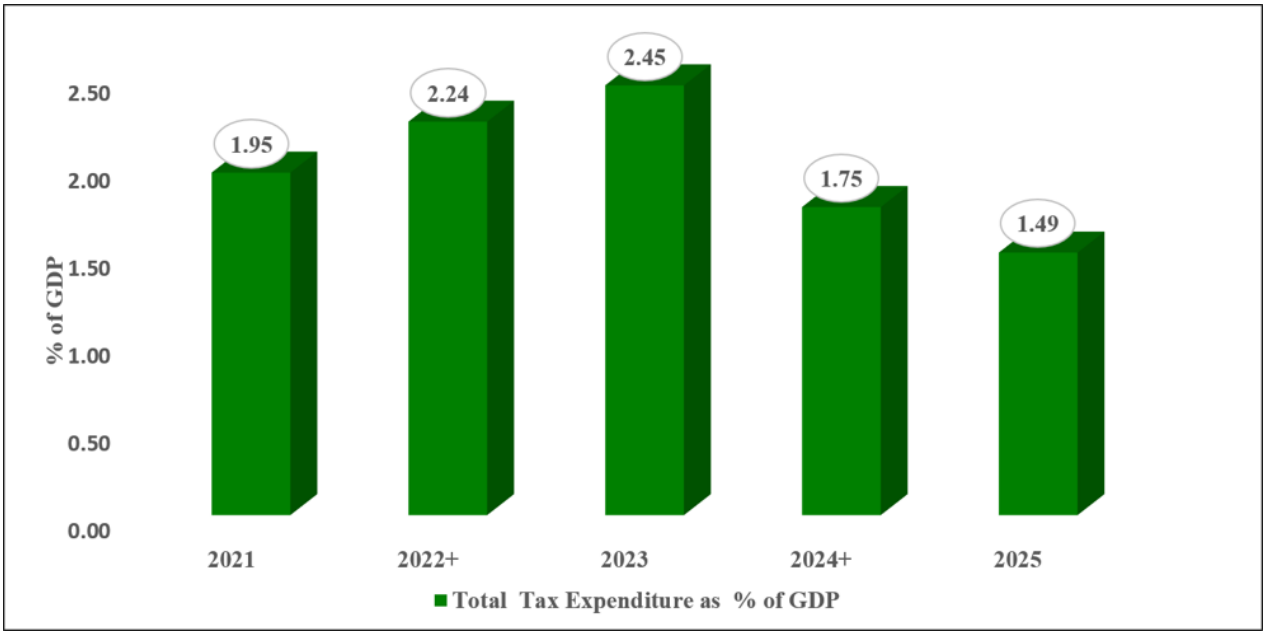
Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

VI. CONCLUSION AND POLICY CONSIDERATIONS

6.1 Key Findings

Tax expenditure as a share of GDP declined to 1.49 percent in 2025 from a revised 1.75 percent in 2024 **(Figure 6.1)**

Figure 6. 1: Total Tax Expenditure as a Percent of GDP



Source of Data: Kenya Revenue Authority and Kenya Bureau of Statistics

Total tax expenditure declined from revised figure of Kshs. 284.4 billion in 2024 to Kshs. 262.6 billion in 2025, a decline of 7.7 percent. This decrease is aligned with the Government's ongoing efforts to rationalize tax incentives, enhance domestic revenue mobilization, and promote equity and efficiency within the tax system. The reduction was largely driven by notable decreases across key tax categories, including import duty, which contracted by 75.4 percent; Import Excise by 66.7 percent; Import VAT by 20 percent; and Domestic VAT by 6.7 percent. Conversely, an upward trend was observed in RDL expenditure, which increased significantly by 185.8 percent, followed by IDF at 94.8 percent. In addition, Domestic Excise increased by 33.6 percent, Corporation income tax increased by 42.7 percent while Personal income tax expenditure grew by 31.2 percent (**Table 6.1**).

Table 6. 1: Tax Expenditures

	2021	2022	2023	2024	2025	change(2024-2025	Percent change(%)
Tax Expenditure	**Ksh Million**						
Personal income tax	5,522.3	7,163.3	7,829.6	7,654.0	10,043.0	2,389.0	31.2
Corporation income tax	42,342.8	47,559.4	35,565.0	21,391.1	30,515.0	9,123.9	42.7
VAT domestic	131,711.4	157,772.0	215,834.0	188,498.0	175,823.1	-12,674.9	-6.7
VAT Import	36,781.4	53,167.3	26,733.2	15,959.9	12,769.3	-3,190.6	-20.0
Domestic Excise Duty	7,681.5	8,035.6	10,465.9	14,153.8	18,914.8	4,761.0	33.6
Import Excise Duty	12.25	6.29	1,090.0	674.5	224.8	-449.6	-66.7
Import Duty	4,825.3	13,589.4	63,049.4	33,422.5	8,208.9	-25,213.6	-75.4
IDF	4,454.5	11,831.9	5,545.0	1,671.0	3,255.4	1,584.4	94.8
RDL	1,099.0	2,900.6	1,587.2	1,002.6	2,865.3	1,862.7	185.8
Total Tax Expenditure	**234,430.5**	**302,025.8**	**367,699.3**	**284,427.4**	**262,619.7**	**-21,807.7**	**-7.7**
Nominal GDP	**12,027,661.50**	**13,489,641.50**	**15,033,610.00**	**16,232,295.00**	**17,577,557.0**		
Total Tax Expenditure as % of GDP	1.95	2.24	2.45	1.75	1.49		

Source of Data: Kenya Revenue Authority and Kenya Bureau of Statistics

6.2 Contribution to the Total Tax Expenditure by Tax Categories

In 2025, the composition of tax expenditure changed notably compared with 2024. Domestic VAT continued to account for the largest share of total tax expenditure, increasing marginally from 66.3 percent in 2024 to 66.9 percent in 2025**,** indicating a continued concentration of tax reliefs in this category. The share of Personal Income Tax (PIT) increased from 2.7 percent to 3.8 percent, while Corporate Income Tax (CIT) rose more significantly from 7.5 percent to 11.6 percent.

In contrast, the share of VAT on imports declined from 5.6 percent to 4.9 percent**,** while import excise duty decreased from 0.2 percent to 0.1 percent. The share of domestic excise duty, however, increased from 5.0 percent to 7.2 percent. Notably, import duty recorded the largest decline, falling from 11.8 percent in 2024 to 3.1 percent in 2025**.** Meanwhile, the shares of the Import Declaration Fee (IDF**)** and Railway Development Levy (RDL) increased from 0.6 percent to 1.2 percent and from 0.4 percent to 1.1 percent, respectively (**Table 6.2**).

Table 6. 2:Tax Expenditure by Tax Categories

	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Tax Categories	**Ksh Million**					**Share of total tax expenditure %**				
Personal income tax	5,522.3	7,163.3	7,829.6	7,654.0	10,043.0	2.4	2.4	2.1	2.7	3.8
Corporation income tax	42,342.8	47,559.4	35,565.0	21,391.1	30,515.0	18.1	15.7	9.7	7.5	11.6
VAT domestic	131,711.4	157,772.0	215,834.0	188,498.0	175,823.1	56.2	52.2	58.7	66.3	66.9
VAT Import	36,781.4	53,167.3	26,733.2	15,959.9	12,769.3	15.7	17.6	7.3	5.6	4.9
Domestic Excise Duty	7,681.5	8,035.6	10,465.9	14,153.8	18,914.8	3.3	2.7	2.8	5.0	7.2
Import Excise Duty	12.3	6.3	1,090.0	674.5	224.8	0.0	0.0	0.3	0.2	0.1
Import Duty	4,825.3	13,589.4	63,049.4	33,422.5	8,208.9	2.1	4.5	17.1	11.8	3.1
IDF	4,454.5	11,831.9	5,545.0	1,671.0	3,255.4	1.9	3.9	1.5	0.6	1.2
RDL	1,099.0	2,900.6	1,587.2	1,002.6	2,865.3	0.5	1.0	0.4	0.4	1.1
Total Tax Expenditure	**234,430.5**	**302,025.8**	**367,699.3**	**284,427.4**	**262,619.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source of Data: Kenya Revenue Authority and Kenya Bureau of Statistics

6.3 Comparison of Kenya's Tax Expenditure with other Jurisdictions

In 2025, Kenya's tax expenditure is estimated at Kshs. 262.6 billion (USD 2.027 billion), representing 1.49 percent of the country's GDP. This level of revenue forgone is notably higher than that reported by other Sub-Saharan African countries that published Tax Expenditure Reports in previous years. For comparison, Ghana recorded tax expenditure at 0.41 percent of GDP for 2024. However, Rwanda reported a higher ratio of 3.6 percent for 2024.

