



**KAM**  
KENYA ASSOCIATION  
OF MANUFACTURERS  
Driving Global Competitiveness

**60+**  
*Years*  
OF ADDING VALUE

## Presentation to Parliamentary Committee on Finance & National Planning

### Estimated impact on Finance Bill 2025 - Case Studies

**30th May 2025**

# VALUE ADDED TAX (VAT)

# Introduction to VAT

There are three applicable VAT rates in Kenya as demonstrated below:

Finished product	Implication	Case examples
Exempt	<ol style="list-style-type: none"> <li>1. Overhead VAT/packaging VAT is not claimable and becomes a cost to the business</li> <li>2. Increases the cost of the final product</li> <li>3. <b>Favours the importation of the finished products as imports do not have input VAT.</b></li> <li>4. <i>In this case all inputs should also be exempt from VAT to compete against imports</i></li> </ol>	<ul style="list-style-type: none"> <li>• Agro-chemicals &amp; Animal feeds</li> <li>• Motorcycle &amp; Electric buses</li> <li>• Adult diapers</li> <li>• Locally assemble mobile phones</li> </ul>
VAT	<ol style="list-style-type: none"> <li>1. Allows claiming of input VAT for both raw materials as well as overhead/packaging costs</li> <li>2. <b>VAT is part of the final consumer price</b></li> </ol>	<ul style="list-style-type: none"> <li>• Manufacture of packaging</li> <li>• Paint</li> </ul>
Zero rated	<ol style="list-style-type: none"> <li>1. Best scenario as it lowers the cost production</li> <li>2. Allows claiming of all input VAT including packaging and overheads</li> <li>3. Favours exports</li> </ol>	<ul style="list-style-type: none"> <li>• Export products</li> <li>• LPG</li> </ul>

# Key Changes – VAT Act

Product	Current Status	Proposed	Affected Sectors
Sugarcane transportation	Zero rated	Exempt	Sugar millers
BEV Stoves	Zero rated	Exempt	
Inputs for manufacture of medicaments	Zero rated	Exempt	Pharma
Packaging for tea and coffee	Vatable	Exempt	Paper & Agro
Supply of electric motorcycle	Zero rated	Exempt	Automotive
Mobile phones	Zero rated	Exempt	Electronics
Inputs for manufacture of animal feeds including finished animal feeds	Zero rated	Exempt	Agro
Electric buses, Motorcycles of tariff 8711.60.00 and electric bicycles	Zero rated	Exempt	Automotive
Specialized equipment for the development and generation of solar and wind energy	Exempt	Vatable	Electrical
Locally Manufactured passenger motor vehicles	Exempt	Vatable	Automotive
Inputs and raw materials used in the manufacture of passenger motor vehicles	Exempt	Vatable	Automotive
Solar and lithium-ion batteries	Zero rated	Exempt	Electrical

# Case study I: Medicine

# Zero-Rated to VAT Exemption (eg Medicine).

**Comparison between VAT exemption & zero rating** Locally manufactured inputs for use in the manufacture of medicaments

Item	Zero-rate	Exemption
Cost of inputs & raw materials to manufacture medicaments	1,000	1,000
Cost of business expenses subject to VAT at 16% e.g. electricity, rent of warehouse etc.	500	500
<b>Total cost of inputs &amp; business costs</b>	<b>1,500</b>	<b>1,500</b>
16% input VAT incurred on business expenses (500*16%)	80	80
Input VAT recovered by supplier	(80)	-
<b>Total cost to supplier</b>	<b>1,500</b>	<b>1,580</b>
Sale to consumer @12% mark-up	1,680	1,770
<b>% Increase in price</b>		<b>5%</b>

# Impact of VAT Exemption on Finished Tea and Coffee Packaging

- The intention is **to reduce packaging costs** for tea and coffee farmers and traders. However, input VAT will become part of the production cost for local packaging manufacturers.
- The Bill **does not exempt raw materials for manufacture of packaging from VAT**
- The raw material for manufacture of tea sacks is sack kraft which attracts – **35% import duty, 10% EIPL, 16% VAT, 2% RDL and 2.5% IDF**
- The cumulative tax on imported raw materials (Sack kraft) is ~65% of the custom value while cumulative tax on imported finished tea sacks is 4.5%.
- The Fifth schedule to the EACCMA exempts packaging material for tea and coffee to attract 0% import duty.
- Imported finished tea sack will be more competitive compared to locally manufactured ones due to the tax burden on local manufacturers.

