

REPUBLIC OF KENYA
THE NATIONAL TREASURY

2025

**TAX
EXPENDITURE
REPORT**



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Public Relations Office
The National Treasury
Treasury Building
P. O. Box 30007-00100
NAIROBI, KENYA

Tel: +254-20-2252-299
Fax: +254-20-341-082

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Foreword

The 2025 Tax Expenditure Report is prepared as part of the ongoing efforts by the Government to promote fiscal transparency, strengthen public financial management, and support evidence-based policymaking. The Report provides a comprehensive assessment of the revenue forgone in 2024 through various tax incentives such as exemptions, deductions, credits, deferrals, and preferential tax rates provided under Kenya's tax laws. The report is prepared in a period marked by tight fiscal space and persistent challenges in revenue mobilisation. It is therefore both timely and of critical importance. As the Government seeks to meet its growing expenditure requirements, particularly in infrastructure, social protection, education, and health, while ensuring fiscal sustainability, it is essential that all forms of public spending, including those implemented through the tax system, be subjected to the same level of scrutiny as direct budgetary expenditures.

Tax expenditures, though often invisible in the national budget, represent substantial commitments of public resources. Understanding their scope, beneficiaries, and effectiveness remains crucial to identifying opportunities to broaden the tax base, reduce inefficiencies, and realign incentives with Government priorities under the Bottom-Up Economic Transformation Agenda (BETA). This is especially important in the current environment where the country must maximise domestic resource mobilisation to reduce reliance on debt and external financing. This year's report underscores the Government's dedication to enhancing transparency, accountability, and oversight of tax expenditures as part of promoting fiscal discipline and supporting inclusive, sustainable economic growth. The 2025 report builds on the progress made in previous years towards improving the methodology and accuracy of tax expenditure estimation. It includes disaggregated data across key tax categories, namely Value Added Tax (VAT), Income Tax, Import Duty, Excise Duty, RDL and IDF thereby offering greater insight into the distribution and impact of these incentives.

The 2025 Tax Expenditure Report indicates that in 2024, total tax expenditure declined to Ksh 286.5 billion (1.77 percent of GDP) from Ksh 368.4 billion (2.45 percent of GDP) forgone in 2023. This decline reflects the deliberate effort by Government to rationalize exemptions in line with the Medium Term Revenue Strategy (MTRS). Total VAT contributed the highest to the tax expenditures of 71.4 percent followed by Import Duty of 11.7 percent, Income Tax of 10.2 percent, Excise Duty contributed 5.9 percent while IDF & RDL contributed 0.9 percent. This declining trend, largely attributed to ongoing efforts to streamline tax exemptions, and highlights the need to rationalize VAT-related tax expenditures which account for the largest share of tax expenditure, as a critical step toward enhancing revenue mobilization and ensuring fiscal sustainability.

As we continue to strengthen public financial management, the Government is committed to institutionalizing tax expenditure reporting as a regular component of the budget process. This includes improving methodologies for estimation, developing clear criteria for evaluating tax incentives, and ensuring alignment with Kenya's fiscal consolidation path and long-term development goals.

HON. FCPA JOHN MBADI NG'ONGO, EGH
CABINET SECRETARY

Preface

The 2025 Tax Expenditure Report represents a continued effort by the Government to enhance fiscal transparency and strengthen the governance of tax incentives. As part of the broader public finance reform agenda, and consistent with the strategies set out under the Medium-Term Revenue Strategy (MTRS), this report reaffirms our commitment to ensuring that all public resources whether direct expenditure or revenue forgone are subject to consistent systematic evaluation and accountability.

Tax expenditures constitute an implicit cost to the Exchequer and must therefore be monitored with the same rigour as direct public spending. Within the context of ongoing efforts to enhance domestic resource mobilisation and mitigate fiscal risks, it is essential to maintain a clear understanding of the scale, distribution, and effectiveness of the tax incentives currently in operation.

The Report provides a comprehensive estimation of tax expenditures across the principal tax categories, namely Value Added Tax, Income Tax, Import Duty, Excise Duty, Railway Development Levy and Import Declaration Fee. It further examines the sectoral distribution of these expenditures, thereby offering critical insights to policymakers as we continue to refine the tax policy framework to underpin the effective implementation of the Bottom-Up Economic Transformation Agenda. This Report also contributes to broader fiscal consolidation efforts and sound public financial management by identifying opportunities to enhance revenue through the rationalisation of tax expenditures.

The preparation of the 2025 Tax Expenditure Report was a collaborative undertaking involving key stakeholders. I wish to acknowledge, with appreciation, the valuable contributions of the technical teams at the National Treasury and the Kenya Revenue Authority (KRA), whose professionalism and commitment to analytical excellence have ensured the quality and integrity of this report. I also recognise the support of the Public Financial Management Reforms Secretariat who not only gave their valuable input, but also facilitated the technical committee workshop. Further, I am grateful for the technical assistance provided by TaxDev, whose expertise significantly enhanced the analytical rigour and overall quality of the Report.

The output of the Report will serve as a valuable resource for policymakers, researchers, development partners, and the general public in understanding the trade-offs involved and in guiding evidence-based reforms.

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
CET	Common External Tariff
CIF	Cost Insurance and Freight
CIT	Corporate Income Tax
COMESA	Common Market for Eastern and Southern Africa
DEFECO	Defence Forces Canteen Organization
EAC CET	East Africa Community Common External Tariffs
EAC	East African Community
EACCMA	East African Community Customs Management Act
EPZ	Export Promotion Levy
GDP	Gross Domestic Product
GTED	Global Tax Expenditures Database
HOSP	Home Ownership Savings Plan
IDF	Import Declaration Fee
PAYE	Pay As You Earn
PIT	Personal Income Tax
PWD	Persons With Disability
RDL	Railway Development Levy
SEZ	Special Economic Zone
VAT	Value Added Tax

Executive Summary

The 2025 Tax Expenditure Report provides an estimate of the revenue forgone by the Government in the year 2024 as a result of tax incentives embedded within the tax system. The report applies the internationally recognized "Revenue Forgone" approach, which estimates the direct loss in tax revenue from various exemptions, deductions, rate reductions, and other preferential tax treatments when compared to a defined benchmark tax system. It is important to note that this methodology does not consider the potential behavioural changes of taxpayers in response to the introduction or removal of such incentives. As such, the figures presented reflect indicative losses rather than the exact revenue that would be recovered if these measures were repealed.

The report covers tax expenditures across major tax heads, namely Income Tax (both personal and corporate), Value Added Tax (both Import and Domestic VAT), Excise Duty (both import excise and domestic excise), Import Duty, Import VAT, Import Declaration Fee (IDF), and Railway Development Levy (RDL). For each category, the report outlines the applicable benchmark tax structure, identifies the specific tax expenditures, and presents estimates of the corresponding revenue forgone.

In 2024, Kenya's total tax expenditure was estimated at Ksh 286.5 billion, representing 22.2 percent decline compared to Ksh 368.4 billion forgone in 2023. As a percentage of GDP, tax expenditure declined to 1.77 percent in 2024 from 2.45 percent in 2023, driven by a series of tax policy reforms undertaken by the government to streamline exemptions, eliminate redundant incentives, and improve tax efficiency. The analysis indicates that the most significant contributor to tax expenditures was Domestic VAT.

Total VAT expenditure decreased to Ksh 204.5 billion (1.26 percent of GDP) in 2024 from Ksh 242.6 billion (1.50 percent of GDP) in 2023. In 2024, Domestic VAT tax expenditure decreased from Ksh 215.8 billion in 2023 to Ksh 188.5 billion in 2024 mainly due to a decline in tax expenditure on zero-rated and exempt supplies. Tax expenditure relating to import VAT also decreased from Ksh 26.7 billion in 2023 to Ksh 16.0 billion in 2024, largely driven by policy changes under the Finance Act, 2023, notably the removal of the 8.0 percent reduced VAT rate on petroleum products, which resulted in their elimination from the tax expenditure category.

Income Tax expenditure decreased to Ksh 29.0 billion (0.18 percent of GDP) in 2024 from Ksh 43.4 billion (0.29 percent of GDP) in 2023. Corporate Income Tax expenditure declined significantly by 39.9 percent from Ksh 35.6 billion in 2023 to Ksh 21.4 billion in 2024. This significant decline is attributable to variations in the investment behavior of firms which tend to invest heavily in initial years and subsequently reduce their investment in subsequent years. Personal Income Tax expenditure declined by 2.2 percent in 2024 to Ksh 7.7 billion from Ksh 7.8 billion in 2023.

Import Duty including IDF and RDL expenditure decreased to Ksh 36.1 billion (0.22 percent of GDP) in 2024 from Ksh 70.2 billion (0.47 percent of GDP) in 2023. Tax expenditure on Import Duty decreased from Ksh 63.1 billion in 2023 to Ksh 33.4 billion in 2024. The decrease is mainly attributed to reduced importation of duty-free sugar, milled rice, and raw materials for the manufacture of animal feeds. Tax expenditure for both IDF and RDL decreased from Ksh 7.1 billion in 2023 to Ksh 2.7 billion in 2024 due to the harmonization of IDF and RDL rates through the Finance Act, 2023.

Total Excise Duty expenditure increased to Ksh 16.9 billion (0.10 percent of GDP) in 2024 from Ksh 12.3 billion (0.08 percent of GDP) in 2023. Tax expenditure on domestic Excise Duty registered a marginal increase from Ksh 10.2 billion in 2023 to Ksh 10.7 billion in 2024 due to a slight increase of tax expenditure related to alcoholic beverages supplied to the Defence Forces Canteen Organization (DEFCO). Tax Expenditure on Import Excise Duty increased significantly from Ksh 2.1 billion in 2023 to Ksh 6.2 billion in 2024, reflecting the increase in the assembly of motor vehicles which are exempt from Excise duty. This underscores a deliberate policy decision by the Government to support and promote local manufacturing.