Note: Tax expenditure estimates are not strictly comparable across countries, as methodologies differ in terms of benchmark tax systems, coverage of taxes and incentives, underlying assumptions and reporting periods. Some countries include only central government taxes, while others incorporate subnational or sector-specific incentives. In addition, differences in data availability, classification of exemptions and treatment of temporary versus permanent measures further contribute to variation in reporting standards.

Table 6. 3: Comparison of Tax Expenditure with selected Sub-Saharan Africa Countries

Cross-country Comparison of Tax Expenditures

Country	Latest Year Estimated	Tax Expenditure / Revenue Forgone (USD)	% to GDP
Kenya	2025	2.027 billion	1.49%
	2024	2.190 billion	1.75%
Uganda	2024	0.916 billion	1.78%
Tanzania	2024	1.180 billion	1.52%
Rwanda	2024	0.437 billion	3.6%
Ethiopia	2021	3.030 billion	2.78%
South Africa	2022	16.1 billion	4.2%
Ghana	2024	0.327 billion	0.41%
Nigeria	2022	6.52 billion	1.32%

Source of Data: GTED

6.4 Policy Considerations

The 2026 Tax Expenditure Report confirms that Kenya's tax expenditures remain significant at 1.49 percent of GDP, with domestic VAT accounting for 66.9 percent of total tax expenditure in 2025. These findings highlight the importance of strengthening governance, rationalizing incentives, and aligning tax expenditure management with the objectives of the National Tax Policy (2023) and the Medium-Term Revenue Strategy (FY 2024/25–2026/27). Key policy considerations include:

i. **Strengthen data capture at KRA to improve tax expenditure analysis**: Undertake data capture at item level for tax expenditure on VAT (exempt and zero-rated items), ensuring strict adherence to the HS code for zero-rated and exempt supplies for VAT transactions. In addition, identify tax expenditures arising from exemptions/reduced rates for withholding income tax and capital gains tax.

ii. **Continue the phased rationalisation of VAT exemptions and zero-ratings with the largest revenue impact**, based on their effectiveness and policy relevance, while safeguarding benchmark treatments and essential goods and services.

iii. **Progressively adopt the model-based approach for VAT tax expenditure estimation,** subject to validation and benchmark alignment, to link tax expenditure more directly to specific legal provisions and strengthen provision-level evaluation.

iv. **Develop a comprehensive Tax Expenditure Management Framework (TEMF) to strengthen the governance, monitoring and evaluation of tax incentives:** the significant revenue foregone of tax expenditures requires regular monitoring and evaluation to ensure that they remain targeted, effective and aligned with national priorities.

VII. ANNEXES

Annex I: PIT Microsimulation Model

PERSONAL INCOME TAX TAX EXPENDITURE ANALYSIS

Taxpayer-level microsimulation estimates, 2024-2025

Headline estimate: PIT tax expenditure increased from KSh 10.63 billion in 2024 to KSh 11.56 billion in 2025, an increase of Ksh 0.94 billion (8.8%). The increase was driven mainly by the PWD income exemption and mortgage interest deduction.

1. Impact Summary

Tax expenditure	2024 KSh bn	2025 KSh bn	Change KSh bn	Growth
Mortgage interest deduction	0.914	1.120	+0.206	+22.5%
Insurance relief	2.220	0.959	-1.261	-56.8%
PWD income exemption	7.484	9.475	+1.991	+26.6%
Total PIT tax expenditure	**10.625**	**11.560**	**+0.935**	**+8.8%**

The composition of PIT tax expenditure shifted further toward the PWD exemption, whose estimated cost rose by KSh 1.99 billion. Mortgage tax expenditure increased by KSh 0.21 billion, while insurance relief declined by KSh 1.26 billion.

2. What Drove the Change

Indicator	2024	2025	Change
Mortgage interest base (KSh bn)	2.990	3.646	+21.9%
Mortgage beneficiaries	14,298	28,687	+100.6%
Average mortgage TE per beneficiary (KSh)	63,949	39,059	-38.9%
PWD exempt income (KSh bn)	29.181	37.288	+27.8%
PWD beneficiaries	18,601	23,975	+28.9%
Average PWD TE per beneficiary (KSh)	402,327	395,209	-1.8%
Insurance beneficiaries	406,233	138,169	-66.0%

The PWD increase is mainly explained by expansion of the exemption base and beneficiary population. Mortgage relief also broadened substantially: beneficiaries more than doubled, although the average benefit per beneficiary declined.

3.Why Microsimulation is the Preferred Estimate

- **Counterfactual at taxpayer level.** For each beneficiary, the model reconstructs PIT under the current system and then removes the specific relief or exemption. Revenue forgone is the additional tax that would have been payable in the absence of that provision.
- **Captures the progressive PIT schedule.** The effective-rate approach applies one average PAYE rate to the entire tax base loss. Microsimulation instead applies the statutory marginal rate relevant to each taxpayer, including 10%, 25%, 30%, 32.5% and 35% bands.
- **Preserves taxpayer heterogeneity.** The approach reflects differences in income, relief amounts and tax-bracket position across beneficiaries rather than assuming that every shilling of deduction or exemption has the same tax value.
- **Validated against reported liability.** The reconstructed gross PIT liability differs from reported tax payable by only +0.13% in 2024 and -0.55% in 2025, demonstrating that the statutory tax function closely reproduces the administrative returns.

4. Effective-Rate Method vs Microsimulation

Year	Effective-rate KSh bn	Microsimulation KSh bn	Difference KSh bn	Difference
2024	9.346	10.625	+1.279	+13.7%
2025	10.077	11.560	+1.483	+14.7%

Microsimulation produces higher estimates than the effective-rate method because the forgone income is frequently restored at marginal rates above the average PAYE effective rate. This is especially important for mortgage and PWD reliefs, where beneficiaries are distributed across different parts of the progressive PIT schedule.

5. Estimation Logic

Mortgage interest deduction: Taxable income is increased by the mortgage deduction and PIT is recalculated. The difference from baseline tax is the mortgage tax expenditure.

Insurance relief: The insurance tax credit is removed while taxable income and other benchmark reliefs are held constant. The increase in liability is the insurance tax expenditure.

PWD income exemption: PWD exempt income is added back to taxable income and PIT is recalculated. The resulting increase in tax is the PWD tax expenditure.

Combined estimate: All three provisions are removed simultaneously. The interaction effect is very small (about KSh 8 million in 2024 and KSh 6 million in 2025), so the individual estimates are almost additive.

Conclusion: The microsimulation estimate of KSh 11.56 billion for 2025 provides a more direct measure of revenue forgone because it asks how much each beneficiary would have paid if the relief or exemption did not exist, while retaining the actual progressive structure of PIT.

