

FINANCE ACT 2025

AMENDMENTS TO THE VAT ACT.



The Finance Act, 2025 was assented to by the President on 26th June 2025 and is now in force. The Act introduces a wide array of tax measures through amendments to several key pieces of legislation, including the Income Tax Act (Cap. 470), Value Added Tax Act, 2013, Excise Duty Act, 2015, Tax Procedures Act, 2015, and the Miscellaneous Fees and Levies Act (Cap. 469C).

These changes are part of the Government's broader strategy to align Kenya's tax framework with current economic realities and evolving policy priorities. While most of the provisions take effect from 1st July 2025, a few notable measures are scheduled to come into operation on 1st January 2026.

This newsletter provides a breakdown of the key provisions of the Act and what they mean for you and your business.

Tax Invoice

The Finance Act 2025 has amended the VAT act with respect to the definition of the term “tax invoice” by including an electronic tax invoice issued under section 23A of the Tax Procedures Act.

Electronic Tax Invoices (ETIs) are now formally recognised in the VAT Act, aligning with the requirements of eTIMS (Electronic Tax Invoice Management System).

Section 42 has also been amended by clarifying that all businesses must issue tax invoices for every supply (taxable, exempt, or zero-rated), not just taxable ones.

Failure to issue compliant electronic tax invoices may affect VAT deductibility and lead to penalties. This amendment took effect on the 1st July 2025.

Place of Supply for Digital and Broadcasting Services

Section 8 of the VAT Act has been amended to refine and clarify a few definitions.

- The phrase “unregistered person” now ends with “and”, creating logical flow across the listed conditions.
- Paragraph (c) has been deleted. This previously deemed radio or television broadcasting services received at a Kenyan address as taxable in Kenya. Its deletion removes a duplicative provision now captured elsewhere.
- The term “broadcast television” has been replaced with:
- “internet, radio or television broadcasting services”

These changes:

- Expand the scope of taxable digital services to include internet-based broadcasts, aligning with current global trends in media consumption.
- Net together digital content providers and foreign broadcasters within the Kenyan VAT regime if their services reach unregistered individuals in Kenya.

Consequently, businesses consuming such services from abroad should review their reverse charge VAT obligations.

VAT input tax refund

The Finance Act 2025 has fine-tuned the VAT input tax refund mechanism under Section 17(5) of the VAT Act to streamline refund timelines and clean up provisions on transitional zero-rated credit claims.

In view of the new amendment, a claim for a refund must still be lodged within 12 months, but the amendment applies directly to all excess tax (not just from zero-rated supplies), helping to eliminate ambiguity.

Paragraph (e) has also been repealed to remove the guideline about the form and process of claiming refunds. This may be covered by the regulations going forward.

A new amendment has been introduced to provide for a strict 6-month timeline for refund applications tied to supplies that became zero-rated from 1st July 2023.

VAT Refunds on Bad Debts

Section 31 of the VAT Act has been amended to streamline refund timelines for bad debt claims.

- Refund claims can now be made after 2 years, down from 3.
- Businesses can apply to offset VAT on bad debts instead of waiting for refunds.

This amendment provides a much-needed cash flow relief for businesses.

Misuse of Exempt or Zero- Rates Supplies

Section 66A has been introduced to impose VAT Liability where goods or services initially exempted or zero-rated are used for unintended purposes.

A person who imports or purchases exempt or zero-rated goods or services will be liable to pay VAT at the prevailing rate at the time of disposal or use if those goods or services are later disposed of or used in a manner inconsistent with the original purpose for which the exemption or zero-rating was granted.

Exempt Goods and Supplies

The First Schedule of the Value Added Tax Act, which outlines goods and services exempt from VAT, has been amended to introduce new exemptions, refine existing ones, and phase out others.

These changes aim to align VAT treatment with evolving national priorities, particularly in healthcare, local manufacturing, and defense.

The following goods are now exempt:

- Placebos and blinded clinical kits are used in medical trials.
- mosquito repellants and inputs used in their manufacture.
- locally consumed teas and their packaging materials. These have to be pre-approved by the Cabinet Secretary for agriculture.
- goods imported or purchased locally by the Defence Forces Welfare Services.

These amendments are an attempt to support ongoing government efforts in these initiatives.

Any repealed exemptions shall remain in force until June 2026. All exemptions granted before 27th December 2024 will expire on 27th December 2025.

The following services are now exempt:

- Services supplied to manufacturers of mosquito repellents (upon recommendation by the Cabinet Secretary for Health).
- Accommodation, restaurant, beauty salon, and laundry services offered by the Defence Forces Welfare Services.
- Other taxable services used directly and exclusively by the Defence Forces Welfare Services

Whether you're uncertain how the new exemptions apply to your business, need clarity on changes to refund timelines, or guidance on qualifying for sector-specific VAT relief, contact us. We're here to help you adapt with ease and remain compliant.

CONNECT WITH US!



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