Overall, the report found out that tax expenditures are a substantial element of fiscal policy, equivalent to 1.77 percent of GDP in 2024. While these measures are often necessary to stimulate investment, reduce the cost of living, and support key economic sectors, the significant expenditures under VAT underscore the need for regular review. There is a clear policy imperative to ensure that tax incentives are well-targeted, cost-effective, and aligned with national development priorities, particularly in the context of limited fiscal space and the need for sustainable revenue mobilization.

This report provides critical data analysis to support evidence-based decision-making and greater transparency in the management of tax incentives. It also contributes to ongoing fiscal reforms under the Bottom-Up Economic Transformation Agenda, by facilitating more effective monitoring, evaluation, and rationalization of tax expenditures.

I. INTRODUCTION

1.1 Background

1. Taxation remains the primary instrument through which the Government mobilises domestic revenue to finance public goods and services. An effective tax system supports national development by providing resources for public infrastructure, social services, and economic transformation. In addition to revenue generation, tax policy plays a central role in influencing economic behaviour, attracting investment, and promoting equity across the economy.

2. Unlike direct government spending, tax expenditures, such as exemptions, deductions, credits, deferrals, and preferential tax rates, are embedded within the tax laws. These measures are designed to advance specific policy objectives by providing targeted financial relief to individuals, businesses, or sectors of the economy.

3. While tax expenditures are often intended to stimulate investment, enhance competitiveness, and cushion vulnerable populations from the high cost of living, they also entail important trade-offs. Revenue forgone through such measures reduces the overall tax base, potentially undermining the Government's ability to finance priority development programmes. Against the backdrop of limited fiscal space and rising public expenditure demands, the need to evaluate, monitor, and manage the scope and impact of tax expenditures is both urgent and critical.

4. Tax expenditure reporting is intended to enhance transparency, accountability, and informed policy decision-making by estimating the value of revenue forgone through preferential tax treatment. This report quantifies the estimated tax expenditures and analyses their distribution across the main tax categories, namely: Value Added Tax (VAT); Income Tax (personal and corporate); Excise Duty; Import Duty; IDF; and RDL.

5. Kenya's approach to tax expenditure reporting is aligned to international best practice, which seeks to promote transparency, fiscal discipline, and budgetary accountability. The publication of this Report demonstrates the country's constitutional commitment to prudent public financial management and strengthens evidence-based policy formulation, consistent with the Public Finance Management Act, Cap 412A.

6. The methodology applied in this report is the internationally recognised revenue forgone approach, which estimates the value of revenue not collected as a result of tax reliefs granted under existing tax laws. The approach measures the difference between the revenue that would have been realised under a standard or benchmark tax regime and the actual revenue collected, without factoring in behavioural changes by taxpayers. Accordingly, the figures presented represent an estimate of the immediate revenue forgone, rather than the actual revenue that would necessarily accrue in the absence of the tax expenditures.

1.2 Benchmark Tax System

7. In this report, the benchmark tax system is derived from the legal framework governing Kenya's tax structure, 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 (covering the Import Declaration Fee and the Railway Development Levy). For customs-related taxes, the benchmark is informed by the East African Community (EAC) Common External Tariff and the EAC Customs Management Act, 2004.

8. The criteria used in defining the benchmark tax system include:
- i. **Standard provisions in tax law**, including the definition of the tax base, applicable rates, tax units, and tax periods;
 - ii. **National tax policy norms**, recognising tax reliefs treated as standard for key sectors such as health, education, and basic agriculture;
 - iii. **Regional commitments**, particularly those under the EAC framework, where the Common External Tariff provides the standard for assessing customs duties; and
 - iv. **International treaties and agreements**, which, in line with the established legal hierarchy, supersede regional and national legislation.

1.3 Objectives of the Report

9. The principal objective of the Report is to estimate the total value of tax expenditures for the year 2024. In addition, the report presents a comparative analysis of tax expenditures for the years 2021, 2022, and 2023, thereby highlighting trends and patterns over time. The analysis is intended to strengthen evidence-based fiscal planning and reinforce transparency in the management of tax incentives.

10. The specific objectives are to:
- i. Estimate tax expenditures across the major tax categories;
 - ii. Provide statistical data and analysis on identified tax expenditures;
 - iii. Enhance transparency, public awareness, and accountability in the management of tax expenditures; and
 - iv. Support monitoring, evaluation, and policy review of tax expenditure measures.

1.4 Scope of the Report

11. This report analyses tax expenditures for the year 2024 across the following categories: Income Tax (personal and corporate), Value Added Tax, Excise Duty, Import Duty, and Fees and Levies (namely the Import Declaration Fee and the Railway Development Levy).

12. For each category, the report identifies and quantifies the revenue forgone as a result of exemptions, deductions, or preferential treatments, relative to the defined benchmark system. Where no tax expenditures are recorded, the benchmark structure is outlined for reference.

13. The structure of the report is as follows: Chapter I is the introduction. Chapter II looks at tax expenditures on income tax. Chapter III focuses on tax expenditures related to Value Added Tax (VAT). Chapter IV covers tax expenditures on excise duty. Chapter V covers tax expenditures on imports, including import duty, the Import Declaration Fee, and the Railway Development Levy. Chapter VI provides the conclusion and policy considerations.

II. TAX EXPENDITURE ON INCOME TAX

2.1 Income Chargeable to Tax

14. Income tax is charged upon all income of a person which is derived in or accrued in Kenya. The different sources of income which are subject to income tax are as follows:

- i. Gains or profits from - a business, employment or services rendered and a right granted to another person for use or occupation of property;
- ii. dividends;
- iii. interest and deemed interest;
- iv. royalties;
- v. capital gains
- vi. income accruing from a business carried over the internet or an electronic network including over a digital marketplace (changed to Significant Economic Presence Tax in December 2024);
- vii. an amount deemed to be the income of a person under the Act or by rules made under the Act;
- viii. a natural resource income;
- ix. a pension, charge or annuity; and
- x. gains from financial derivatives.

15. 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

16. 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, certain payments are deemed income and are therefore subject to withholding tax. The rates of withholding income tax are shown in **Table 1**.

Table 1: Withholding Tax Rates

Income Description	Resident rates	Non-resident Rates
Management or professional fees or training fee	5%	20%
Contractual fees	3%	20%
Royalties	5%	20%
Dividends	15% while 5% for qualifying dividends	15%
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%
Repatriated income	-	15%

Income Description	Resident rates	Non-resident Rates
Supply of goods to a public entity	0.5%	5%
Digital content monetization	5%	20%

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 Personal Income Tax

17. 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 are deemed income and are therefore subject to withholding tax.

18. 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.

19. PIT also includes tax on income from other gainful activities other than employment. These include payments deemed as income and subject to withholding tax as well as those that are not subject to withholding tax such as residential rental income and sole proprietorship income. The PAYE tax bands are presented in **Table 2**.

Table 2: PAYE Bands and Rates

PAYE Bands 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: Taxpayers are entitled to a tax relief of Kshs 2,400 per month translating to Kshs 28,800 per annum.

20. Pension income is also subject to graduated tax bands and rates as shown in Table 3.

Table 3: Pension Tax Band

Pension Tax Band	Rate
On the first Kshs. 24,000 per month or Kshs. 288,000 p.a	10%
On the next Kshs. 8,333 per month or Kshs. 100,000 p.a	25%
On all income amount in excess of Kshs. 32,333 per month or Kshs. 388,000 p.a	30%

Note: Effective 27th December, 2024, all pension income became exempt from tax, an amendment effected vide the Tax Laws (Amendment) Act, 2024.

2.3.1 PIT Benchmark

21. The benchmarks with respect to PIT in this report include contributions to pension schemes and social security funds, personal reliefs and income paid to diplomats and privileged persons. Social Health Insurance Fund and Affordable Housing Levy deductions are equally considered as part of the benchmark (**Annex I**).

2.3.2 PIT Expenditure

22. The PIT expenditure comprises of reliefs to taxpayers meant to encourage savings and reduce tax burden. These reliefs include insurance relief, mortgage interest deductions and exemptions relating to income earned by persons with disability (PWD) for income of up to Kshs. 150,000 per month.

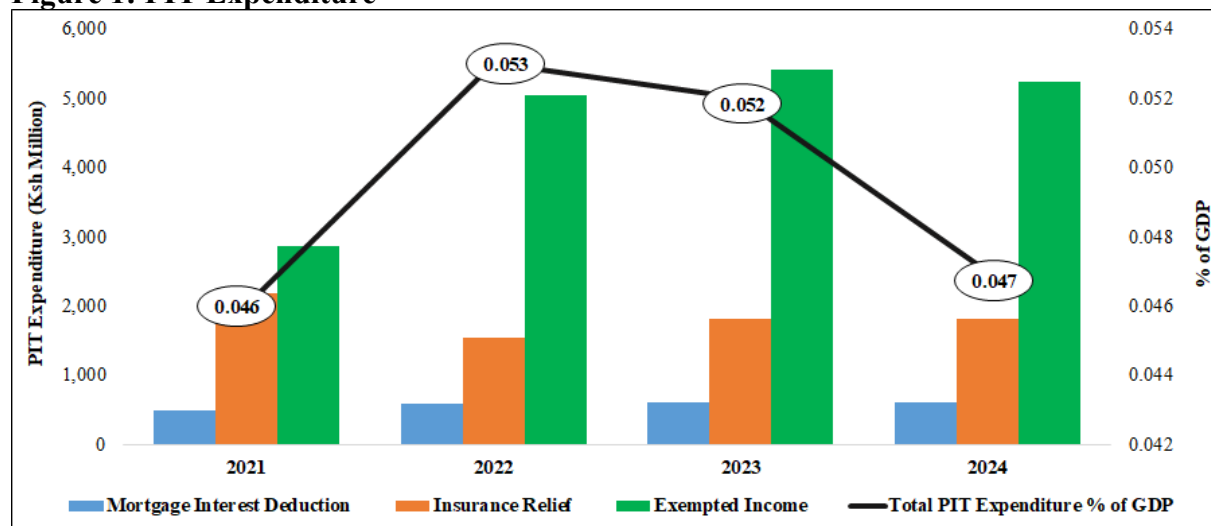
Table 4: PIT Expenditure, Ksh million

	2021	2022	2023	2024
Mortgage Interest Deduction	488.5	579.7	601.4	615.0
Insurance Relief	2,175.8	1,537.1	1,816.3	1,809.0
Exempted Income	2,858.0	5,046.5	5,411.9	5,230.0
Total PIT Expenditure	5,522.3	7,163.2	7,829.7	7,654.0
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
Total PIT Expenditure % of GDP	0.046	0.053	0.052	0.047

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

23. Over the years, there has been progressive increase in the total PIT expenditures ranging from Kshs. 5,522.3 million (0.046 percent of GDP) in 2021 to Kshs. 7,829.7 million (0.052 percent of GDP) in 2023. However, in 2024, there was a slight decrease to Kshs. 7,654.0 million (0.047 percent of GDP). Table 4 shows the PIT expenditure trends from 2021 to 2024.