Annex II: Mapping VAT benchmark to VAT administrative data

VAT tax expenditures in this report are calculated using the returns-based approach, using data from firms' monthly declarations of VAT paid for domestic VAT. This data indicates the total value of standard-rated, exempt and zero-rated sales and purchases for each month, but does not specify which product was bought and sold. This data has information on the sector the firm operates in. It is therefore necessary to make a judgement on whether a sector is likely to largely fall within the benchmark or not. This is shown in Table A.1. below.

Table A.1: Benchmark Screening of 2025 Exempt VAT Sector Data

Sector / Category	2025 Kshs. Mn	Treatment	Basis for classification
Financial and Insurance Activities	97,662.8	Benchmark	Financial and insurance service exemptions form part of the adopted benchmark, reflecting the standard VAT treatment of services that are difficult to value and administer.
Agriculture, Forestry and Fishing	15,059.9	TE	Residual exempt amount remaining after agricultural goods and services treated as part of the benchmark have been screened out.
Wholesale and Retail Trade	14,839.7	Benchmark	Excluded at sector level to avoid treating intermediary or pass-through relief as a separate tax expenditure where the underlying relief is captured in the supplying sector.
Information and Communication	14,453.8	TE	Identified exempt supplies attributed to the sector fall outside the adopted benchmark and therefore represent revenue forgone.
Administrative and Support Service Activities	7,874.8	TE	Identified sector-specific service exemptions fall outside the adopted benchmark and are treated as tax expenditure.
Transportation and Storage	7,817.4	Benchmark	Excluded under the current sector-level administrative mapping. Individual transport provisions are classified separately in Annex 3B and should

			govern where reliable provision-level attribution is available.
Manufacturing	6,337.3	TE	Identified exemptions relate to targeted product, input or industry-specific reliefs outside the adopted benchmark.
Human Health and Social Work Activities	5,863.5	TE	Only non-benchmark reliefs are retained; health services and goods treated as part of the benchmark are screened out where identifiable.
Construction	3,177.4	TE	Identified exemptions largely relate to targeted project, investment or sector-specific reliefs outside the normal VAT benchmark.
Professional, Scientific and Technical Activities	2,400.8	TE	Identified exemptions reflect targeted project or service reliefs outside the adopted benchmark.
Education	2,354.8	Benchmark	Qualifying education services form part of the adopted benchmark and are therefore excluded from tax expenditure.
Water, Waste Management, Sewerage and Remediation	1,630.3	Benchmark	Qualifying public water, sewerage and related services are treated as part of the benchmark.
Electricity, Gas, Steam and Air Conditioning Supply	1,413.9	TE	Identified exempt supplies are outside the adopted benchmark and therefore constitute tax expenditure.
Public Administration and Defence	56.1	Benchmark	Core Government and public-good services are treated as part of the benchmark and excluded from tax expenditure.
Other qualifying exempt sectors	4,549.1	TE	Residual qualifying exempt amounts remaining after benchmark provisions and unclassified entries have been screened out.

Source: Kenya Revenue Authority and National Treasury computations

Annex III: Returns-Based and Model-Based Approaches for estimating Tax Expenditure on VAT

This Annex compares the returns-based approach used for the official estimates in this Report with the model-based approach and presents indicative provision-level model results for 2025. The comparison supports validation and does not revise the headline estimates in Chapter III.

Table A.2: Comparison of the Returns-Based and Model-Based Approaches

Feature	Returns-Based Approach	Model-Based Approach
Status in 2026 Report	Official methodology	Methodological development under evaluation
Principal data	KRA VAT returns and import administrative data	2016 KNBS Supply and Use Table, administrative data and macroeconomic parameters
Core approach	Estimate net exempt and zero-rated activity from returns, apply the adopted benchmark, and estimate revenue forgone	Economy-wide simulation of VAT across commodity and sector flows
Benchmark application	Adopted TER benchmark applied to administrative estimates	Benchmark represented through policy mapping and policy shares
Input VAT effects	Reflected through sales less corresponding purchases in the domestic working calculation	Explicitly models unrecoverable input VAT
Supply-chain effects	Limited	Explicitly captured through inter-industry use
Domestic/import treatment	Estimated from separate administrative sources and combined for reporting	Integrated within an economy-wide framework
Main strength	Direct link to administrative data and established TER classifications	Broader treatment of embedded VAT, non-filers and supply-chain interactions
Main limitation	May not fully capture economy-wide interaction effects	Depends on SUT structure, policy shares, informality assumptions, calibration and benchmark mapping

Source: National Treasury.

The official returns-based estimate for 2025 is Kshs. 188.6 billion, compared with a model-based estimate of Kshs. 155.2 billion (0.88 percent of GDP), a difference of Kshs. 33.4 billion or 17.7 percent. The returns-based approach estimates tax expenditure directly from VAT returns and import administrative data after applying the adopted benchmark, while the model-based approach estimates VAT liabilities across the economy using the Supply and Use Table and associated macroeconomic parameters. The difference between the estimates therefore reflects differences in data sources and coverage, as well as the treatment of input VAT, supply-chain interactions and calibration assumptions. The model-based estimate is presented on an indicative basis to support methodological assessment and further refinement of VAT tax expenditure estimation.

Table A.3: Indicative Model-Based Estimates of Tax Expenditure on VAT by Key Provisions, 2025

1. Fertilizers	1st Sch. Pt I(A) & 2nd Sch. Pt A, VAT Act 2013 - fertilizers (Ch.31) exempt/zero-rated, incl. manufacturing inputs.	Lowers farm input costs to support agricultural productivity, food security and food affordability.	10,660	0.06%
2. Other agricultural inputs	1st Sch. Pt I(A) & Pt II; 2nd Sch. Pt A - animal feed, pest control, tractors, fisheries/aquaculture inputs, storage materials, sugarcane transport.	Cuts production costs across farming/fisheries value chains, supporting output and lower consumer food prices.	6,529	0.04%
3. Meat	1st Sch. Pt I(A) - meat and edible offal (Ch.2), excl. certain animal fats (0209, 0210).	Keeps a key protein staple affordable, supporting food security and equity.	2,238	0.01%
4. Processed milk products	1st Sch. Pt I(A) & 2nd Sch. Pt A - milk powder/granules, infant milk; liquid milk and cream by fat-content band.	Supports affordability/consumption of a key nutritional staple, especially for children, and the dairy sector.	731	0.00%
5. Flours, milled rice and bread	1st Sch. Pt I(A) & 2nd Sch. Pt A - milled rice, wheat/maize/cassava flour, ordinary/gluten/unleavened bread.	Protects affordability of staple grains for lower-income households and cushions consumers from price shocks.	4,239	0.02%
6. Other processed food products	1st Sch. Pt I(A) - protein concentrates, infant food, food supplements, KDF canteen, school feeding, local tea.	Combines nutrition/equity goals (infant food, supplements) with targeted social and administrative reliefs.	969	0.01%
7. Renewable energy & energy efficiency	1st Sch. Pt I(A) & 2nd Sch. Pt A - solar/wind equipment, biogas digesters, clean cook-stoves, e-mobility, batteries.	Incentivizes clean energy uptake, cuts household energy costs and biomass/fossil reliance, supports climate goals.	7,078	0.04%
8. Local vehicle manufacturing	1st Sch. Pt I(A) - inputs for passenger vehicle manufacture; locally made vehicles with >=30% local content.	Promotes local assembly, import substitution and industrial value addition.	832	0.00%
9. Other industry and manufacturing	1st Sch. Pt I(A)/Pt II & 2nd Sch. Pt A - plant/machinery (Ch.84-85), extractive/mining inputs, hygiene product inputs, mobile phone assembly, Special Operating Framework Arrangement (SOFA) goods.	Supports industrialization, investment and local value addition, generally subject to thresholds/approval.	5,678	0.03%
10. Liquefied Petroleum Gas (LPG)	2nd Sch. Pt A - zero-rating of liquefied petroleum gas, incl. propane.	Encourages shift from biomass/kerosene to cleaner cooking	10,636	0.06%