## Comparison between imported tea sacks and locally manufactured once.

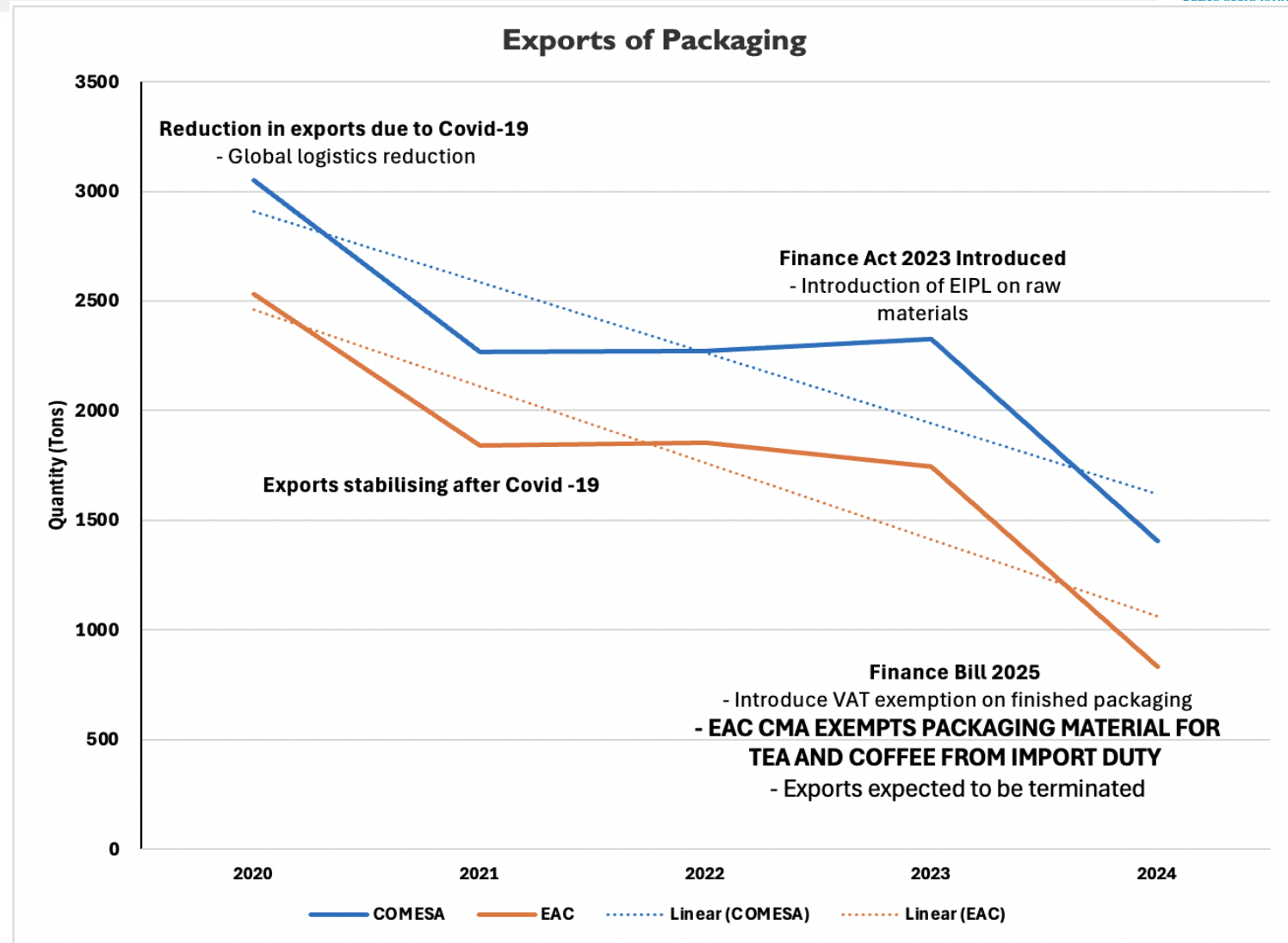
	Imported raw materials for manufacture of tea bags (4804.21.00; 4804.11.00; 4804.31.00; 4804.29.00; 4804.39.00)	Imported finished tea bags
VAT	16% (non-recoverable under exemption)	Exempt
Import duty	35%	Exempt (EACCMA, 5 <sup>th</sup> Schedule)
EIPL	10%	Not Applicable
RDL	2%	2%
IDF	2.5%	2.5%
<b>Total Tax</b>	<b>~65% (effective burden on local manufacturers)</b>	<b>4.5%</b>

**Recommendation:** Exempt imported sack kraft and kraftliner from VAT for use in the manufacture of packaging



Kenya has been gradually losing the market for packaging within the EAC and COMESA

