Fiscal Budget 2025/2026

Kenya, Uganda, Tanzania & Rwanda

Highlights of the Tax Proposals

The national budget statements have been presented in the East African countries to the respective parliaments on 12 June 2025. We have summarized in this publication a brief synopsis of the taxation proposals contained within the budget statements for each country.

Kenya

The Budget Statement by the Cabinet Secretary (CS) included proposed taxation measures that are contained in the Finance Bill, 2025. There are certain additional tax measures that the CS mentioned during his speech, which we have summarised in this alert together with those already contained in the Finance Bill, 2025. Whilst these pronouncements point to the tax measures the Government proposes to enact into law, the final tax measures will be enacted upon Assent by the President of the Finance Act, 2025 that is expected to be published by 30 June 2025. We will issue a detailed tax alert once the Finance Act, 2025 is published.

Significant tax proposals

Tax Procedures

- Payments that are subject to withholding tax (WHT) as a final tax are exempted from the requirement of Electronic Tax Invoice Management (ETIMs) requirements
- Commissioner to provide a reason for amended assessments
- Relief from penalties for failure to deduct WHT where the recipient of the payment has already paid and accounted for the full principal tax
- Exempting the Commissioner from payment of stamp duty on attaching property as security for unpaid taxes
- Commissioner empowered to collect tax from non-residents through an agency notice
- Deletion of 10% VAT withholding penalty and aligning to the 5% standard penalty
- Removal of input VAT from list of future tax liabilities eligible for offset against overpaid tax
- KRA refund processing extended from 90 days to 120 days and if under audit, from 120 days to 180 days
- Commissioner to access trade secrets and customer data
- Where the Commissioner allows a late objection; the decision period starts from the date the objection is lodged
- Commissioner empowered to waive penalties and interest on errors generated by the electronic tax system
- Exclusion of Saturdays, Sundays and public holidays when computing the timelines for lodging a tax objection or appeals to the Tax Appeals Tribunal, High Court, or the Court of Appeal
- Enforcement of tax collection after a ruling in favour of the Commissioner shall be suspended if a court grants a stay order

Income Tax

- Expanded definition of royalty to include transactions relating to distribution of software
- Significant Economic Presence Tax shall also cover income of a non-resident person accrued in or derived from Kenya through a business carried out over the internet or an electronic network, including through a digital marketplace
- Introduction of Advance Pricing Agreements for Transfer Pricing purposes

Income Tax (continued)

- Reduction of Digital Asset Tax rate from 3% to 1.5%
- Membership Clubs and trade associations liable to account for Capital Gains Tax on gains from qualifying transactions
- Carry forward of tax losses to be capped at 5 years
- Tax free limit for per diem increased from KES 2,000 to KES 10,000 per day per employee
- Mortgage interest on amounts borrowed for construction of residential premises to be deductible
- Repeal of 150% investment allowances on capital expenditure; first year investment allowance of 100% also repealed (50% allowance in first year and the residual in subsequent years continues)
- Diminution allowance at 100% on loose tools and soft furnishings
- Repeal of preferential income tax rates of 15% on real estate companies involved in construction of 100 residential units annually
- Repeal of preferential income tax rate of 15% for the first 5 years for companies engaged in the local assembling of motor vehicles
- Withholding tax (WHT) exemption on dividends paid by companies certified by the Nairobi International Financial Centre Authority (NIFCA) where reinvestment is at least KES 250 million of annual profits
- Preferential corporate tax rate of 15% for the first 10 years and 20% for the subsequent 10 years for companies certified by NIFCA having made a minimum investment of KES 3 billion in the first 3 years of operation
- For start-ups certified by NIFCA, preferential corporate tax rate of 15% for the first 3 years followed by 20% for the subsequent 4 years
- Due date for Minimum Top-up Tax to be the fourth month after end of the financial year
- Clarification on WHT on qualifying dividends and interest as final tax
- Donations towards construction of public sports facilities to be tax deductible
- Exemption from tax for all gratuity received from private and public pension schemes
- Clarification that fringe benefit tax is payable by the employer at the corporate rate of tax
- Extension of timeline for issuing an exemption certificate to charitable organization to 90 days (currently 60 days) from the date of application
- Automatic approval on applications for change of accounting year end where the commissioner fails to respond within 6 months
- Burden of taxation of non-resident shipowners to be shifted to the resident person engaged with the shipowner and to be in the form of WHT