		fuel, improving health/environment and affordability.		
11. Other energy and fuel	1st Sch. Pt I(A)/(B) & Pt II - power-generation/LPG storage inputs, biogas, ethanol.	Supports energy infrastructure investment; balances energy security against revenue	690	0.00%
12. Affordable housing construction	1st Sch. Pt I(A) - goods for direct/exclusive use in Cabinet Secretary-approved affordable housing schemes.	Lowers construction costs to support the Affordable Housing Programme and access for lower/middle-income households.	3,482	0.02%
13. Air transportation	1st Sch. Pt I(A)/Pt II & 2nd Sch. Pt A - aircraft/parts, domestic air transport, leasing, ticketing; int'l passenger transport zero-rated.	Supports aviation fleet renewal/maintenance and follows international practice of not taxing int'l passenger transport.	6,485	0.04%
14. Passenger land transportation	1st Sch. Pt II - exemption for passenger transport other than international air or hired/chartered conveyance.	Keeps public (road/rail/water) transport affordable for high-frequency, lower-income commuters.	5,237	0.03%
15. Tourism	1st Sch. Pt I(A)/Pt II - tourism facility/park construction goods, tourist vehicles, park fees, tour operator services.	Supports a major foreign exchange-earning, employment-generating sector by lowering infrastructure and service costs.	1,382	0.01%
16. Finance and insurance	1st Sch. Pt II - specified financial services (accounts, transfers, cards, forex, lending, securities), insurance/reinsurance, Real Estate Investment Trusts (REITs) and Asset-Backed Securities (ABS) transfers.	Financial-intermediation margins are hard to tax under invoice-credit VAT, so exemption is largely technical/administrative; REIT/ABS relief supports capital markets.	22,913	0.13%
17. Pharmaceuticals and medicines	1st Sch. Pt I(A)/Pt II & 2nd Sch. Pt A/C - medicaments, vaccines, antibiotics, insulin, contraceptives, medical oxygen, manufacturing inputs.	Ensures affordability of/access to essential medicines and supports local pharma/vaccine manufacturing (Universal Health Coverage goal).	23,800	0.14%
18. Education	1st Sch. Pt I(A)/Pt II - laptop/tablet assembly parts, musical instruments; education services (pre-primary to university/vocational).	Improves affordability of and access to education, a merit good, and supports digital-learning initiatives.	746	0.00%
19. Water and sanitation	1st Sch. Pt I(A)/Pt II & 2nd Sch. Pt A - natural water (excl. bottled) and government sewerage services.	Supports universal access to clean water/sanitation as basic public-health necessities.	6,182	0.04%
20. Government, diplomatic and aid programs	1st Sch. Pt I(A)/Pt II & 2nd Sch. Pt B - aid-funded project goods, KDF/police/NIS supplies, disaster relief, diplomatic/donor zero-rating.	Reflects treaty/diplomatic obligations, Defence/security procurement and humanitarian objectives, not a general subsidy.	7,201	0.04%

21. Miscellaneous	1st Sch. Pt I(A)/Pt II & 2nd Sch. Pt A/B - spacecraft, film inputs, industrial parks, EPZ goods, exports, baggage allowances, business transfers.	Residual reliefs for export competitiveness, SEZ/investment incentives, heritage/charitable activity and customs conventions.	2,416	0.01%

Note: *The figures are indicative model-based estimates under the current policy mapping. The official headline estimate in this Report is produced using the returns-based approach. The model mapping is still being reconciled with the adopted VAT benchmark. The model also captures interaction effects among overlapping exemptions and zero-ratings across categories and supply-chain stages; accordingly, provision-level estimates are not strictly additive and need not sum to the headline total.*

Interpretation and next steps.

The model policy mapping is still being reconciled with the VAT benchmark adopted in this Report. Provision-level results are indicative, policy shares and informality assumptions remain estimates, and the model is based on the 2016 Supply and Use Table extrapolated to later years. Further validation should align benchmark mappings and reference-year policies, test assumptions against administrative data and document a reproducible annual update process before any future full adoption.

Annex IV: Legal Classification of VAT Schedule Provisions for 2025

This Annex summarises the active 2025 VAT Schedule provisions under three broad categories: exempt goods, exempt services, and zero-rated goods and services. The legal paragraph or tariff reference remains the basis for classification. Provisions are classified as Benchmark, Tax Expenditure or Pending.

Table A.4: Exempt Goods

Legal reference(s)	Short description	Classification	Basis / explanation
Para. 1-17, 17A, 17B, 18-24	Specified unprocessed agricultural products, seeds, livestock, meat, fish, milk, eggs, vegetables and fruits.	Benchmark	Unprocessed or low value-added agricultural goods treated as part of the adopted VAT benchmark.
Para. 25	Cereals of Chapter 10.	Tax Expenditure	Targeted relief intended to support food security and affordability; the provision is treated as a departure from the adopted benchmark.
Para. 32, 35-38	Syringes, needles, catheters, blood bags and infusion sets.	Tax Expenditure	Targeted relief intended to improve affordability of healthcare; the provision is treated as a departure from the adopted benchmark.

Para. 39	Goods and equipment specially designed for persons with disabilities.	Tax Expenditure	Targeted relief intended to promote equity; the provision is treated as a departure from the adopted benchmark.
Para. 40	Made-up fishing nets.	Tax Expenditure	Targeted relief intended to support fishing as an economic activity; the provision is treated as a departure from the adopted benchmark.
Para. 41	Mosquito nets.	Tax Expenditure	Targeted relief intended to reduce the cost of malaria prevention; the provision is treated as a departure from the adopted benchmark.
Para. 43	Specified materials and preparations used in animal feeds.	Tax Expenditure	Targeted relief intended to reduce the cost of livestock farming; the provision is treated as a departure from the adopted benchmark.
Para. 44	Unprocessed green tea.	Benchmark	Unprocessed or low value-added agricultural goods treated as part of the adopted VAT benchmark.
Para. 48	Inputs and raw materials for manufacture of solar equipment and deep-cycle batteries.	Tax Expenditure	Targeted relief intended to support clean-energy adoption; the provision is treated as a departure from the adopted benchmark.
Para. 49	Aircraft and aircraft parts under Chapter 88.	Tax Expenditure	Targeted relief intended to support the aviation sector; the provision is treated as a departure from the adopted benchmark.
Para. 54	Goods for local film producers and film agents.	Tax Expenditure	Targeted relief intended to support film production; the provision is treated as a departure from the adopted benchmark.
Para. 56	Inputs and raw materials for manufacture of agricultural machinery and implements.	Tax Expenditure	Targeted relief intended to support manufacturing and agricultural mechanisation; the provision is treated as a departure from the adopted benchmark.
Para. 57	Goods, equipment, machinery and motor vehicles for defence and security agencies.	Tax Expenditure	Targeted relief linked to national-security objectives; the provision is

			treated as a departure from the adopted benchmark.
Para. 58	Aircraft direction-finding compasses, instruments and appliances.	Tax Expenditure	Targeted relief intended to support the aviation sector; the provision is treated as a departure from the adopted benchmark.
Para. 59	Wheat seeds.	Benchmark	Unprocessed or low value-added agricultural goods treated as part of the adopted VAT benchmark.
Para. 62	Goods for construction of qualifying tourism, recreational and conference facilities.	Tax Expenditure	Targeted relief intended to support the tourism sector; the provision is treated as a departure from the adopted benchmark.
Para. 63	Goods for construction and equipping of specialised hospitals.	Tax Expenditure	Targeted relief intended to improve access to or reduce the cost of healthcare; the provision is treated as a departure from the adopted benchmark.
Para. 66	Inputs and raw materials for manufacture of clean-cooking stoves.	Tax Expenditure	Targeted relief intended to support clean cooking and reduce emissions; the provision is treated as a departure from the adopted benchmark.
Para. 68-69, 71-74, 77-84	Specified inputs and materials for manufacture of sanitary pads and baby diapers.	Tax Expenditure	Targeted relief intended to reduce the cost of sanitary and related essential products; the provision is treated as a departure from the adopted benchmark.
Para. 89	Other aircraft spare parts for aircraft operators and aircraft-maintenance businesses.	Tax Expenditure	Targeted relief intended to support the aviation sector; the provision is treated as a departure from the adopted benchmark.
Para. 90	Inputs for manufacture of pesticides.	Tax Expenditure	Targeted relief intended to support the agricultural sector; the provision is treated as a departure from the adopted benchmark.
Para. 91	Specially designed locally assembled vehicles for transportation of tourists.	Tax Expenditure	Targeted relief intended to support the tourism sector; the provision is treated as a departure from the adopted benchmark.