In the past 3 years, three paper converting companies shut down





# Zero-Rated to VAT Exemption (eg, Mobile Phones)

	Prior to Finance Bill 2025	After Finance Bill 2025	Scenario 1: Input & Output Both Exempt	Scenario 2: Input & Output Both Vatable
VAT Status	Components vatable, phones Zero Rated	Components vatable, phones exempt	Components & phones exempt	Components & phones standard rated
Product Cost ex VAT	11,696	11,696	11,696	11,696
Input VAT on components	1,871	1,871	-	1,871
Total Product Cost	11,696	13,567	11,696	11,696
Output VAT				2,620
Input VAT Claimable	1,871			-1,871
Selling Price (ex Financing Income)	16,374	18,994	16,374	17,123

- The Finance Bill seeks to make locally assembled or manufactured mobile phones competitive. However, exempting the final product while taxing inputs for manufacture or assembly of mobile phones leads to unrecoverable VAT, inflating production costs, raising consumer prices and suppressing demand.

# EXCISE DUTY

# Excise Duty Principles - Tax on Tax

- Excise duty is a consumption tax (finished products) historically charged on specific goods and services, considered **harmful**, luxurious, or non-essential



Excise paid on inputs such as **packaging materials**

- Excise duty offset** – Section 14 of the Excise Duty Act allows offset of excise duty paid on raw materials for manufacture of excisable goods.



Excise duty paid on raw materials for the manufacture of **non-excisable products**

- Excise input on export goods not allowed for offset

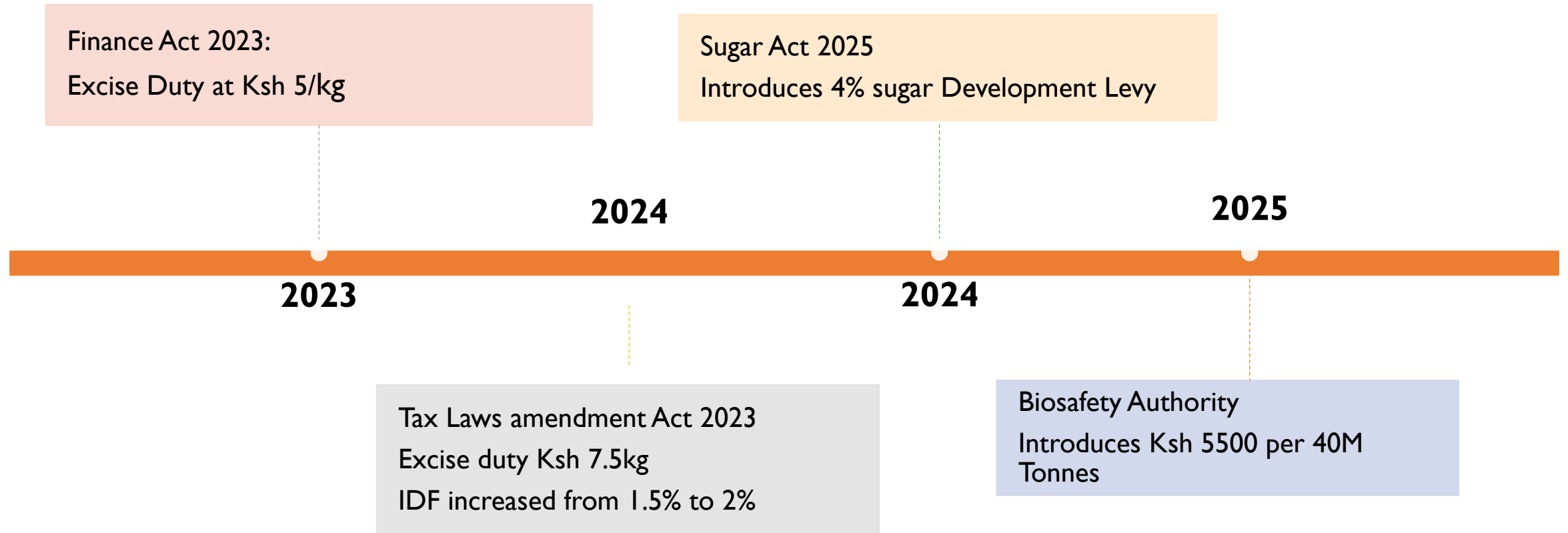


Excise duty paid on raw materials for the manufacture of **Exports**

**Note:** Excise duty on raw materials which cannot be offset *erodes Kenya's competitiveness* locally and in the region. Kenya should offset of excise paid on packaging as well excise paid on raw materials for exported goods.