Figure 1: PIT Expenditure



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

2.4 Corporate Income Tax

24. 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. To incentivize certain sectors or economic activities, the government has provided 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 CIT Benchmark

25. 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 this Report, CIT benchmark has been considered in relation to investment allowances in respect of capital expenditures incurred on buildings, machinery, fibre optic cable and farmwork. Tax expenditure in this regard is taken as the difference between the higher investment allowance rate in the first year of use of an asset and the lower rate for that asset in the subsequent years. This means that the tax expenditure in relation to hotel buildings, buildings used for manufacture, hospital buildings, petroleum or gas storage facilities, machinery used for manufacture, hospital equipment, ships or aircrafts, farmwork, machinery used to undertake operations under a prospecting rate and machinery used to undertake exploration operations is the difference between the higher rate which is fifty (50) percent in the first year of use and twenty-five (25) percent for these assets in the subsequent years.

26. In the previous Tax Expenditure Reports, a 10.0 percent investment allowance was considered as a benchmark and any allowance above 10.0 percent was regarded as a hastened investment allowance rate hence resulting into a tax expenditure, that is, the tax expenditure being the difference between the higher investment allowance rate and 10 percent (benchmark). The tax expenditure for previous years have been corrected using the methodology described above. The CIT benchmarks are presented in **Annex II**.

2.4.2 CIT Expenditure

27. Given the benchmark tax regime described in section 2.4.1, tax expenditure in relation to buildings, machinery and farmwork is the difference between the higher rate of fifty (50) percent in the first year of use and twenty-five (25) percent for these assets in the subsequent years. Further, investment allowance is calculated based on additional investments made in 2024. This varies from previous reports where tax expenditure was calculated on total investment. **Table 5** shows the investment allowances of buildings, machinery, farm works and indefeasible right to use fibre optic cable by telecommunication companies.

Table 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) Farmworks	50% in the first year of use and 25% per year, in equal instalments

28. In addition to the investment allowances on plants and machinery, reduced CIT rates for sectors or economic activities such as housing, motor vehicle assembly, shipping, carbon

market or emission trading manufacture of human vaccine, Export Promotion Zones (EPZs) and Special Economic Zones (SEZs) are considered as tax expenditures. Table 6 shows reduced CIT rates for these sectors and economic activities.

Table 6: Preferential CIT Rate

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.

29. In 2024, these preferential CIT rates were not utilized except for those relating to companies that constructed at least one hundred residential housing units, EPZ and SEZ. Table 7 shows CIT expenditures from 2021 to 2024. The amount of corporate income tax forgone by the government as a result of preferential CIT rates for SEZ and EPZ in 2024 were Ksh 730 million and Ksh 945 million respectively

Table 7: Corporate Income Tax Expenditure, Ksh Million

	2021+	2022+	2023+	2024
Accelerated investment allowance for Plant and Machinery	29,100.6	26,799.7	16,462.6	7,360.9
Accelerated Investment allowance for Building	5,314.7	10,186.2	7,268.0	4,507.0
Accelerated investment allowance for Industrial Building	6,285.7	8,497.8	10,618.2	6,604.9
Accelerated investment allowance for Agricultural Land	1,641.8	2,075.7	1,216.2	1,135.7
Preferential CIT rate EPZ and SEZ	0.0	0.0	0.0	1,675.0
Preferential CIT rate for residential units	-	-	-	107.6
TOTAL	42,342.7	47,559.5	35,565.0	21,391.1
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
TOTAL CIT Expenditure % of GDP	0.35	0.35	0.24	0.13

+Revised

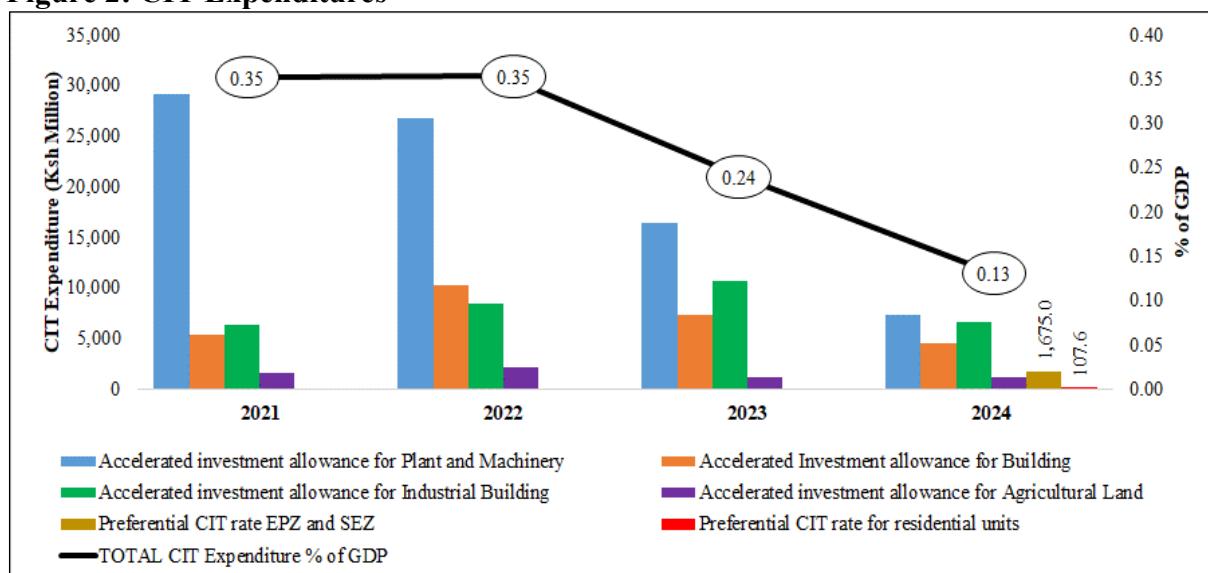
Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

Note: Accelerated investment allowance is the difference between the investment allowance in the first year of use of an asset and a lower rate in subsequent years.

30. CIT expenditure increased from Ksh 42.3 billion (0.352 percent of GDP) in 2021 to 47.6 (0.353 percent of GDP) in 2022. In 2023, it decreased to Ksh 35.6 billion (0.237 percent of

GDP). In 2024, the tax expenditure decreased further to Ksh 21,391.1 million (0.131 percent of GDP) representing a 0.458 percent drop. The decline in CIT expenditure in 2023 and 2024 may be potentially attributable to reduced new investment and weaker growth in fixed capital formation, which had expanded more robustly during the post-COVID recovery period of 2021-2022. Notably, firms often make large one-off capital investments and take time before investing in capital goods again. Additionally, slower growth in the aggregate operating surplus (7.06 percent in 2023 from 16.36 percent in 2022 (2023 Economic Survey)) in several incentive-heavy sectors further dampened capital investment. The CIT expenditure trends are represented in **Figure 2**.

Figure 2: CIT Expenditures



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

III. TAX EXPENDITURE ON VALUE ADDED TAX

3.1 Overview

31. Value Added Tax (VAT) is a consumption tax imposed on the supply and importation of taxable goods and services in Kenya. It is chargeable at each stage of the production and distribution chain where value is added, with the ultimate burden borne by the final consumer. Under the Value Added Tax Act, Cap 476, any person, whether an individual or company whose annual taxable turnover is, or is expected to be, at least Ksh 5.0 million must register for VAT.

32. Under this system, businesses charge VAT on their sales (output tax) and pay VAT on their purchases (input tax). The VAT payable to the government is the difference between the output tax collected and the input tax incurred. Once registered, a taxpayer is entitled to claim input tax credits, which are a central feature of the VAT mechanism. If input tax exceeds output tax, the excess may be carried forward or refunded in accordance with the law.

33. VAT is one of the most significant revenue sources for the government, consistently contributing between 25.0 and 30.0 percent of total tax collections. This chapter examines tax expenditures on domestic and import VAT. Notably, in this year's Report, both domestic and import VAT tax expenditures are presented under this Chapter, a departure from previous Reports where import VAT expenditures were covered in the chapter on import tax expenditures.

34. The structure of VAT in Kenya is as follows:

- i. Taxable supplies at the general rate of 16 percent;
- ii. Zero-rated supplies at the rate of 0 percent; and
- iii. Exempt supplies.

3.2 Domestic and Import VAT Benchmark

35. The Domestic VAT benchmark system reflects the best international practice, under which all taxable supplies are subject to the general VAT rate. Exemptions and zero-rating are treated as deviations from the benchmark, except where they conform to global norms such as the zero-rating of exports under the destination principle, or the exemption of unprocessed goods and certain essential goods and services. In Kenya, the First Schedule to the VAT Act, Cap 476, identifies exempt goods and services, while the Second Schedule sets out those that are zero-rated. All goods imported into Kenya are subject to VAT unless exempt under the First Schedule or zero rated under the Second Schedule of the VAT Act Cap 476.