Para. 95	Natural water, excluding bottled water, supplied by qualifying public or approved bodies.	Tax Expenditure	Targeted relief for a specified basic-necessity item; the provision is treated as a departure from the adopted benchmark.
Para. 96, 96A	Protective clothing and personal protective equipment for medical use.	Tax Expenditure	Targeted relief intended to improve access to or reduce the cost of healthcare; the provision is treated as a departure from the adopted benchmark.
Para. 99	Passenger baggage and personal effects imported on arrival in Kenya.	Benchmark	Treatment reflects an established feature of the reference VAT system and is included in the benchmark.
Para. 100	Goods for emergency relief and recognised refugee-camp use.	Benchmark	Relief for humanitarian and equity grounds
Para. 103	Hearing aids.	Tax Expenditure	Targeted relief intended to reduce the cost of hearing aids; the provision is treated as a departure from the adopted benchmark.
Para. 105-106	Locally manufactured motherboards and inputs for their manufacture.	Tax Expenditure	Targeted relief intended to support manufacturing and digital technology; the provision is treated as a departure from the adopted benchmark.
Para. 107	Plant, machinery and equipment for construction of plastics-recycling plants.	Tax Expenditure	Targeted relief intended to support manufacturing and the circular economy; the provision is treated as a departure from the adopted benchmark.
Para. 109	Goods for approved affordable-housing construction.	Tax Expenditure	Targeted relief intended to support housing and household welfare; the provision is treated as a departure from the adopted benchmark.
Para. 110	Musical instruments and equipment for educational institutions.	Tax Expenditure	Targeted relief intended to support music education; the provision is treated as a departure from the adopted benchmark.
Para. 111	Maize seeds.	Benchmark	Key agricultural input to support food security

Para. 113, 115-127, 129, 131-133	Specialised solar and wind-energy equipment together with listed medical equipment and devices.	Tax Expenditure	Specific exemptions for listed solar, wind-energy and medical equipment; the provisions are treated as departures from the adopted benchmark.
Para. 134	Fish-farming, handling, cold-storage, cage, pond and fish-processing supplies.	Tax Expenditure	Targeted relief intended to support fish farming; the provision is treated as a departure from the adopted benchmark.
Para. 135-137	Biogas digesters, biogas, and sustainable fuel briquettes and pellets.	Tax Expenditure	Targeted relief intended to support clean cooking and reduce emissions; the provision is treated as a departure from the adopted benchmark.
Para. 139	Tractors other than road tractors for semi-trailers.	Tax Expenditure	Targeted relief for specified capital goods and productive investment; the provision is treated as a departure from the adopted benchmark.
Para. 140	Plant and machinery for manufacture of pharmaceutical products.	Tax Expenditure	Targeted relief for specified capital goods and productive investment; the provision is treated as a departure from the adopted benchmark.
Para. 141-142	Medical oxygen and specified medical or personal-care appliances.	Tax Expenditure	Targeted relief intended to improve access to or reduce the cost of healthcare; the provision is treated as a departure from the adopted benchmark.
Para. 143-144	Inputs and raw materials, and locally manufactured passenger motor vehicles.	Tax Expenditure	Targeted relief intended to support motor-vehicle manufacturing; the provision is treated as a departure from the adopted benchmark.
Para. 145	Goods, inputs and raw materials for qualifying vaccine or other large manufacturing investments.	Tax Expenditure	Targeted relief intended to improve access to or reduce the cost of healthcare; the provision is treated as a departure from the adopted benchmark.
Para. 147	Supplies made to or by recognised school-feeding programmes.	Tax Expenditure	Targeted relief intended to support school attendance and cushion low-income households; the provision is treated as a departure from the adopted benchmark.

Para. 148	Gas meters.	Tax Expenditure	Specific exemption for gas meters; the provision is treated as a departure from the adopted benchmark.
Para. 149	Inputs and raw materials for manufacture of agricultural pest-control products.	Tax Expenditure	Targeted relief intended to support manufacture of pest-control products and reduce agricultural input costs; the provision is treated as a departure from the adopted benchmark.
Para. 150-151	Agricultural pest-control products and fertilizers.	Tax Expenditure	Targeted relief intended to reduce agricultural input costs; the provision is treated as a departure from the adopted benchmark.
Para. 152	Inputs and raw materials for fertilizer manufacture.	Tax Expenditure	Targeted relief for inputs and raw materials used in fertilizer manufacture; the provision is treated as a departure from the adopted benchmark.
Para. 153	Denatured ethanol.	Tax Expenditure	Targeted relief for a specified production input; the provision is treated as a departure from the adopted benchmark.
Tariff No(s). 2106.10.00, 2106.90.10, 2106.90.99, 2106.90.91, 2936.27.00	Protein concentrates, infant foods, food supplements and vitamin C.	Tax Expenditure	Targeted relief for specified food supplements and health-related products; the provision is treated as a departure from the adopted benchmark.
Tariff No(s). 2941.20.00, 2941.30.00, 2941.40.00, 2941.50.00, 2941.90.00, 3001.20.00, 3001.90.00, 3001.90.00	Specified antibiotics and therapeutic substances.	Benchmark	Specified pharmaceutical products treated as essential health goods within the adopted benchmark.
Tariff No(s). 3002.12.00	Antisera and other blood fractions.	benchmark	Pharmaceutical products treated as essential health goods within the adopted benchmark.

Tariff No(s). 3002.13.00, 3002.14.00, 3002.15.00, 3002.41.00, 3002.42.00, 3003.10.00, 3003.20.00, 3003.31.00, 3003.39.00, 3003.40.00, 3003.41.00, 3003.42.00, 3003.43.00 and 3003.49.00, 3003.90.00, 3003.90.00, 3003.90.90, 3004.10.00, 3004.20.00, 3004.31.00, 3004.32.00, 3004.39.00, 3004.41.00, 3004.42.00, 3004.43.00, 3004.49.00, 3004.50.00, 3004.60.00, 3004.90.00, 3005.10.00, 3005.90.11, 3005.90.12, 3005.90.19, 3005.90.90, 3006.10.00, 3006.30.00, 3006.40.00, 3006.50.00, 3006.60.00, 3006.70.00, 3006.91.00, 3006.92.00, 3006.93.00, 3822.11.00, 3822.13.00	Vaccines, medicaments, dressings, diagnostic products and other specified pharmaceutical goods.	Benchmark	Specified pharmaceutical products treated as essential health goods within the adopted benchmark.