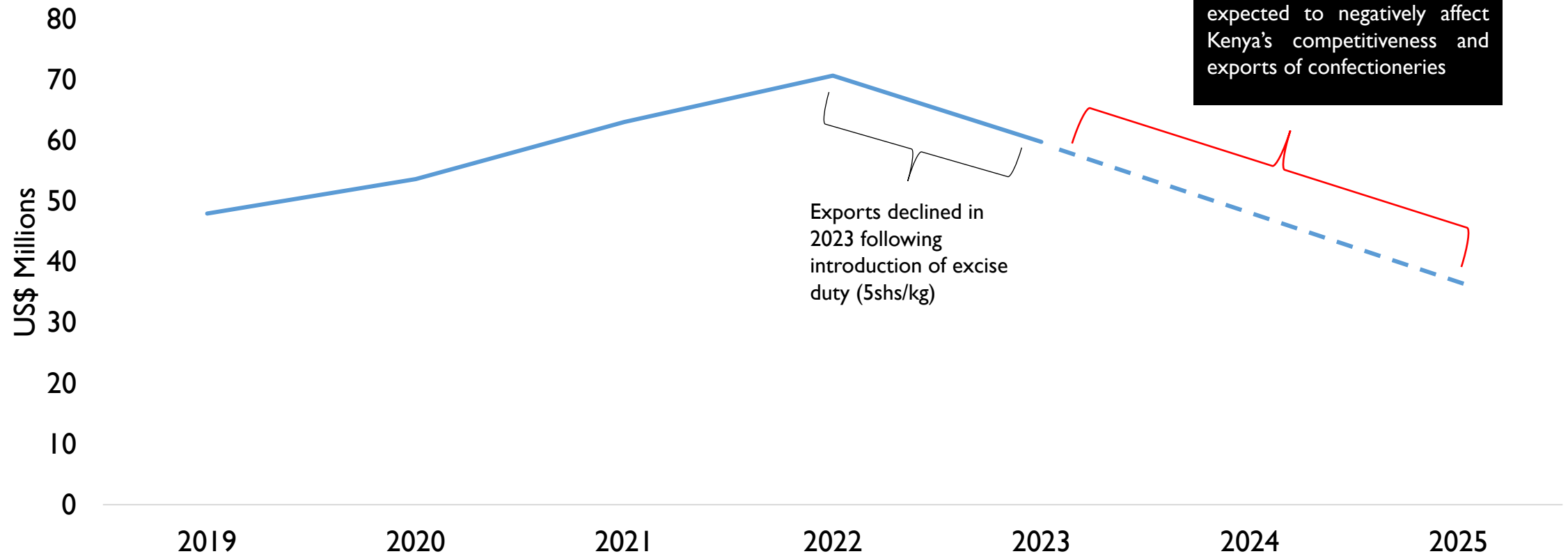
## Industrial Sugar, Excise Duty

# Industrial sugar (White refined sugar) - Taxes 2023 – 2025

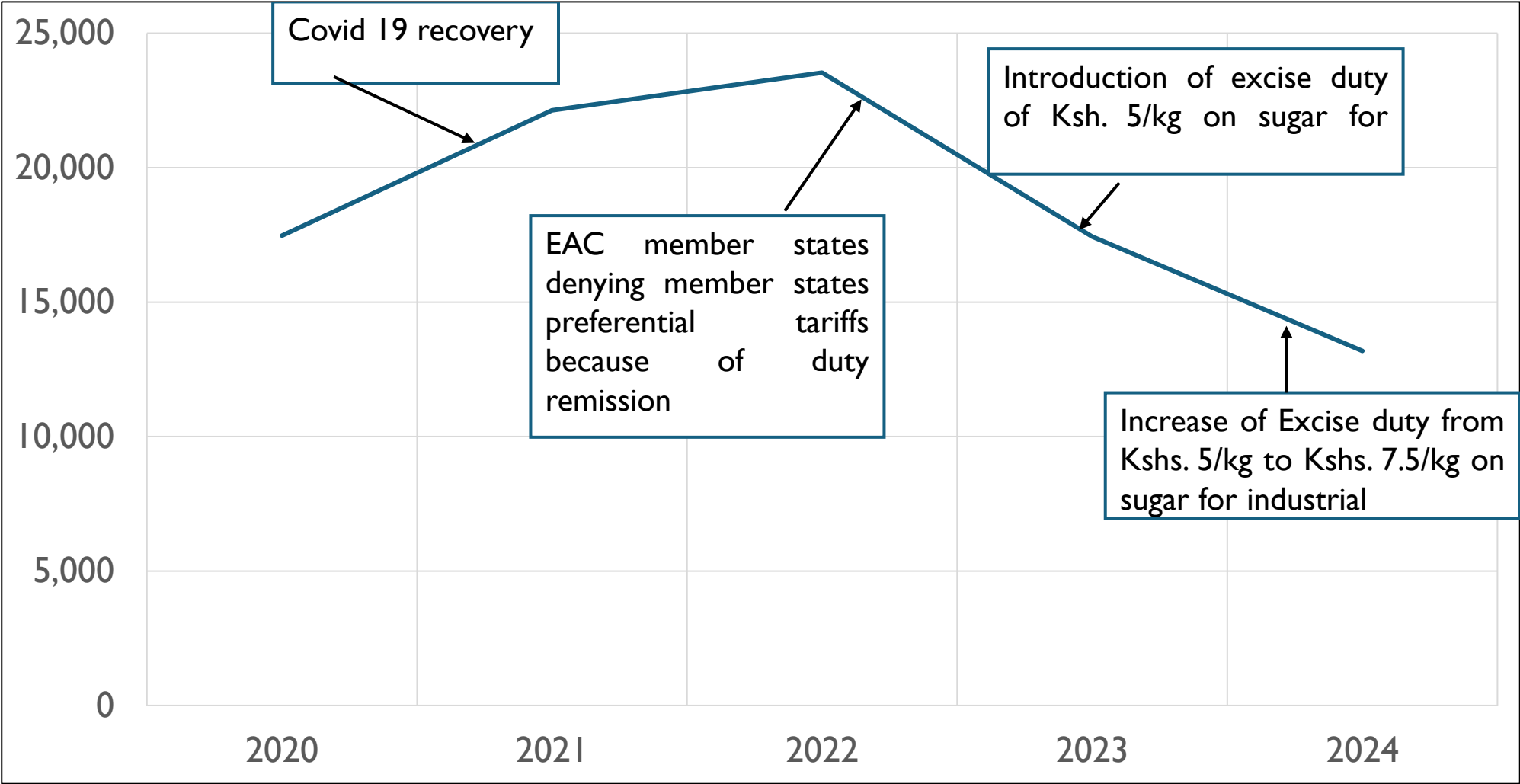


# Implications on Kenya's Export Competitiveness

## Kenya's Exports of Sugar Confectionery



# Exports of sweets in tonnes – 1704.90.00





# Impact of Excise Duty on PVC Edge Banding

- PVC Edge is a raw material used in the finishing of furniture such as tables.
- The product is not manufactured locally
- Excise duty on PVC edge banding was introduced through the Finance Act 2022. The duty significantly increases the cost of locally manufactured furniture.
- Introduction of specific duty of Kshs. 200 per Kg, further increases the excise duty payable **from 25% to 65%** as demonstrated below:



**Image:** Application of PVC edge banding in furniture manufacturing

	CFR Cost (Ksh)	Unit	Weight/ Unit (kg)	Import Duty @ 25%	Excise duty @ 25%	Excise duty @ Ksh 200/kg	Total Duty and Excise as a % of CFR
Printed PVC Edge banding	9	Per Met re	0.023	2.25	2.81	4.53 ~50%	6.78 ~75%
Printed PVC Laminates	655	Per SQ M	2.120	163.75	204.69	424 ~65%	587.75 ~90%