36. In this year's Tax Expenditure Report, the exemption of financial and insurance activities sector has been reclassified as part of the domestic VAT benchmark. Consequently, the sector has been excluded from the calculation of VAT tax expenditures on exempt supplies. This change is informed by international best practice, which treats the exemption of financial and insurance services as a standard feature of VAT systems due to valuation challenges and administrative complexities.

37. Similarly, the transportation of sugarcane from farms to sugar mills, which was previously counted as a tax expenditure, has been omitted from the calculation of VAT tax expenditures on zero-rated supplies. This is because the zero-rating of transport services is considered

revenue neutral, as sugar millers do not claim input VAT related to transport against their output VAT liability. As a result, the government foregoes no, or only negligible, revenue from this zero-rating.

38. For purposes of this Report, the specific items regarded as benchmarks are presented in **Annex III and IV**.

3.3 Tax Expenditures on Domestic and Import VAT

39. Tax expenditure in VAT refers to revenue forgone by government through exemptions or zero-rating applied beyond the benchmark tax system. While these measures may aim to make essential goods more affordable, support industries, or ease administration, they also reduce the VAT revenue base. As such, tax expenditures are treated as indirect government spending, with implications on efficiency, equity, and transparency.

40. For VAT, tax expenditure excludes benchmarks such as zero-rated exports under the destination principle, supplies to diplomatic and privileged institutions and exemptions of unprocessed goods, essential food products among others. It therefore reflects revenue forgone from exemptions on finished goods and services or zero-rating of items imported or purchased locally.

3.4 Tax Expenditures on Domestic VAT

41. In 2024, domestic VAT tax expenditure decreased from Ksh 215.8 billion in 2023 to Ksh 188.5 billion in 2024 (**Table 8**). Tax expenditure on zero-rated supplies decreased from Ksh 129.0 billion to Ksh 115.8 billion, while expenditure on exempt items decreased from Ksh 86.8 billion to Ksh 72.7 billion.

42. The VAT tax expenditure on exempt supplies has significantly decreased in this year's report due to the reclassification of financial and insurance services exemptions as part of the benchmark. This adjustment has also been applied retrospectively to previous years, as illustrated in **Table 8**.

Table 8: Domestic VAT Expenditure, Ksh Million

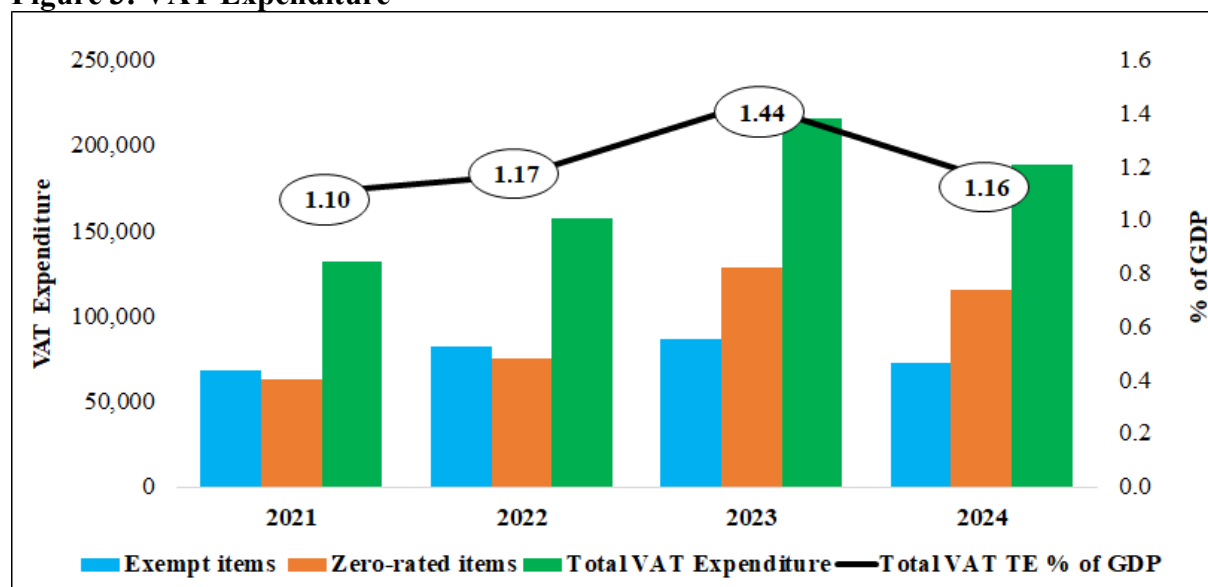
	2021+	2022+	2023+	2024*
Exempt items	68,459.4	82,600.0	86,829.0	72,684.0
Zero-rated items	63,252.0	75,172.0	129,005.0	115,814.0
Total VAT Expenditure	131,711.4	157,772.0	215,834.0	188,498.0
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
Total VAT TE % of GDP	1.10	1.17	1.44	1.16

+Revised

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

43. The total domestic VAT expenditures as a percentage of GDP decreased from 1.44 percent in 2023 to 1.16 percent in 2024 (**Figure 3**).

Figure 3: VAT Expenditure



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

3.4.1 Tax Expenditure on VAT Exempt Supplies

44. In 2024, tax expenditure on exempt supplies decreased to Ksh 72.7 billion, from Ksh 86.8 billion in 2023, a reduction of 16.3 percent. This was largely driven by Electricity, Gas, Steam and Air Conditioning Supply sector which did not register any tax forgone during the period under review. However, Administrative and Support Services Activities sector and Human health and social works activities expanded by 44.9 percent and 34.5 percent respectively. Agriculture, Forestry and Fishing sectors recorded a 26.0 percent decrease in VAT-exempt expenditure (Table 9).

Table 9: Sectoral VAT Expenditure Contribution (Exempt Supplies)

Sectors Exempt from VAT	2023 Exempt TE (million)	2024 Exempt TE (million)	2023 contribution (%)	2024 contribution (%)	Percent Change (2023-2024)
Electricity, Gas, Steam And Air Conditioning Supply	8,438.0	0.0	9.7	0.0	-100.0
Information And Communication	21,958.0	23,788.0	25.3	32.7	8.3
Human Health And Social Work Activities	10,005.0	13,459.0	11.5	18.5	34.5
Agriculture, Forestry And Fishing	8,285.0	6,131.0	9.5	8.4	-26.0
Administrative And Support Service Activities	7,328.0	10,615.0	8.4	14.6	44.9
Construction	4,750.0	5,159.0	5.5	7.1	8.6
Others	26,065.0	13,532.0	30.0	18.6	-48.1
Total	86,829.0	72,684.0	100.0	100.0	-16.3

Source of Data: Kenya Revenue Authority

3.4.2 Tax Expenditure on VAT Zero Rated Supplies

45. VAT expenditure for zero rated supplies decreased to Ksh 115.8 billion in 2024 compared to Ksh 129.0 billion in 2023, representing a 10.2 percent decrease over the period under review.

Table 10 presents a comparative view of key sectors that contributed to the VAT zero-rate tax expenditure.

46. The decrease also reflects the exclusion of the transportation of sugarcane from farms to sugar mills from the computation of VAT tax expenditure on zero-rated supplies in this year's Report. This revision has been applied retrospectively to ensure comparability of figures across years, as shown in **Table 10**.

Table 10: Sectoral VAT Expenditure Contribution (Zero-Rated Supplies)

Sectors Zero rated for VAT	2023 Zero Rate TE (million)	2024 Zero Rate TE (million)	2023 contribution (%)	2024 contribution (%)	Percent Change (2023-2024)
Manufacturing	56,635.0	64,956.0	43.9	56.1	14.7
Agriculture, Forestry And Fishing	47,451.0	15,900.0	36.8	13.7	-66.5
Electricity, Gas, Steam And Air Conditioning Supply	24,919.0	34,958.0	19.3	30.2	40.3
Total	129,005.0	115,814.0	100.0	100.0	-10.2

Source of Data: Kenya Revenue Authority

47. Growth in the manufacturing sector reflects increase in the gross value addition in the sector caused by the increase in manufacture of food and non-food products (motor vehicles, trailers, semi-trailers, and basic and structural metal products). In addition, there were policy changes introduced by Finance Act, 2023 to promote manufacturing of locally assembled or manufactured mobile phones, electric motorcycles and bicycles, electric buses, and inputs for manufacture of animal feeds that contributed to the zero-rating tax expenditure. Manufacturing grew by 14.7 percent, while other sectors recorded varied performance, with agriculture, forestry and fishing contracting by 66.5 percent, and electricity, gas, steam and air conditioning supply expanding by 40.3 percent over the review period.

3.5. Tax Expenditures on Import VAT

48. Tax expenditure on import VAT decreased from Ksh 26.7 billion in 2023 to Ksh 16.0 billion in 2024 (**Table 11**). The decrease is attributed to the revision of VAT on petroleum products under the Finance Act, 2023, which increased the rate from 8.0 percent to the standard rate of 16.0 percent. Reverting to the general rate eliminated the tax expenditures relating to these products under the import VAT category.