Tariff No(s). 8407.10.00, 8409.10.00	Specified healthcare-equipment tariff lines 8407.10.00 and 8409.10.00; descriptions are not stated in the supplied checklist.	Tax Expenditure	Targeted relief intended to improve access to or reduce the cost of healthcare; the provision is treated as a departure from the adopted benchmark.
Tariff No(s). 8802.30.00, 8802.40.00, 8802.60.00	Aeroplanes and other aircraft above specified unladen weights, and spacecraft.	Tax Expenditure	Targeted relief intended to support aviation sector
Tariff No(s). 9018.90.00	Blood-giving and infusion sets.	Tax Expenditure	Targeted relief intended to improve access to or reduce the cost of healthcare; the provision is treated as a departure from the adopted benchmark.
Tariff No(s). 9619.00.10, 9019.20.00, 9021.10.00, 9021.50.00, 9025.19.00, 1006.30.00	Sanitary towels and tampons; airway bags; orthopaedic appliances; pacemakers; measuring instruments; and semi-milled or wholly milled rice.	Tax Expenditure	Specific exemptions for the listed goods; the provisions are treated as departures from the adopted benchmark.
Tariff No(s). 0402.21.00, 0402.29.00, 0402.91.00, 0402.99.00	Specified milk in powder or other concentrated forms.	Tax Expenditure	Targeted relief intended to reduce the cost of milk production and infant feeding; the provision is treated as a departure from the adopted benchmark.
First Schedule, Part I	Gluten bread and unleavened bread.	Tax Expenditure	Targeted relief intended to reduce the cost of specified basic goods; the provision is treated as a departure from the adopted benchmark.

Source: *Value Added Tax Act, Cap. 476; 2025 VAT Schedules Classification Checklist; National Treasury. Note: Short descriptions are provided for ease of reading; the cited legal reference remains the legal anchor for the classification*.

Table A.5 : Exempt Services

Legal reference(s)	**Short description**	**Classification**	**Basis / explanation**
Para. 1	Specified financial services.	Benchmark	Treatment reflects an established feature of the reference VAT system and is included in the benchmark.

Para. 2-6	Insurance and reinsurance; education; medical and veterinary care; agricultural services; and burial or cremation services.	Benchmark	Essential or public-interest service treated as part of the adopted benchmark.
Para. 7-8	Domestic passenger transport; and sale, letting or leasing of land and residential premises.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.
Para. 9	Community, social and welfare services provided by public bodies.	Benchmark	Public-interest service treated as part of the adopted benchmark rather than as a preferential deviation.
Para. 10	Tea and coffee brokerage services.	Tax Expenditure	Targeted relief intended to support agriculture; the provision is treated as a departure from the adopted benchmark.
Para. 11	Member services of specified associations and qualifying charitable or social-welfare services.	Benchmark	Public-interest service treated as part of the adopted benchmark rather than as a preferential deviation.
Para. 12	Specified educational, sports and cultural entertainment services.	Benchmark	Essential or public-interest service treated as part of the adopted benchmark.
Para. 13	Accommodation, restaurant, canteen and cafeteria services in qualifying education, health or workplace premises.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.
Para. 14-15	Education-related conference services and qualifying public or employer car-parking services.	Benchmark	Essential or public-interest service treated as part of the adopted benchmark.
Para. 16-19	Non-cellular airtime; betting, gaming and lotteries; aircraft leasing or charter; and air-ticketing services.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.
Para. 20	Services for direct and exclusive use in official aid-funded projects.	Benchmark	Provision is treated as part of the adopted benchmark and is therefore excluded from tax expenditure.
Para. 21	Services for local film producers and film agents.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the

			adopted benchmark and therefore classified as tax expenditure.
Para. 23	Sewerage services supplied by public or approved bodies.	Benchmark	Provision is treated as part of the adopted benchmark and is therefore excluded from tax expenditure.
Para. 24-27, 29, 33-35	National-park entry fees; tour-operator services; qualifying tourism and hospital construction services; postal services; REIT/asset-backed security transfers; qualifying investment services; and transfer of a business as a going concern.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.

Source: *Value Added Tax Act, Cap. 476; 2025 VAT Schedules Classification Checklist; National Treasury. Note: Short descriptions are provided for ease of reading; the cited legal reference remains the legal anchor for the classification*

Table A.6 : Zero-Rated Goods and Services

Legal reference(s)	**Short description**	**Classification**	**Basis / explanation**
Part A, Para. 1	Exportation of goods.	Benchmark	Treatment is consistent with the destination principle or the normal treatment of international trade and is included in the benchmark.
Part A, Para. 2	Supplies of goods or taxable services to export processing zone businesses.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.
Part A, Para. 3-6, 9-11	Shipstores; coffee and tea for export auction; international air passenger transport; services to international carriers; duty-free shop goods; transit services; and pharmaceutical-manufacturing inputs.	Benchmark	Treatment is consistent with the destination principle or the normal treatment of international trade and is included in the benchmark.
Part A, Para. 12, 13A, 15, 20-21	Supplies to special economic zones; ordinary bread; specified milk and cream; outbound goods transport; and sugarcane transport.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.

Part A, Para. 23, 26	Exportation of taxable services and inbound international sea freight.	Benchmark	Treatment is consistent with the destination principle or the normal treatment of international trade and is included in the benchmark.
Part A, Para. 27	Liquefied petroleum gas.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.
Part A, Para. 28	Tea and coffee purchased locally for value addition before export.	Benchmark	Treatment is consistent with the destination principle or the normal treatment of international trade and is included in the benchmark.
Part A, Para. 29-35	Locally assembled mobile phones; electric motorcycles and bicycles; solar and lithium-ion batteries; electric buses; animal-feed inputs; and bioethanol vapour stoves.	Tax Expenditure	Specific exemption or zero-rating treated as a departure from the adopted benchmark and therefore classified as tax expenditure.
Part B, Para. 1-5, 8	Supplies to Commonwealth or allied armed forces, diplomats, donor agencies, international organisations, the War Graves Commission, and recognised relief organisations.	Benchmark	Treatment reflects international obligations and established diplomatic practice and is therefore included in the benchmark.

Source: *Value Added Tax Act, Cap. 476; 2025 VAT Schedules Classification Checklist; National Treasury. Note: Short descriptions are provided for ease of reading; the cited legal reference remains the legal anchor for the classification.*

Annex V: Excise Duty Benchmarks

1. Goods for use or consumption by passengers or crew while on board, primarily for use during international traffic, approved by the Commissioner.
2. Excisable goods imported or purchased by diplomatic or consular missions, diplomats, consuls, or their household members as per the Privileges and Immunities Act.
3. Excisable goods imported or purchased by foreign governments, international organizations, or aid agencies according to international agreements or the Privileges and Immunities Act.
4. Exemption for one motor vehicle for persons with disabilities, applicable once every four years, with prior vehicle tax paid.
5. Excisable goods imported or purchased for official use in relief services.

6. Excisable goods imported by individuals changing residence or returning residents, subject to certain conditions, including the ability to sell a left-hand drive vehicle and import a right-hand drive vehicle of equal retail value.
7. Excisable goods imported by passengers, within limitations provided for under the East African Community Management Act. One motor vehicle previously owned by a deceased person outside Kenya, subject to the conditions as the Commissioner may specify.
8. Excisable goods imported or purchased for direct use in the implementation of Official Aid-Funded Projects as per financing agreements.
9. Excisable goods for direct use in the manufacturing of sanitary towels.
10. All goods including materials, supplies, equipment, machinery, and motor vehicles for the official use by the Kenya Defence Forces and the National Police Service.
11. Excisable services supplied in Kenya to diplomatic or consular missions, diplomats, consuls, or their household members, per the Privileges and Immunities Act.
12. Excisable services provided to foreign governments, international organizations, or aid agencies under international agreements or the Privileges and Immunities Act.