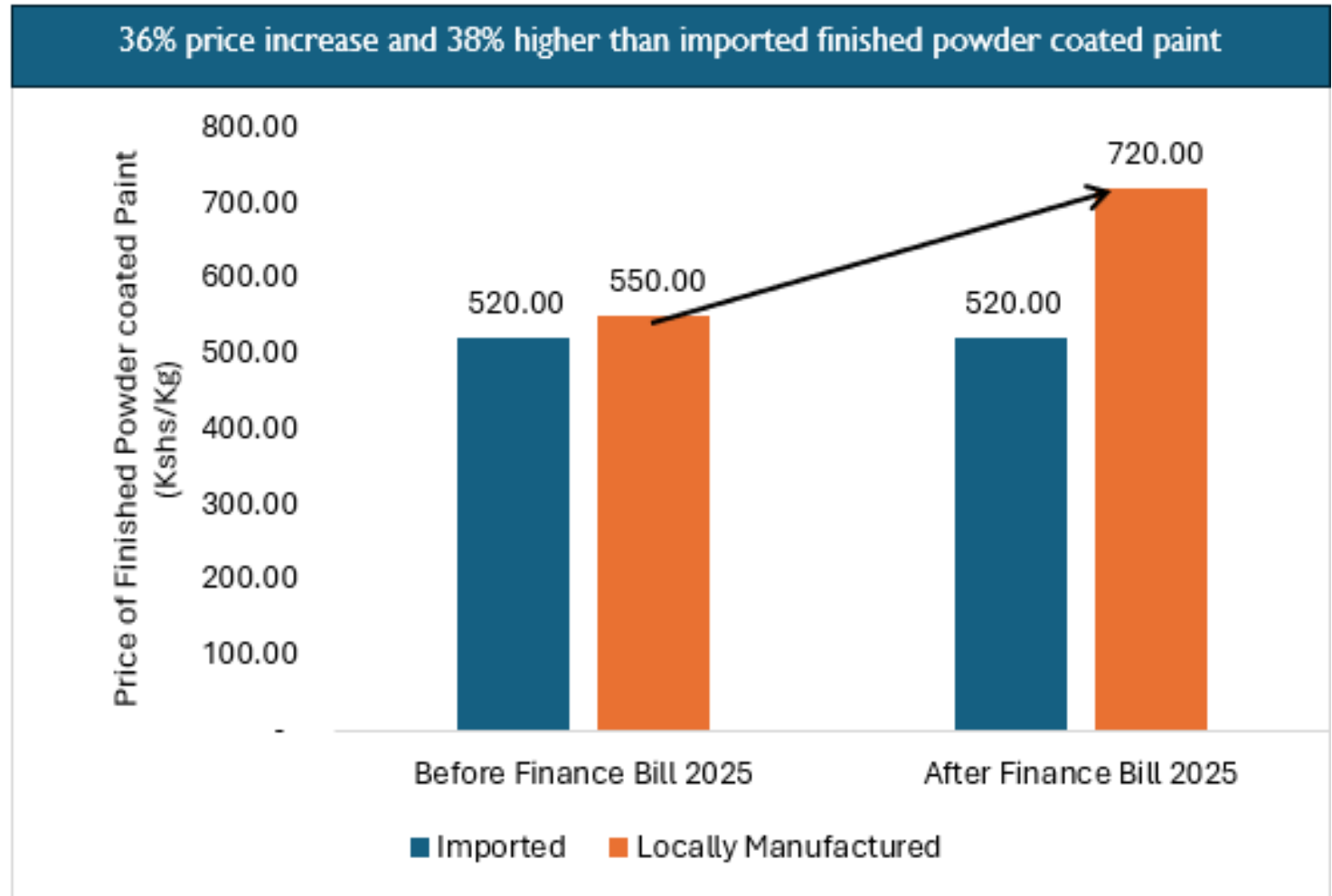
# Impact of Excise Duty on Resins – Case of Powder coated Paint

Resins are essential raw materials used in the production of various products, including paints, inks, leather treatments, powder coatings, rubber adhesives, and biodegradable items.

## Example: Saturated Polyester Resin

This type of resin is used in:

- **Powder coatings (solid form)** - Applied in the manufacture of powder coating paints.
  - *Not currently manufactured locally.*
- **Liquid-based paints (liquid form)** - Used in the production of liquid paints.
  - *Manufactured locally for use by paint producers.*
- **Inks and biodegradable products** - E.g. as planting tubes/bags and bin liners.



- **Nine (9)** different resins are currently subject to excise duty. **Only 4** of the resins are manufactured locally in sufficient quantities.

# Regional Comparative tax analysis on Coal

- Coal is traded as a commodity in the international market, introduction of excise duty puts Kenyan manufacturers at a competitive disadvantage.
- Introduction of excise duty has **increased the price of coal by Kshs. 486** while attracting the **highest duty** in EAC.

Key Taxe(s)	Domestic taxes		Introduced excised duty on coal	Uganda	Tanzania
	2022	2023			
Excise duty	-	-	2.5% of the excisable value	0%	0%
IDF	1.5%	2.5%	2.5	0%	0%
RDL	1.5%	1.5%	2	0%	1.5%
<b>Total</b>	<b>3%</b>	<b>4.5%</b>	<b>7%</b>	<b>0%</b>	<b>1.5%</b>