Value Added Tax

- Internet services delivered to a person in Kenya will be considered to be supplies made in Kenya
- VAT withholding credits to only be used to offset VAT liabilities and not any other tax liabilities
- VAT refund applications on bad debts now can be made from 2 years (reduced from 3 years) to 10 years from the date of supply
- Clarity on the timeline for making VAT refund applications within 12 months of the return tax period
- Mandatory requirement for issuance of a tax invoice by a VAT registered person on all supplies whether exempt or taxable
- Imposition of VAT on the misuse of exempt or zero-rated supplies
- VAT to be applicable on fuels, lubricants and tyres supplied to official aid funded projects
- VAT exemption of tea and coffee packaging materials upon recommendation by Cabinet Secretary
- Reclassification of a number of supplies from exempt to taxable at 16% including locally assembled motor vehicles for transportation of tourists, products used for construction and equipping specialized hospitals, inputs and raw materials used for manufacture of passenger motor vehicles etc
- Reclassification of a number of supplies from zero rated to VAT exempt including inputs and raw materials for manufacture of animal feeds, transportation of sugarcane, supply of electric motorcycles, supply of electric bicycles, electric buses, supply of solar and lithium batteries, locally assembled and manufactured mobile phones etc

Excise Duty

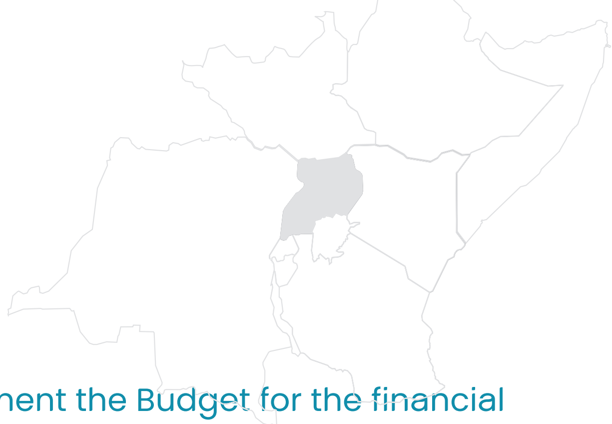
- Exclusion of banks, savings and credit cooperative societies and microfinance institutions from the definition of a digital lender
- Expansion of the applicability of excise duty to include non-residents where such services are consumed in Kenya through the internet, electronic network or digital marketplace
- Introduction of a fourteen-day timeline for issuance or rejection of excise licence upon receipt of required documents

Custom Changes

- Importation of tea packaging materials into Kenya at a lower duty rate of 10%
- Kenya granted extension of duty remission to import wheat at the duty rate of 10% provided the importers of wheat must first purchase locally produced wheat.
- Kenya granted extension of stay of application of East African Community Common External Tariff (EAC CET) import duty rate for rice of 35% or USD 200 per MT, whichever is higher
- Kenya granted extension of duty remission on inputs for assembly of telecommunications devices, including mobile phones, laptops and tablets
- Kenya granted extension of duty remission to import inputs for production of animal feeds duty free
- Kenya allowed to extend the stay of application on the EAC CET rate and apply import duty at the rate on 35% on leather products.
- Kenya allowed to import leather processing chemicals under duty remission
- Kenya allowed to adopt tariff split on transformers to provide a distinction between fully built and unassembled transformers
- Kenya granted approval to import inputs for assembly of cranes duty free under the duty remission scheme
- Kenya to continue enjoying duty remission on importation of certain types of paper used in manufacturing packaging materials

Miscellaneous Fees and Levies

- Introduction of Import Declaration Fee (IDF) and Railway Development Levy (RDL) on all parts of chapter 88 and goods of tariff heading 8802.30.00 and 8802.40.00 and any other aircraft spare parts including aircraft engines imported by aircraft operators or persons engaged in the business of aircraft maintenance
- The Bill seeks to extend the scope of the Tax Procedures Act (TPA) provisions so it also govern fees and levies under the Miscellaneous Fees & Levies Act (MFLA). At present, MFLA only invokes Section 47 of the TPA regarding the refund processes for those fees and levies
- The Bill seeks to reduce the export and investment promotion levy from 17.5% to 10% of customs value for specific semi-finished iron or non alloy steel products
- The Bill proposes a stamp duty waiver for property transferred by a company to its shareholders as part of an internal reorganization when specific conditions are met