Annex VI: Benchmark Tax System for IDF and RDL

These include:

i. Goods destined to approved duty-free shops;
ii. Ammunition, weapons or implements of war imported by the Government;
iii. Gifts and supplies for diplomatic and consular missions and to the United Nations Missions;
iv. Goods for use by the United Nations or its Agencies;
v. Goods from the East African Community Partner States that meet the 32 East African Community Rules of origin;
vi. Goods destined for official aid-funded projects;
vii. Gifts by foreign Governments or international organizations to charities and foundations;
viii. Aircraft catering stores for use in an aircraft owned and operated by a designated airline;
ix. Ships weighing 250 tonnes or more; and
x. Equipment, machinery and motor vehicles for the official use by the Kenya Defence Forces and National Police Service

Annex VII: Tax Expenditures on Imports Duty, IDF and RDL

Table A.7: Tax Expenditure on Import Duty

Code	TE Item	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
D0094	IMPORTATION OF DUTY FREE MILLED RICE	EACCMA, 2004, s.114(2), read with Fifth Schedule, Part B, item 20; Kenya Gazette Notice No. 10353 of 28 July 2025.	Bridge the domestic rice supply deficit, moderate consumer prices and support food and nutrition security.	21,729.9	6,867.0	-14,862.9
D0093	IMPORTATION OF DUTY FREE BROWN OR WHITE MILL SUGAR	EACCMA, 2004, s.114(2), read with Fifth Schedule, Part B, item 20; originating instrument: Kenya Gazette Notice No. 14093 of 13 October 2023 and published extension instrument(s).	Bridge a domestic sugar shortage and moderate consumer prices while maintaining food-safety and import-control conditions.	11,581.1	428.3	-11,152.8

Code	TE Item	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
D0040	Essential Goods Support Program (E.G.S.P)	EACCMA, 2004, s.140; EACCMA (Duty Remission) Regulations, 2008, regs. 3 and 6; applicable EAC Gazette approval.	Reduce the landed cost of approved essential goods or inputs and support domestic supply under the approved programme.	68.6	907.0	838.4
D0096	Gazetted Raw material for animal feeds	EACCMA, 2004, s.140; EACCMA (Duty Remission) Regulations, 2008, regs. 3 and 6; applicable EAC Gazette approval for animal-feed inputs.	Lower the cost of approved animal-feed raw materials and support livestock and feed production.	42.9	6.5	-36.4
	Total			**33,422.5**	**8,208.9**	**-25,213.7**
	Nominal GDP			**16,224,478.5**	**17,577,557.0**	
	Tax Expenditure as % of GDP			**0.21**	**0.05**	

Table A.8.: Tax Expenditure on IDF

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0011	Aircraft parts; Spare parts	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support safe and efficient civil-aviation operations and aircraft maintenance.	720.6	830.8	110.3
B0260	Packaging and raw materials for manufacture of medicaments	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Lower input costs for domestic pharmaceutical manufacture and improve access to medicines.	300.0	309.2	9.2
B0280	Relief goods for emergency use	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Enable timely humanitarian response to disasters, calamities and recognized emergencies.	247.5	392.0	144.5
D0010	Project goods (not aid funded)	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate approved public or strategic projects not financed through official aid.	161.3	548.7	387.3

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
A0290	Kenya Police, Administration Police, Kenya Prisons and N.I.S	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support the official functions and operational readiness of national security agencies.	59.3	18.7	-40.6
E0010	Currency notes and coins imported by financial institutions	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate approved public or strategic projects not financed through official aid.	55.8	88.7	32.9
C0040	Capital goods, plant & machinery for investment	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support the official functions and operational readiness of national security agencies.	50.9	314.9	264.0
E0140	Goods for public interest or promote investment not less than five billion shillings	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate monetary operations and the secure supply of currency and fiscal instruments.	37.4	0.0	-37.4

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
C0180	Bioethanol vapour (BEV) Stoves	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote qualifying capital investment and productive capacity through lower project-entry costs.	16.3	0.0	-16.3
B0210	Security Equipment	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote large strategic investment or another specifically approved public-interest purpose.	8.6	0.7	-8.0
C0370	EAC Glass bottles	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote cleaner household cooking technology and reduce reliance on higher-emission fuels.	5.5	6.2	0.7
B0020	Containers & pallets	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support security and public-safety operations.	2.6	24.4	21.9

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0012	Aircraft parts; Catering stores	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate qualifying regional trade and/or approved manufacturing inputs within the EAC framework.	1.6	8.4	6.9
B0010	Aircraft operations	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate transport, logistics and reusable cargo-handling equipment.	1.4	11.2	9.8
B0330	Specialized Solar and Wind Energy equipment	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support international airline operations through relief for aircraft catering stores.	1.1	438.1	437.0
D0090	Other	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support civil-aviation operations through relief for qualifying aircraft and Chapter 88 goods.	0.7	1.9	1.1

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0290	Inputs and implements for persons engaged in horticulture, aquaculture, agriculture or floriculture	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote renewable-energy investment and expand clean-energy generation.	0.2	244.0	243.8
C0320	Medical oxygen	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Implement a specifically approved concession; the individual approval is required to establish its precise objective.	0.1	2.5	2.4
B0090	Diapers, Urine bags and hygienic bags	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Lower the cost of productive agricultural, horticultural, aquaculture and floriculture inputs.	0.1	9.7	9.6
B0013	Aircraft parts; Equipment Stairways & Apron buses	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Improve the availability of medical oxygen and related health-sector capacity.	0.1	5.4	5.3

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
E0060	Gifts by foreign Governments or international organizations to charities and foundations	MFLA, Cap. 469C, s.7(3)(a) and Second Schedule, Part A; the applicable approval/recommendation and paragraph must correspond to the declaration.	Reduce the cost of specified hygiene and medical-care products.	0.1	0.0	-0.1
	Total			**1,671.1**	**3,255.4**	**1584.3**
	Nominal GDP			**16,224,478.5**	**17,577,557.0**	
	Tax Expenditure as % of GDP			**0.01**	**0.02**	

Table A.9.: Tax Expenditure on RDL

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0011	Aircraft parts; Spare parts	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support safe and efficient civil-aviation operations and aircraft maintenance.	432.5	628.8	196.3

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0260	Packaging and raw materials for manufacture of medicaments	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Lower input costs for domestic pharmaceutical manufacture and improve access to medicines.	180.4	232.5	52.1
B0280	Relief goods for emergency use	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Enable timely humanitarian response to disasters, calamities and recognized emergencies.	148.5	301.7	153.2
D0010	Project goods(not aid funded)	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate approved public or strategic projects not financed through official aid.	97.8	830.0	732.2
A0290	Kenya Police, Administration Police, Kenya Prisons and N.I.S	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support the official functions and operational readiness of national security agencies.	35.6	9.7	-25.9

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
E0010	Currency notes and coins imported by financial institutions	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate monetary operations and the secure supply of currency and fiscal instruments.	33.5	58.5	25.1
C0040	Capital goods, plant & machinery for investment	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote qualifying capital investment and productive capacity through lower project-entry costs.	30.5	251.8	221.2
E0140	Goods for public interest or promote investment not less than five billion shillings	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote large strategic investment or another specifically approved public-interest purpose.	22.5	0.0	-22.5
C0180	Bioethanol vapour (BEV) Stoves	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote cleaner household cooking technology and reduce reliance on higher-emission fuels.	9.7	0.0	9.7

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0210	Security Equipment	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support security and public-safety operations.	5.2	0.5	-4.6
C0370	EAC Glass bottles	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate qualifying regional trade and/or approved manufacturing inputs within the EAC framework.	3.3	4.0	0.7
B0020	Containers & pallets	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Facilitate transport, logistics and reusable cargo-handling equipment.	1.5	16.9	15.4
B0012	Aircraft parts; Catering stores	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support international airline operations through relief for aircraft catering stores.	0.0	6.2	6.2