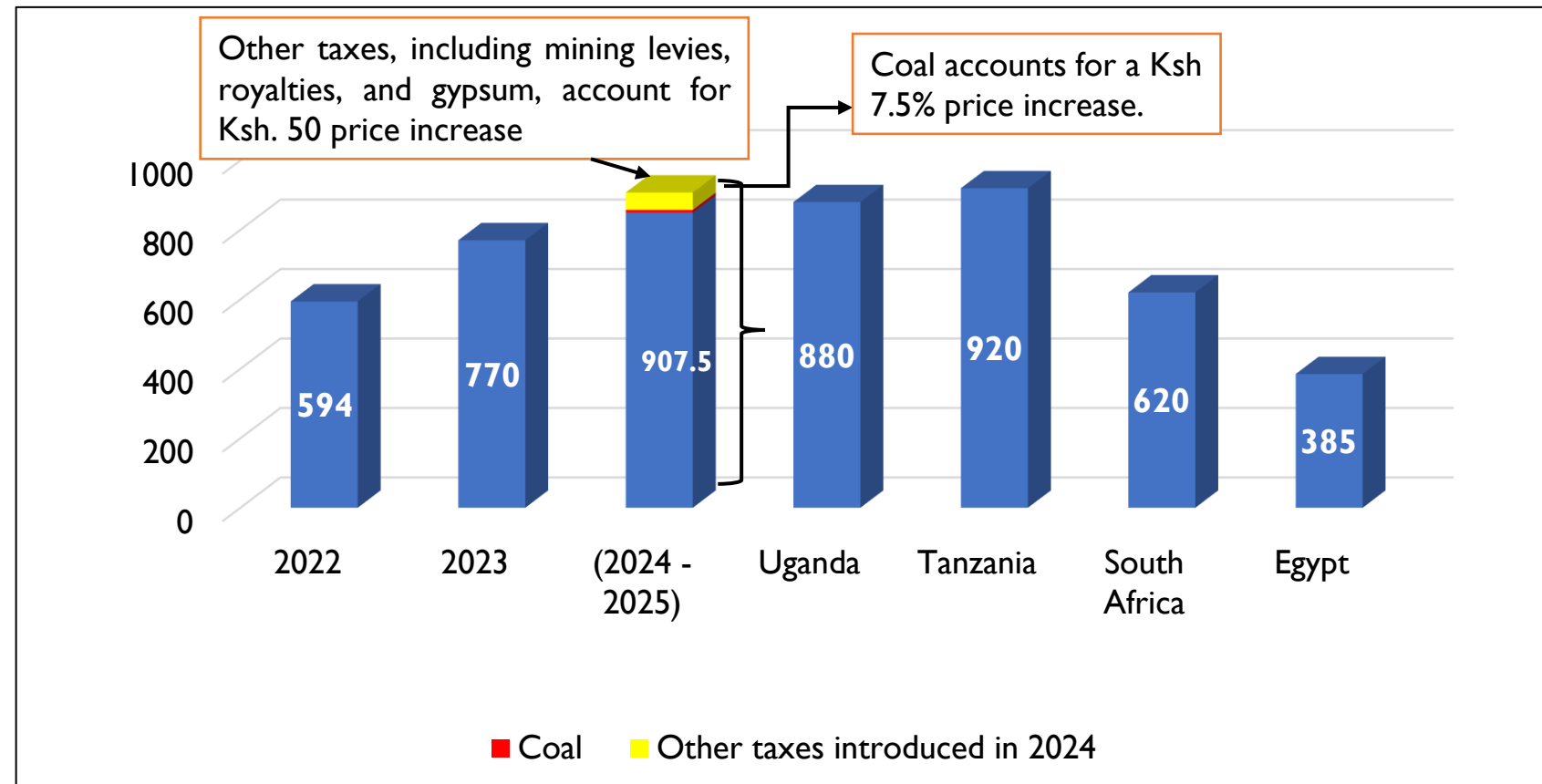
**Kshs. 19,926/MT**



**Kshs. 19,440/MT**

# Impact of excise duty on coal and various Taxes and Levies introduced in 2024 levy on Finished cement

Prices per 50kg bag of cement in Kshs. by different countries



Data Source KAM Computation

With all the additional taxes, for every 100,000 housing units, the cost of cement will go up by approximately 1.1 billion

# Regional Comparative Tax Analysis on Float Glass

Key Taxes on Float Glass	Kenya- before the Excise Duty Amendment Act, 2025	Kenya- After the Excise Duty Amendment Act, 2025 (Using 35%)	Kenya- After Finance Bill 2025 using Ksh. 200/kg	Uganda	Tanzania
Excise duty	Nil	35%	35% of the excisable value or 200 per kg – <b>200 per kg is equivalent to 343%</b>	0%	0%
Import duty	10%	<b>10%</b>	10%	DRS (0%)	35% and DRs 10%
IDF	2.5%	<b>2.5%</b>	2.5%	0%	0%
RDL	2%	<b>2 %</b>	2.%	0%	1.5%
<b>Total</b>	<b>14.5%</b>	<b>49.5%</b>	<b>357%</b>	<b>0%</b>	<b>11.5%</b>

## Data Source: KAM Survey

- One (1) square meter of float glass is approximately 12 kgs
- The price of one square meter is approximately Ksh. 700

The excise duty amendment act of 2025 introduced excise duty on float glass at an effective rate 343% making Kenya's applicable the highest in the region. The finance bill 2025 will further increase the applicable duty by changing the base from customs value to excisable value.