Uganda

Uganda's Minister of Finance presented to Parliament the Budget for the financial year 2025/2026 under the same theme as last year i.e. "Full Monetization of the Ugandan Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access"

Budget structure

The Government of Uganda plans to collect UGX 37.2 trillion in domestic revenue in the financial year 2025/26. This will finance about 60% the national budget. The rest of the budget will be financed through borrowing and grants.

Significant tax proposals

Amendments to the tax laws have been approved and are expected to generate additional revenue for the government. The reforms intend to provide clarity to ambiguous provisions of the law in order to create a fairer and consistent tax system. Some of the amendments highlighted in the budget include the following:

Tax Procedures

- A waiver has been granted for payment of interest and penalties outstanding as at 30 June 2024 provided taxpayers pay the principal tax by 30 June 2026

Income Tax

- The government intends to exempt income for start-ups established by citizens after 1st July 2025 for a period of three years where the business is registered with an investment of not more than UGX 500 million
- Exemption from capital gains tax where an individual transfers shares to a company where the underlying ownership rests with the transferor
- Income tax exemption for Bujagali Energy project has been extended to 30th June 2026.

Stamp duty

- The provision requiring payment of stamp duty on mortgages and agreements has been repealed

Value Added Tax

- The penalty regime for non-compliance with EFRIS requirements has been amended to introduce proportionality. The penalty for non-issuance of e-invoice has been amended from UGX 6 million per invoice to a penalty of twice the amount that ought to have been invoiced

Customs, Excise and other duties, fees and levies

- Increase of duty on cigarettes, beer and fuel based on various criteria

Tanzania

On 12 June 2025, the Honorable Minister of Finance presented Tanzania's Government budget and proposed tax reforms for the fiscal year 2025/26. The Government budget for 2025/2026 is the fifth and final in the implementation of the Tanzania Development Vision 2025 (TDV 2025) and the Third National Five-Year Development Plan (2021/2022 – 2025/2026) with the theme: "Realising Competitiveness and Industrialization for Human Development".

Budget structure

The total budget proposed for 2025/2026 is TZS 56.49 Trillion, which marks a 12% increase from the 2024/2025 budget of TZS 50.29 Trillion.

Domestic revenue is projected at TZS 40.47 Trillion (71.6% of total budget), comprising TZS 34.1 Trillion in tax revenue and TZS 6.3 Trillion in non tax revenue.

Significant tax proposals

The tax proposals in Tanzania are expected to increase government revenue by TZS 4.2 Trillion in 2025/2026.

Income Tax

- Introduction of 10% withholding tax on retained earnings not distributed within six months
- Increase in Alternative Minimum Tax (AMT) Rate to 1% of Turnover (currently 0.5%)
- Interest Restriction (Thin Capitalization) Rules Amended to Include "Retained Earnings" in "Equity" Definition
- Removal of 10-Year Corporate Income Tax Holiday for EPZ and SEZ Operators selling locally
- Withholding tax rates to be introduced/increased on the following:
    - 2% on payments arising from purchase of raw salt from holders of a primary mining license (PML) or artisanal miners
    - 10% final WHT on commission payments derived from sport betting advertisements
    - 10% on insurance and re-insurance premium payments made to non-resident companies (currently 5%)
    - 10% on payments for professional and management services provided in the extractive sector (currently 5%)

Value Added Tax

- Introduction of a withholding VAT system by establishing a VAT collection agency system on payments made to a registered seller. Through this system agents will be required to collect 3% of VAT and submit it to TRA
- Some of the items to be exempted from VAT include re-insurance transactions between insurance companies and re-insurance companies, edible oil produced locally using locally grown seeds (exemption was expiring on 30 June 2025 but now extended to 30 June 2026), cooking gas tanks & cylinders (HS Code 7311.00.10) as well as carbonization furnace (HS Code 8417.80.00) used in the production of briquettes, natural gas sold to CNG stations for motor vehicles use only, etc.
- To repeal VAT exemptions on purchase and importation of gaming supplies and bitumen classified under HS Codes 2713.20.00 and 2715.00.00