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
B0010	Aircraft operations	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/ recommendation and paragraph must correspond to the declaration.	Support civil-aviation operations through relief for qualifying aircraft and Chapter 88 goods.	0.8	8.8	8.0
B0330	Specialized Solar and Wind Energy equipment	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Promote renewable-energy investment and expand clean-energy generation.	0.0	319.4	319.4
D0090	Other	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Implement a specifically approved concession; the individual approval is required to establish its precise objective.	0.4	1.5	1.1
B0290	Inputs and implements for persons engaged in horticulture, aquaculture, agriculture or floriculture	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Lower the cost of productive agricultural, horticultural, aquaculture and floriculture inputs.	0.1	181.9	181.8

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
C0320	Medical oxygen	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Improve the availability of medical oxygen and related health-sector capacity.	0.1	1.8	1.7
B0090	Diapers, Urine bags and hygienic bags	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Reduce the cost of specified hygiene and medical-care products.	0.0	7.0	7.0
B0013	Aircraft parts; Equipment, Stairways & Apron buses	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support aircraft ground-handling and related civil-aviation operations.	0.0	4.2	4.2
E0060	Gifts by foreign Governments or international organizations to charities and foundations	MFLA, Cap. 469C, s.8(6) and Second Schedule, Part B; the applicable approval/recommendation and paragraph must correspond to the declaration.	Support charitable and humanitarian activity financed by foreign governments or international organizations.	0.0	0.0	0.0
	Total			**1,002.6**	**2,865.3**	**1,862.7**
	Nominal GDP			**16,224,478.5**	**17,577,557.0**	

Code	Description	Legal basis	Policy rationale and objective	Revenue Foregone (Kshs. Million)		
				2024	2025	Change
	Tax Expenditure as % of GDP			**0.006**	**0.01**	

Annex VIII: Methodology

1. **Estimation of the Cost of Tax Expenditure**

The estimation of the tax expenditure is based on the revenue forgone approach. In this approach, the cost of tax expenditure is calculated as the difference between the tax actually paid and the tax forgone, assuming full compliance with the Benchmark Tax System (BTS).

Estimation of tax expenditure under this method is premised on the assumption of absence of a dynamic effect. As such, the methodology assumes that there is no change in behaviour following theoretical removal of a tax expenditure.

In practice, the exact formula for the calculation of the theoretical tax varies depending on tax specifics and availability of data.

2. **Determination of the Benchmark**

This report defines the benchmark tax system based on Kenya's current legal tax framework. It draws from key legislation, including the Income Tax Act (Cap 470), the Value Added Tax Act (Cap 476), the Excise Duty Act (Cap 472), and the Miscellaneous Fees and Levies Act (Cap 469C), which covers the Import Declaration Fee and the Railway Development Levy. For customs-related taxes, the benchmark is guided by regional instruments, specifically the East African Community (EAC) Common External Tariff and the EAC Customs Management Act of 2004. In establishing the benchmark, several criteria are considered. These include standard provisions in tax legislation such as the definition of the tax base, applicable tax rates, tax units, and tax periods as well as national tax policy norms that recognize certain tax reliefs as standard for critical sectors like health, education, and basic agriculture. Additionally, regional commitments, particularly those under the EAC framework, are taken into account, with the Common External Tariff serving as the basis for assessing customs duties. Lastly, international treaties and agreements are considered, and in accordance with the legal hierarchy, these take precedence over both regional and national laws.

The report adopted international best practices regarding the determination of benchmark for investment allowance under Corporation Income Tax(CIT). Benchmark in this regard was taken as the lower rate(standard rate) for that asset in the subsequent years.

The domestic VAT benchmark system in Kenya follows international best practices where all taxable supplies are subject to the standard VAT rate, with exemptions and zero-rating considered deviations unless aligned with global norms such as zero-rating exports or exempting unprocessed and essential goods. The VAT Act (Cap 476) defines exempt and zero-rated goods and services in its First and Second Schedules. Notably, this year's report reclassifies the financial and insurance sector exemptions as part of the benchmark, excluding them from VAT tax expenditure calculations due to their recognized standard status internationally. Additionally, the zero-rating of sugarcane transport services is no longer counted as tax expenditure because it is considered revenue neutral, as sugar millers do not claim related input VAT, resulting in negligible revenue loss to the government.

The methodology for assessing tax expenditures on import duty, Import Declaration Fee (IDF), and Railway Development Levy (RDL) was based on Kenya's legal framework within the East African Community (EAC) Customs Union, using the CIF value of imports as the taxable base. Import duty rates follow the EAC Common External Tariff, with exemptions and preferential treatments defined under regional agreements and national laws, including specific categories exempted under the EACCMA. Tax expenditures exclude exemptions aligned with the benchmark regime and focus on deviations such as unilateral rate reductions.

Tax expenditures on domestic excise duty in Kenya arose from specific exemptions under the Excise Duty Act, 2015 (Cap 472), including the exemption of alcoholic and non-alcoholic beverages supplied to the Kenya Defence Forces Canteen Organization (DEFCO), and excise duty remission on beer or wine made from locally grown agricultural products like sorghum, millet, and cassava (excluding barley). These exemptions were recognized as tax expenditures in this report.

3. Calculation of Tax Expenditure under each tax head

Personal Income Tax(PIT)

The cost of the tax expenditure is estimated as the loss of taxable income due to the relief multiplied by the effective tax rate observed for PAYE.

Tax Expenditure $_{PIT}$=Tax base loss x Effective tax rate

Corporation Income Tax(CIT)

In calculating tax expenditure under CIT, three items were considered: investment allowance, revenue forgone due to the preferential CIT rate given to EPZ, SEZ, and residential Units.

Tax Expenditure $_{CIT}$=Additional Investment x (Accelerated rate-lower rate) + Income earned x (Normal rate-Preferential rate) for EPZ, SEZ and Residential Units

VAT

In this report, tax expenditure regarding VAT are exemptions and zero-rate supplies. The methodology for calculating VAT TEs is discussed in greater detail in the main part of the report.

Taxation on Imports

Tax expenditure on import taxation consists of exemptions from Import Duty, VAT, Excise Duty, IDF and RDL. The cost was estimated by gathering the tax base loss for each item category from the International Harmonized System and applying the normal rate from the BTS(Common External Tariffs for import Duty, VAT rate, Excise rates, IDF and RDL rates).

Tax Expenditure $_{\text{import duty}}$=$\sum_{\text{exemption}}$(Tax base loss x CET rate)

Tax Expenditure $_{\text{import excise}}$ =$\sum_{\text{exemption}}$(Tax base loss x Excise duty rate)

Tax Expenditure $_{\text{IDF}}$=$\sum_{\text{exemption}}$(Tax base loss x IDF rate)

Tax Expenditure $_{\text{RDL}}$=$\sum_{\text{exemption}}$(Tax base loss x RDL rate)

4. Calculation of Total Tax Expenditure

The total tax expenditure was calculated as a sum of all tax expenditures under various tax heads.

Total Tax Expenditure=$\sum_{i=1}^{6} TEi$

Where TE_i is the tax expenditure for the i^{th} tax category.

Therefore:

Total Tax Expenditure=TE_{IT} +TE_{VAT} +TE_{ED}+TE_{ID} +TE_{IDF}+TE_{RDL}

Where:

- TE_{IT}: Tax Expenditure from Income Tax
- TE_{VAT}: Tax Expenditure from Value Added Tax
- TE_{ED}: Tax Expenditure from Excise Duty
- TE_{ID}: Tax Expenditure from Import Duty
- TE_{IDF}: Tax Expenditure from IDF
- TE_{RDL}: Tax Expenditure from RDL

5. Data source and type

The 2025 report utilized secondary data from Kenya Revenue Authority (KRA) and Kenya Bureau of Statistic (KNBS) to conduct critical analysis of extent of tax expenditure in Kenya. Data on tax expenditure for Income Tax, Value Added Tax, Import Duty, Excise Duty and IDF and RDL was obtained from Kenya Revenue Authority while data for Gross Domestic Product was obtained from Kenya Bureau of Statistics.