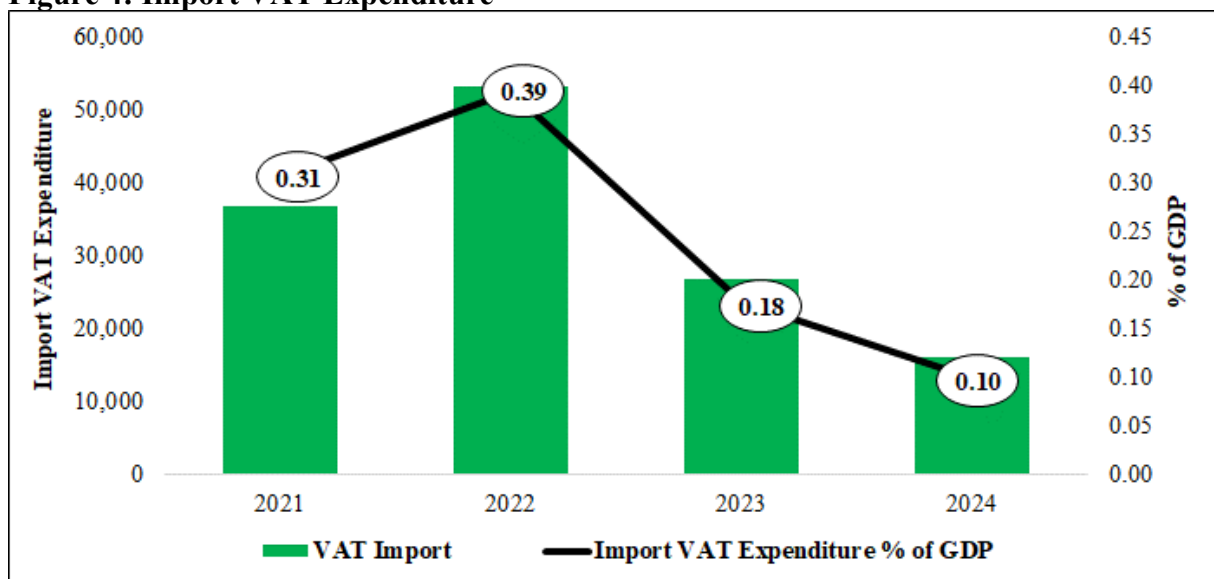
Table 11: Import VAT Expenditure, Ksh Million

	2021	2022	2023	2024
VAT Import	36,781.4	53,167.3	26,733.2	15,959.9
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
Import VAT Expenditure % of GDP	0.31	0.39	0.18	0.10

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

49. **Figure 4** shows the trend of tax expenditure on import VAT for the period under review. Total import VAT tax expenditure as percentage of GDP decreased from 0.18 per cent in 2023 to 0.10 per cent in 2024 which indicates the effect of policy changes introduced such as removal of the reduced VAT rate for petroleum products.

Figure 4: Import VAT Expenditure



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

IV. TAX EXPENDITURES ON EXCISE DUTY

4.1 Overview

50. Excise duty is a tax imposed on goods and services manufactured in Kenya 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 products and services that have negative externalities.

4.2 Excise Duty Benchmark

51. 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 of 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

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

- i. Exemption of alcoholic and non-alcoholic beverages supplied to the Kenya Defence Forces Canteen Organization (DEFECO), as provided in the Second Schedule, Part A, Item 12;
- ii. 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); and
- iii. Accordingly, this report has considered the above exemptions as domestic excise duty tax expenditure.

4.3.1 Estimation of Tax Expenditure on Domestic Excise

53. This section presents a comprehensive analysis of the excise duty tax expenditure regarding domestic excise tax, focusing on the remission granted for Keg beer (produced from sorghum, millet, and cassava) and the excise duty exemption for both alcoholic and non-alcoholic beverages supplied to DEFECO. This analysis is as shown in **Table 12**.

Table 12: Domestic Excise Duty Expenditure, Ksh million

Description	2021	2022	2023	2024
Alcoholic Beverages (DEFECO)	1,433.1	732.6	680.9	711.8
Non-alcoholic Beverages (DEFECO)	4.3	5.3	14.7	17.1
Keg beer (Sorghum, Millet and Cassava)	6,244.7	7,297.7	9,484.1	9,972.3
Total Expenditure on Domestic Excise Duty	7,682.1	8,035.6	10,179.7	10,701.2
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
Total Expenditure on Domestic Excise Duty (% of GDP)	0.063	0.060	0.067	0.066

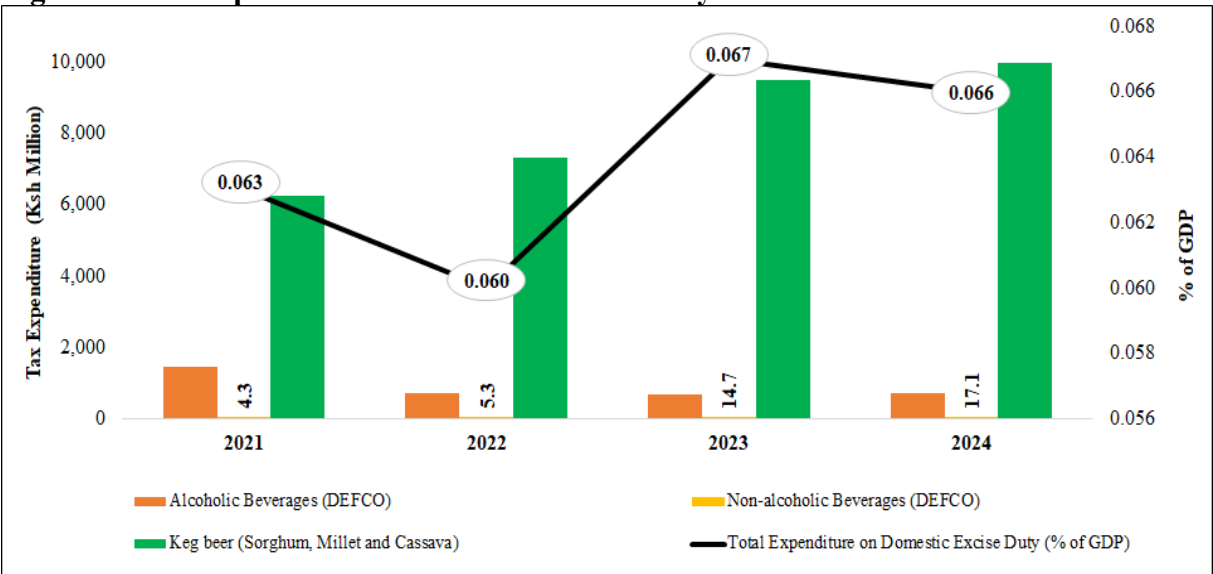
Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

54. The total tax expenditure on domestic excise duty registered a marginal increase from Ksh 10.2 billion in 2023 to Ksh 10.7 billion in 2024. However, excise duty (domestic) tax expenditure as a share of Nominal GDP decreased slightly from 0.067 percent in 2023 to 0.066 percent in 2024.

55. Tax expenditures on alcoholic beverages supplied to the Defence Forces Canteen Organization (DEFCO) has shown a slight increase from KSh 681.0 million in 2023 to KSh 711.8 million in 2024.

56. In addition, keg beer rose from KSh 9.5 billion in 2023 to KSh 10.0 billion in 2024, largely due to the continued application of the Duty Remission Scheme on beer brewed from locally sourced sorghum, millet, and cassava. This shift suggests a reorientation of consumption from conventional alcoholic beverages to 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 5: Tax Expenditure on Domestic Excise Duty



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

4.4 Tax Expenditure On Import Excise Duty

57. 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.

4.4.1 Benchmarks on Excise Duty on Imports

58. 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.

4.4.2 Estimation of Tax Expenditure on Import Excise Duty

59. This section presents analysis of tax expenditure on import excise duty. Revenue forgone increased significantly from Ksh 2.1 billion in 2023 to Ksh 6.2 billion in 2024 reflecting the increase in the assembly of motor vehicles which are exempt from excise duty. This exemption alone accounted for an estimated Ksh 5.8 billion, representing 93.0 percent of the total excise duty tax expenditure on imports in 2024. This underscores a deliberate policy decision by the Government to support and promote local manufacturing. This analysis is as shown in **Table 13**.

Table 13: Tax Expenditure on Imports Excise Duty

	2021	2022	2023	2024
Import Excise Duty	92.8	1,837.7	2,104.8	6,226.5
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
Expenditure on Import Excise Duty (% of GDP)	0.001	0.014	0.014	0.038

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

V. TAX EXPENDITURES ON IMPORTS

5.1 Overview

60. The East African Community has achieved full implementation of the Customs Union Protocol and currently operates as a single customs territory. The East Africa Community Customs Union Protocol, the East African Community Customs Management Act (EACCMA), 2004, and the East African Community Customs Management Regulations, 2010, govern charging of import duty in the East African Community (EAC). The primary basis of determination of the taxable customs value for purposes of levying ad valorem duty is the Cost, Insurance and Freight (CIF) value of imported goods.

61. Import duty is charged at the rates of zero (0) percent, ten (10) percent, twenty-five (25) percent, and thirty-five (35) percent depending on the level of processing and regional policy. The rates applicable are specified in the East African Community (EAC) Common External Tariff (CET), 2022. To safeguard local industries within the EAC region, certain goods are designated as sensitive and are subject to import duty rates exceeding 35.0 percent. Conversely, goods originating from the EAC region, COMESA member states, or other partner countries under trade agreements that meet the prescribed criteria and rules of origin benefit from preferential import duty rates.

62. Part A and B of the Fifth Schedule to the EACCMA, 2004, provides categories of exemptions. This category includes goods imported for direct and exclusive use in Official Aid Funded projects, privileged persons and institutions as specified under the Immunities and Privileges Act, Cap. 179, the Commonwealth Governments, Donor Agencies with bilateral and multilateral agreements, International and Regional Organizations, goods for use by Presidents of the Partner States and the Armed Forces and Police.

63. Additionally, the Act provides for duty remission on inputs imported by approved manufacturers for production of goods for export and other essential goods for home use.

64. The goods that are exempt under the Fifth Schedule of the EACCMA, 2004 are considered part of the benchmark tax regime and have therefore been excluded in the calculation of the tax expenditure in this Report.