Customs, Excise And Other Reforms

- To introduce carbon-based excise at a rate of TZS 22,000 per metric ton of carbon produced from coal and natural gas
- To introduce excise duty at a rate of 10% to other service providers of money transfer and payment system who employs independent systems other than financial or telecommunication systems
- To reduce city service levy from current rate of not exceeding 0.3% to fixed rate of 0.25%
- To reduce the hotel levy rate from 10% to 2%
- To introduce travel insurance for foreigners entering the country at the rate of US$ 44 (will not include EAC and SADC citizens)
- To include goods originating from East African Community Partner States that meets EAC Rules of Origin into industrial development levy for the purpose of protecting local manufacturers, enhancing competition and increase Government revenue
- Industrial development levies introduced on various products including steel and iron products at various rates between 5% to 15%
- To include provision that grants 75% exemption of import duty for deemed capital goods imported by the investors registered under Investment and Special Economic Zones Act, 2025
- EAC Partner States have agreed to introduce the East African Community Assembling and Manufacturing of Goods Regulations with the implementation set to take effect on 1 July 2026

Rwanda

On 9 June 2025, Rwanda's Cabinet approved the national budget for the 2025/2026 fiscal year, with a formal presentation to Parliament on 12 June 2025. The budget aligns with Rwanda's long-term policy objectives under the National Strategy for Transformation (NST2) and Vision 2050, with strategic focus on infrastructure development, human capital development, and economic resilience.

To support this policy direction, the Government has adopted a comprehensive tax reform programme, with measures being phased in over five years. Several reforms will take effect from 1 July 2025, targeting improved domestic revenue mobilisation and reduced reliance on external aid.

Budget structure

The 2025/2026 budget reflects a deliberate shift toward greater fiscal self-reliance with domestic revenue projected at Rwf 4.1 trillion (58% of total budget), comprising Rwf 3.6 trillion in tax revenue and Rwf 477 billion in non-tax revenue. The 58% is up from 54% in the prior year.

Significant tax proposals

On 29 May 2025, the Government gazetted tax reform packages comprising 14 laws, targeting over Rwf 350 billion in additional revenue across five years. The package introduces new taxes and adjustments to rates for previous taxes. While most measures took effect upon publication of the gazette, certain laws—such as the Environmental Levy and Tourism Tax—become effective from 1 July 2025. We have summarised the significant proposals below.

Income Tax

- Hybrid vehicles that were previously exempt are now subject to withholding tax at 5%
- For gambling, withholding tax increased from 15% to 25%
- Capital gains tax rate increased from 5% to 10%

Value Added Tax

- Mobile phones and ICT equipment that were previously exempt are now subject to VAT at 18%
- Transportation of goods that was previously exempt is now subject to VAT at 18%
- Hybrid vehicles that were previously exempt are now subject to VAT at 18%
- For electric vehicles, the exemption from VAT retained up to 30 June 2028

Customs, Excise and other duties, fees and levies

- Fuel which previously had a fixed excise duty of Rwf 115/litre now changed to ad valorem excise duty of 15% on customs value plus fixed excise rate increased to Rwf 183/litre petrol and Rwf 150/litre diesel
- Hybrid vehicles that were previously exempt from import duty are now subject to excise duty ranging from 5-15% depending on the age of the vehicle
- For electric vehicles, the exemption from excise and import duties retained up to 30 June 2028
- Cosmetics are now subject to excise duty of 15% with an exemption for medical and pharmaceutical use cosmetics
- Excise duty on tobacco products has been increased from Rwf 130 per pack to Rwf 230 per pack plus 36% of retail price
- Excise duty on beer increased from 60% to 65% of factory price
- Excise duty on airtime increased from 10% to 12% with an anticipated increase in the future to 15%
- For gambling, gross gambling revenue tax increased from 13% to 40%
- New tourism tax of 3% on accommodation costs (excluding VAT)
- Introduction of annual road user levy ranging between Rwf 50,000 to Rwf 150,000 based on vehicle category
- New environment levy of 0.2% on plastic packaged imports

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