65. Kenya is a party to other international and regional agreements such as Vienna Convention, COMESA and AGOA among others that determine import duty of goods coming into the country. Therefore, expenditure emanating from these agreements does not constitute tax expenditure. Any deviation from the regionally agreed rates of import duty in form of reduced rates which are not applied regionally is considered as tax expenditure.

66. Import Declaration Fee (IDF) and Railway Development Levy (RDL) are fees and levies charged on imported goods as provided for in the Miscellaneous Fees and Levies Act, Cap. 469C based on the Cost, Insurance and Freight (CIF) value.

67. The standard rate for IDF and RDL for the period under review was 2.5 percent and 2 percent respectively following the harmonization through the Finance Act, 2023. The fees and levies are charged on goods imported or purchased before clearance through Customs.

68. Part A and B of the Second Schedule to the Act lists the 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 expenditures on Import Duty, IDF and RDL

69. In 2024, total tax expenditure relating to import duty, IDF and RDL was Ksh 36.1 billion (0.22 percent of GDP) which is a 48.6 percent decrease from Ksh 70.2 billion reported in 2023. (Table 14).

Table 14: Tax Expenditure on Import Duty, IDF and RDL

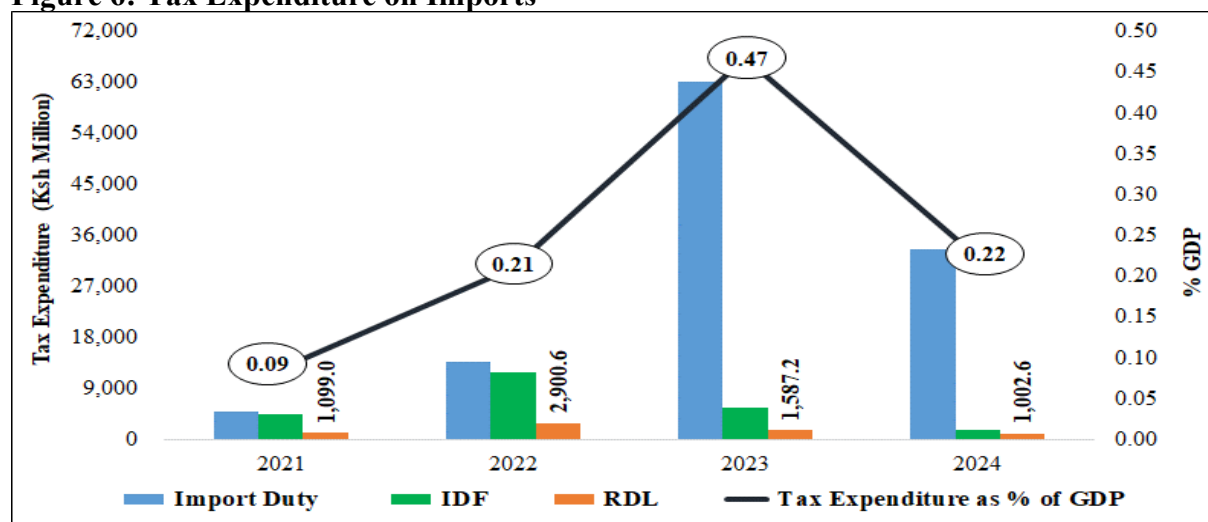
	2021	2022	2023	2024
Import Duty	4,825.3	13,589.4	63,049.4	33,422.5
IDF	4,454.5	11,831.9	5,545.0	1,671.0
RDL	1,099.0	2,900.6	1,587.2	1,002.6
Tax Expenditure	10,378.8	28,321.8	70,181.5	36,096.1
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5
Tax Expenditure as % of GDP	0.09	0.21	0.47	0.22

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

70. A review of tax expenditures on import duty indicates a decrease from Ksh 63.1 billion in 2023 to Ksh 33.4 billion in 2024. The decrease is mainly attributed to reduced importation of duty-free sugar, milled rice, and raw materials for the manufacture of animal feeds. These commodities had been granted duty-free importation pursuant to Gazette Notices issued in 2022 and 2023. Most of the Gazetted commodities were imported in 2023 with a small portion spilling over to 2024.

71. Tax expenditures for both IDF and RDL decreased from Ksh 7.1 billion (0.047 percent of GDP) in 2023 to Ksh 2.7 billion (0.016 percent of GDP) in 2024. The decrease in tax expenditure for the fees and levies from Ksh 5.6 billion in 2023 to Ksh 1.7 billion in 2024 and from Ksh 1.6 billion in 2023 to Ksh 1.0 billion in 2024 respectively is due to the harmonization of IDF and RDL rates through the Finance Act, 2023. The Act scrapped the preferential treatment of raw materials and intermediate products imported by approved manufacturers. Preferential treatment contributed to part of the high values of Tax Expenditure in 2023. Imported items considered to constitute tax expenditure on Import Duty, IDF and RDL are provided in Annexes VII, VIII and IX.

Figure 6: Tax Expenditure on Imports



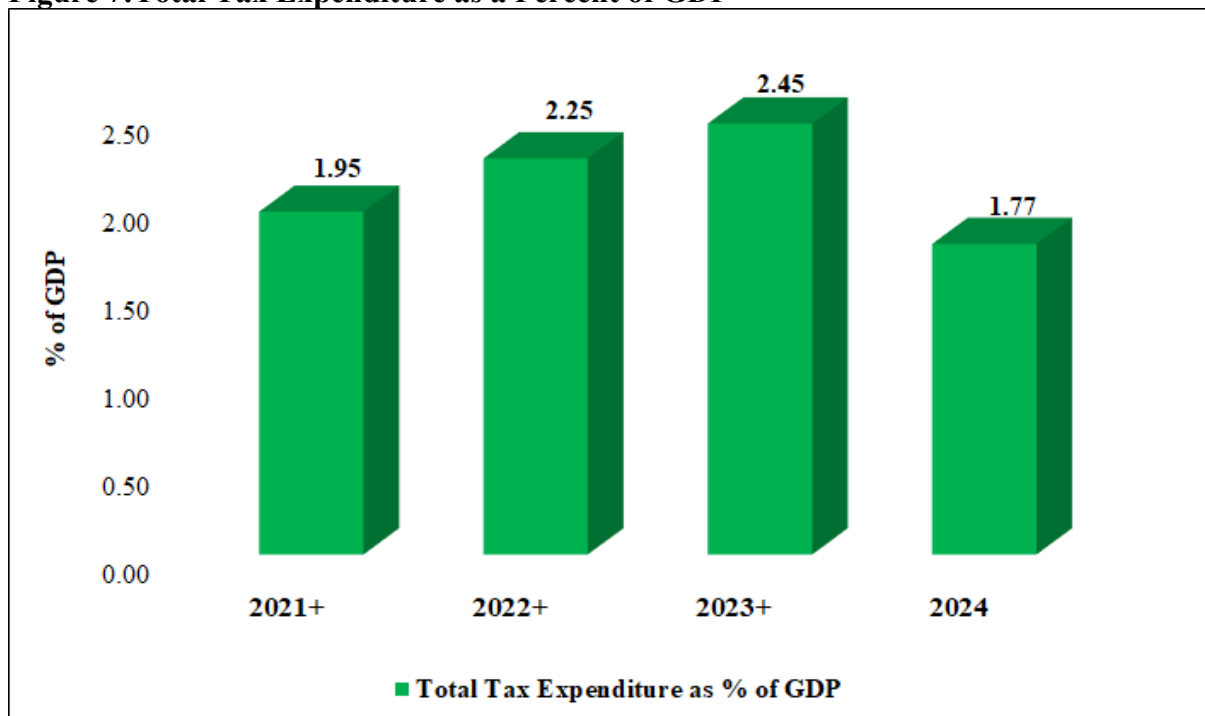
Source of Data: Kenya Revenue Authority and Kenya National Bureau of Statistics

VI. CONCLUSION AND POLICY CONSIDERATIONS

6.1 Key Findings

72. Tax expenditure as a share of GDP declined to 1.77 percent in 2024 from a revised 2.45 percent in 2023 (Figure 7).

Figure 7: Total Tax Expenditure as a Percent of GDP



+Revised

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

73. Total tax expenditure declined from a revised figure of Ksh 368.4 billion in 2023 to Ksh 286.5 billion in 2024, a decline of 22.2 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 corporate income tax expenditure, which contracted by 39.9 percent; import duty by 47.0 percent; VAT on imports by 40.3 percent; and the Import Declaration Fee, which recorded a reduction of 69.9 percent. Similarly, expenditures related to personal income tax and domestic VAT declined by 2.2 percent and 12.7 percent, respectively. The Railway Development Levy also recorded a decline of 36.8 percent. Conversely, an upward trend was observed in import excise duty expenditure, which increased significantly by 195.8 percent, while domestic excise duty expenditure grew by 5.1 percent.

Table 15: Tax Expenditures

Tax Expenditures	2021+	2022+	2023+	2024	Change (2023- 2024)	Percent Change (%)
	<i>Ksh Million</i>					
Personal income tax	5,522.3	7,163.2	7,829.7	7,654.0	-175.7	-2.2
Corporate Income Tax	42,342.7	47,559.5	35,565.0	21,391.1	-14,173.9	-39.9
VAT domestic	131,711.4	157,772.0	215,834.0	188,498.0	-27,336.0	-12.7
VAT Import	36,781.4	53,167.3	26,733.2	15,959.9	-10,773.3	-40.3
Domestic Excise Duty	7,635.9	8,035.6	10,179.7	10,701.2	521.4	5.1
Import Excise Duty	92.8	1,837.7	2,104.8	6,226.5	4,121.7	195.8
Import Duty	4,825.3	13,589.4	63,049.4	33,422.5	-29,626.8	-47.0
IDF	4,454.5	11,831.9	5,545.0	1,671.0	-3,874.0	-69.9
RDL	1,099.0	2,900.6	1,587.2	1,002.6	-584.6	-36.8
Total Tax Expenditure	234,465.4	303,857.0	368,427.9	286,526.9	-81,901.0	-22.2
Nominal GDP	12,027,661.5	13,489,641.5	15,033,610.0	16,224,478.5		
Total Tax Expenditure as % of GDP	1.95	2.25	2.45	1.77		

+Revised

Source of Data: Kenya Revenue Authority

6.2 Contribution to the Total Tax Expenditure by Tax Categories

74. In 2024, the structure of tax expenditures shifted notably compared to 2023. VAT domestic accounted for the largest share of total tax expenditure at 65.8 percent, up from 58.6 percent in 2023, indicating a concentration of tax reliefs in this category. Personal income tax maintained a relatively stable share, increasing slightly from 2.1 percent to 2.7 percent. Corporate income tax saw a decline in its share from 9.7 percent in 2023 to 7.5 percent in 2024, while VAT on imports also dropped from 7.3 percent to 5.6 percent. Domestic excise duty's share rose from 2.8 percent to 3.7 percent, and import excise duty increased significantly from 0.6 percent to 2.2 percent. In contrast, the share of import duty decreased from 17.1 percent to 11.7 percent, and IDF dropped from 1.5 percent to 0.6 percent. The Railway Development Levy maintained a stable share of 0.3 percent in 2024 (Table 16).

Table 16: Tax Expenditure by Tax Categories

Tax Categories	2021	2022	2023	2024	2021	2022	2023	2024
	<i>Ksh Million</i>				Share of Total Tax Expenditure (%)			
Personal income tax	5,522.3	7,163.2	7,829.7	7,654.0	2.4	2.4	2.1	2.7
Corporate Income Tax	42,342.7	47,559.5	35,565.0	21,391.1	18.1	15.7	9.7	7.5
VAT domestic	131,711.4	157,772.0	215,834.0	188,498.0	56.2	51.9	58.6	65.8
VAT Import	36,781.4	53,167.3	26,733.2	15,959.9	15.7	17.5	7.3	5.6
Domestic Excise Duty	7,635.9	8,035.6	10,179.7	10,701.2	3.3	2.6	2.8	3.7
Import Excise Duty	92.8	1,837.7	2,104.8	6,226.5	0.0	0.6	0.6	2.2
Import Duty	4,825.3	13,589.4	63,049.4	33,422.5	2.1	4.5	17.1	11.7
IDF	4,454.5	11,831.9	5,545.0	1,671.0	1.9	3.9	1.5	0.6
RDL	1,099.0	2,900.6	1,587.2	1,002.6	0.5	1.0	0.4	0.3
Total Tax Expenditure	234,465.4	303,857.0	368,427.9	286,526.9	100.00	100.00	100.00	100.00

Source of Data: Kenya Revenue Authority

6.3 Comparison of Kenya's Tax Expenditure with other Jurisdictions

75. In 2024, Kenya's tax expenditure is estimated at Ksh 286.5 billion (USD 2.21 billion), representing 1.77 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 for the same period. For comparison, Nigeria recorded tax expenditure at 0.97 percent of GDP, Côte d'Ivoire at 0.95 percent, and Ghana at 0.52 percent. In terms of fiscal years, Uganda reported a higher ratio of 1.9 percent, while Rwanda's tax expenditure was 3.6 percent of GDP in FY 2023/24.

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 17: Comparison Tax Expenditure with selected Sub Saharan Africa Countries

Country	Revenue Forgone (USD)	% to GDP
Kenya	2,124.7 million	1.77%
Nigeria	1,800.00 million	0.97%
Côte d'Ivoire	826.73 million	0.95%
Ghana	416.07 million	0.52%

Source of Data: GTED

76. While tax incentives play an important role in attracting investment and supporting key sectors, their elevated level in Kenya points to a significant opportunity cost in terms of fiscal space, potentially constraining resources available for priority public investments and services. The comparative analysis underscores the need for greater efficiency, transparency, and targeting of tax expenditures to ensure that forgone revenues generate commensurate economic and social returns, while aligning with the Government's fiscal consolidation and development objectives.

6.4 Policy Considerations

77. The 2025 Tax Expenditure Report confirms that Kenya's tax expenditures remain significant at 1.77 percent of GDP, with domestic VAT accounting for 65.8 percent of total tax expenditure in 2024. Import VAT expenditures have declined, while import excise duty expenditures have increased, largely driven by exemptions for electric vehicle and motorcycle assembly. 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 the Tax Expenditure Governance Framework:** The findings call for faster operationalization of the governance framework envisioned under the National Tax Policy and MTRS, including clear eligibility criteria, sunset clauses, monitoring and evaluation mechanisms, and annual publication of a tax expenditure statement tabled in Parliament.
- ii. **Rationalize VAT Zero Rating and Exemptions:** The large share of VAT in total tax expenditure points to the need for a phased review of high-cost exemptions, while safeguarding essential goods and services. Zero rating remains most appropriate for exports and legally mandated transactions such as diplomatic privileges.

iii. Strengthen Incentive Discipline: The concentration of tax expenditure in a few incentives, including the electric vehicle and motorcycle assembly waiver, underscores the value of defining clear objectives, fixed durations, and performance indicators. Regular reviews would help ensure these measures deliver the intended economic and environmental benefits and allow for adjustments to improve their effectiveness.

VII. ANNEXES

Annex I: PIT Benchmarks

- Contributions to pension schemes and social security funds;
- Personal reliefs;
- Income paid to diplomats and privileged person; and
- The non-residents rates specified in the DTA.

Annex II: CIT Benchmarks

- Investment allowance of an asset in subsequent years of use.
- The non-residents rates specified in the DTA.

Annex III: List of goods and services contained in tax exemption and zero- rating categories in the First and Second Schedules of the VAT Act, 2013 that are considered benchmark

Domestic supply of listed agricultural inputs, including fertilizers;

1. Domestic supply of unprocessed agricultural products;
2. Specified financial & insurance services;
3. Education services as defined;
4. Agricultural, animal husbandry and horticultural services.
5. Sale, renting, leasing, hiring, letting of land or residential premises as defined;
6. Medical, veterinary, dental, ambulance and nursing services;
7. Listed medical materials, articles and equipment, including articles of apparel, clothing accessories and equipment specially designed for safety or protective purposes for use in registered hospitals and clinics or by County government or local authorities in firefighting;
8. Personal protective equipment, including facemasks, for use by medical personnel in registered hospitals and clinics, or by members of the public in the case of a pandemic or a notifiable infectious disease;
9. Materials, articles, equipment and motor vehicles specially designed for the sole use by disabled and physically handicapped persons;
10. Materials, articles and equipment (excluding motor vehicles) intended for educational, scientific or cultural advancement of the disabled;
11. Medicaments;
12. Mosquito nets;
13. Burial and cremation services;
14. Community, social and welfare services provided by National Government, County Government or any political subdivision, charitable organizations;
15. Services rendered by educational, political, religious, welfare and other philanthropic associations to their members;

16. Entertainment services conducted by educational institutions as part of learning; sports, games or cultural performances conducted under the auspices of the responsible Ministry;
17. Accommodation and restaurant services operated by approved educational training institutions and medical institutions for the use of the staff, students and patients of that institution;
18. Canteens and cafeterias operated by an employer for the benefit of his employees;
19. Betting, gaming and lotteries services;
20. Hiring, leasing and chartering of aircrafts, aeroplanes, and space crafts, excluding helicopters;
21. Supply of domestic passenger transportation services by road, rail and water, except where the means of conveyance is hired or chartered;
22. Materials, waste, residues and by-products, whether or not in the form of pellets, and preparations of a kind used in animal feeding;
23. Postal services provided through the supply of postage stamps, including rental of post boxes or mailbags and any subsidiary services thereto.
24. Transfer of a business as a going concern by a registered person to another registered person.
25. Goods imported by passengers arriving from places outside Kenya, subject to specified limitations and conditions.
26. Taxable goods for emergency relief purposes for use in specific areas and within a specified period, supplied to or imported by the Government or its approved agent, a nongovernmental organization or a relief agency authorized by the Cabinet Secretary responsible for disaster management.
27. Hearing aids, excluding parts and accessories, of tariff No.9021.40.00.
28. Car park services provided by National Government, County Government, any political subdivision by an employer to his employees on the premises of the employer.
29. The supply of airtime by any person other than by a provider of cellular
30. Mobile telephone services or wireless telephone services.

Further, the following zero-rated supplies are treated as part of the benchmark and therefore not part of tax expenditure. They include:

1. Goods consigned to officers or men on board a naval vessel belonging to another Commonwealth Government for their personal use or for consumption on board such Vessel; and Goods for the use of any of the Armed Forces of any allied power;
2. Specified supplies to Diplomats or First Arrivals Persons;
3. Specified supplies to donor agencies with bilateral or multilateral agreements;

4. Goods and equipment imported by or supplied to donor agencies, international and regional organizations with Diplomatic accreditation or bilateral or multilateral agreements with Kenya for their official use;
5. Supply to the War Graves Commission;
6. Supply to National Red Cross Society and St. John Ambulance;
7. Supply of protective apparel, clothing accessories and equipment; specially designed for safety or protective purposes for use in registered hospitals and clinics or by county government or local authorities in firefighting
8. The supply of coffee and tea for export to coffee or tea auction centres;
9. The supply of taxable services to international sea or air carriers on international voyage or Flight;
10. The Supply of taxable services in respect of goods in transit;
11. The exportation of goods or taxable services;
12. Ship stores supplied to international sea or air carriers on international voyage or flight;
13. Transportation of passengers by air carriers on international flight; and
14. Goods purchased from duty free shops by passengers departing to places

Annex IV: New tax measures introduced in the First Schedule and Second Schedule of the VAT Act, 2013 through Finance Act, 2023:

Exempt Supplies

Section A

- i Paragraph 20: Fish and crustaceans, molluscs and other aquatic invertebrates of Chapter 3 excluding those of tariff headings 0305, 0306 and 0307;
- ii 3002.41.00 Vaccines for human medicine; 3002.42.00 Vaccines for veterinary medicine; 3003.39.00 Other medicaments, containing hormones or other products of heading no 9.37, not put up in measured doses or in forms or packings for retail sale; 3003.41.00, 3003.42.00, 3003.43.00, 3003.49.00 Other medicaments, containing alkaloids or derivatives thereof, put up in measured doses or in forms or packings for retail sale; 3003.90.00 Infusion solutions for ingestion other than by mouth not put up in measured doses or in forms or packings for retail sale and other medicaments consisting of two or more constituents which have been mixed together for therapeutic or prophylactic uses, not put up in measured doses or in forms or packings for retail sale; 3004.20.00 Other medicaments containing antibiotics, put up in measured doses or in forms or packings for retail sale; 3004.32.00 Other, medicaments containing hormones or other products of heading 29.37 containing corticosteroid hormones, their derivatives or structural analogue of tariff; 3005.90.11, 3005.90.12, 3005.90.19 White absorbent cotton wadding, impregnated or coated with pharmaceutical substances, or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes; 3006.60.00 Chemical contraceptive preparations based on hormones or on other

products of heading 29.37 or spermicides; 3822.11.00 Malaria diagnostic test kits; 3822.13.00 Blood-grouping reagents; and 9021.50.00 Pacemakers for stimulating heart muscles, excluding parts and accessories.

- iii Paragraph 49: All goods and parts thereof of chapter 88.
- iv Paragraph 63: Taxable goods for the direct and exclusive use in the construction and equipping of specialized hospitals with a minimum bed capacity of fifty, approved by the Cabinet Secretary upon recommendation by the Cabinet Secretary responsible for health who may issue guidelines for determining eligibility for the exemption.
- v Paragraph 71: Printed and unprinted Perforated PE film of other plastics 15-22 gsm of tariff numbers 3921.90.10, and 3921.90.90.
- vi Paragraph 119: Diagnostic kits or laboratory reagents and their certified reference materials of heading 38.22 upon approval by the Cabinet Secretary responsible for matters relating to health.
- vii Paragraph 120: Electro-diagnostic apparatus, of tariff numbers 9018.11.00, 9018.12.00, 9018.13.00, 9018.14.00, 9018.19.00, and other apparatus, Instruments and appliances of tariff numbers 9018.20.00, 9018.90.00 upon approval by the Cabinet Secretary responsible for matters relating to health.
- viii Paragraph 122: Other instruments and appliances, used in dental sciences of tariff 9018.49.00, Other ophthalmic instruments and appliances of tariff 9018.50.00 and other instruments and appliances of tariff number 9018.90.00 upon approval by the Cabinet Secretary responsible for matters relating to health.
- ix Paragraph 125: Artificial teeth of tariff number 9021.21.00, other dental fittings of tariff number 9021.29.00 and other artificial parts of the body of tariff numbers 9021.31.00 and 9021.39.00 and other appliances of tariff number 9021.90.00 upon approval by the Cabinet Secretary responsible for matters relating to health.
- x Paragraph 128: Discs, tapes, solid-state non-volatile storage devices, “smartcards” and other media for the recording of sound or of other phenomena, whether or not recorded of tariff heading 85.23, including matrices and masters for the production of discs, but excluding products of Chapter 37 upon approval by the Cabinet Secretary responsible for matters relating to health.
- xi Paragraph 129: Weighing machinery (excluding balances of a sensitivity of 5 cg or better), of tariff number 8423.10.00 purchased or imported by registered hospitals upon approval by the Cabinet Secretary responsible for matters relating to health.
- xii Paragraph 140: Plant and machinery of chapter 84 and 85 imported or locally purchased by manufacturers of pharmaceutical products or investors in the manufacture of pharmaceutical products upon the recommendation of the Cabinet Secretary responsible for matters relating health.
- xiii Paragraph 145: Taxable goods, inputs and raw materials imported or locally purchased by a company which is- (b) incorporated for purposes of undertaking the manufacture of human vaccines or other manufacturing activities including refining; and whose capital investment is at least ten billion shillings, subject to approval of the Cabinet

Secretary for the National Treasury, on recommendation of the Cabinet Secretary for health.

- xiv Paragraph 147: Taxable supplies made to or by a school feeding programme recognized by the Cabinet Secretary responsible for matters relating to education.

Section B, Part II - Services

- i Paragraph 34: Taxable services imported or locally purchased by a company which-(a) is engaged in business under a special operating framework arrangement with the Government; and (b) is incorporated for purposes of undertaking the manufacture of human vaccines or other manufacturing activities including refining; and whose capital investment is at least ten billion shillings, Subject to approval of the Cabinet Secretary for the National Treasury, on recommendation of the Cabinet Secretary for health.

Zero-rated Supplies

- i Paragraph 23: The exportation of taxable services.
- ii Paragraph 26: Inbound international sea freight offered by a registered person.
- iii Paragraph 27: Liquefied Petroleum Gas.
- iv Paragraph 28: All tea and coffee locally purchased for the purpose of value addition before exportation subject to approval by the Commissioner-General.
- v Paragraph 29: The supply of locally assembled and manufactured mobile phones.
- vi Paragraph 30: The supply of motorcycles of tariff heading 8711.60.00.
- vii Paragraph 31: The supply of electric bicycles.
- viii Paragraph 32: The supply of solar and lithium ion batteries.
- ix Paragraph 33: The supply of electric buses of tariff heading 87.02.
- x Paragraph 34: Inputs or raw materials locally purchased or imported for the manufacture of animal feeds.
- xi Paragraph 35: Bioethanol vapour (BEV) Stoves classified under HS Code 7321.12.00 (cooking appliances and plate warmers for liquid fuel).

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: Items Constituting Tax Expenditure on Import Duty

Exemption Code	Description	(In Millions)
D0094	Importation of Duty Free Milled Rice	21,729.901
D0093	Importation of Duty Free Brown or White Mill Sugar	11,581.096
D0040	Duty Remission Scheme (Essential Goods Support Programme)	68.587
D0096	Gazetted Raw material for animal feeds	42.944
	Total	33,422.528

Annex VIII: Items Constituting Tax Expenditure on IDF

Exemption Code	Description	(In Millions)
B0011	Aircraft parts; Spare parts	720.577
B0260	Packaging and raw materials for manufacture of medicaments	299.987
B0280	Relief goods for emergency use	247.498
D0010	Project goods(not aid funded)	161.345
A0290	Kenya Police, Administration Police, Kenya Prisons and N.I.S	59.325
E0010	Currency notes and coins imported by financial institutions	55.814
C0040	Capital goods, plant machinery for investment	50.871
E0140	Goods for public interest or promote investment not less than five billion shillings	37.439
C0180	Bioethanol vapour (BEV) Stoves	16.267
B0210	Security Equipment	8.617
C0370	EAC Glass bottles	5.499
B0020	Containers pallets	2.581
B0012	Aircraft parts; Catering stores	1.566
B0010	Aircraft operations	1.364
B0330	Specialized Solar and Wind Energy equipment	1.093
D0090	Other exemptions as per the tax laws	0.744
B0290	Inputs and implements for persons engaged in horticulture, aquaculture, agriculture or	0.203
C0320	Medical oxygen	0.132
B0090	Diapers, Urine bags and hygienic bags	0.075
B0013	Aircraft parts; Equipments, Stairways & Apron buses	0.054
E0060	Gifts by foreign Governments or international organizations to charities and foundations	0.051
	TOTAL	1,671.100

Annex IX: Items Constituting Tax Expenditure on RDL

Exemption Code	Description	(In Millions)
B0011	Aircraft parts; Spare parts	432.521
B0260	Packaging and raw materials for manufacture of medicaments	180.437
B0280	Relief goods for emergency use	148.499
D0010	Project goods(not aid funded)	97.758
A0290	Kenya Police, Administration Police, Kenya Prisons and N.I.S	35.595
E0010	Currency notes and coins imported by financial institutions	33.488
C0040	Capital goods, plant machinery for investment	30.523
E0140	Goods for public interest or promote investment not less than five billion shillings	22.463
C0180	Bioethanol vapour (BEV) Stoves	9.705
B0210	Security Equipment	5.170
C0370	EAC Glass bottles	3.299
B0020	Containers pallets	1.549
B0010	Aircraft operations	0.809
D0090	Other	0.446
B0290	Inputs and implements for persons engaged in horticulture, aquaculture, agriculture or floriculture	0.122
C0320	Medical oxygen	0.088
B0090	Diapers, Urine bags and hygienic bags	0.045
B0013	Aircraft parts; Equipments, Stairways & Apron buses	0.032
E0060	Gifts by foreign Governments or international organizations to charities and foundations	0.030
B0012	Aircraft parts; Catering stores	0.022
	Total	1,002.601

Annex X: Methodology

1. Estimation of the Cost of Tax Expenditure

The estimation of the tax expenditure is based on 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 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 specificities 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 (DEFECO), 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.

$$\text{Tax Expenditure}_{\text{PIT}} = \text{Tax base loss} \times \text{Effective tax rate}$$

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.

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

Domestic VAT

In this report, tax expenditure regarding VAT are exemptions and zero-rate supplies. The estimation of the cost involved determination of tax base loss for each category of goods and services and applying the rate from general rate (usually the normal rate of 16%).

$$\text{Tax Expenditure}_{\text{Dom.VAT}} = \sum_{\text{exemption}} (\text{Tax base loss} \times \text{general rate}) + \sum_{\text{zero rate}} (\text{Tax base loss} \times \text{general rate})$$

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).

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

$$\text{Tax Expenditure}_{\text{import VAT}} = \sum_{\text{exemption}} (\text{Tax base loss} \times \text{General rate})$$

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

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

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

4. Calculation of Total Tax Expenditure

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

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

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

Therefore:

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

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.