# Regional Comparative Tax Analysis on Float Glass

Key Taxes on Float Glass	Kenya- before the Excise Duty Amendment Act, 2025	Kenya- After the Excise Duty Amendment Act, 2025 (Using 35%)	Kenya- After Finance Bill 2025 using Ksh. 200/kg	% difference between the Ad Volerem and specific duty
Price	700	945/m2	2400/m2	153%

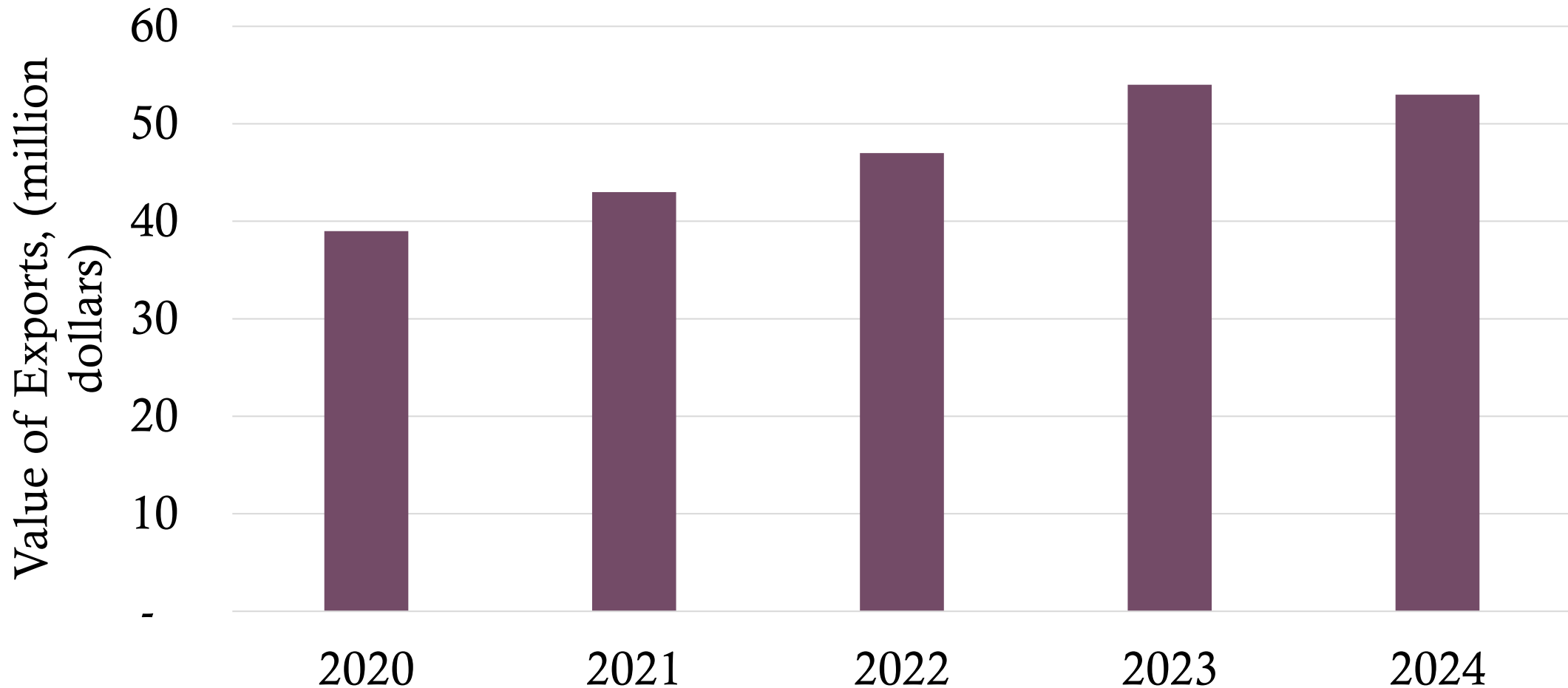
**Data Source: KAM Survey**

- Ksh. 200/kg is equivalent to 343% of the product value which is significantly higher than the ad valorem rate of 35%.
- 35% excise duty is equivalent to Ksh. 300 per m2.

## Recommendation

- We recommend change of units from Kgs to SQM to apply excise duty of 35% or Ksh. 300/m2 whichever is higher.
- **Exempt all glass processors sourcing float glass** to produce toughened and laminated glass from the excise duty. Tanzania and Uganda have similar exemptions since there is no local producer of such.

# Value of Kenya's Cosmetics Export, 2020-2024 (Million USD)

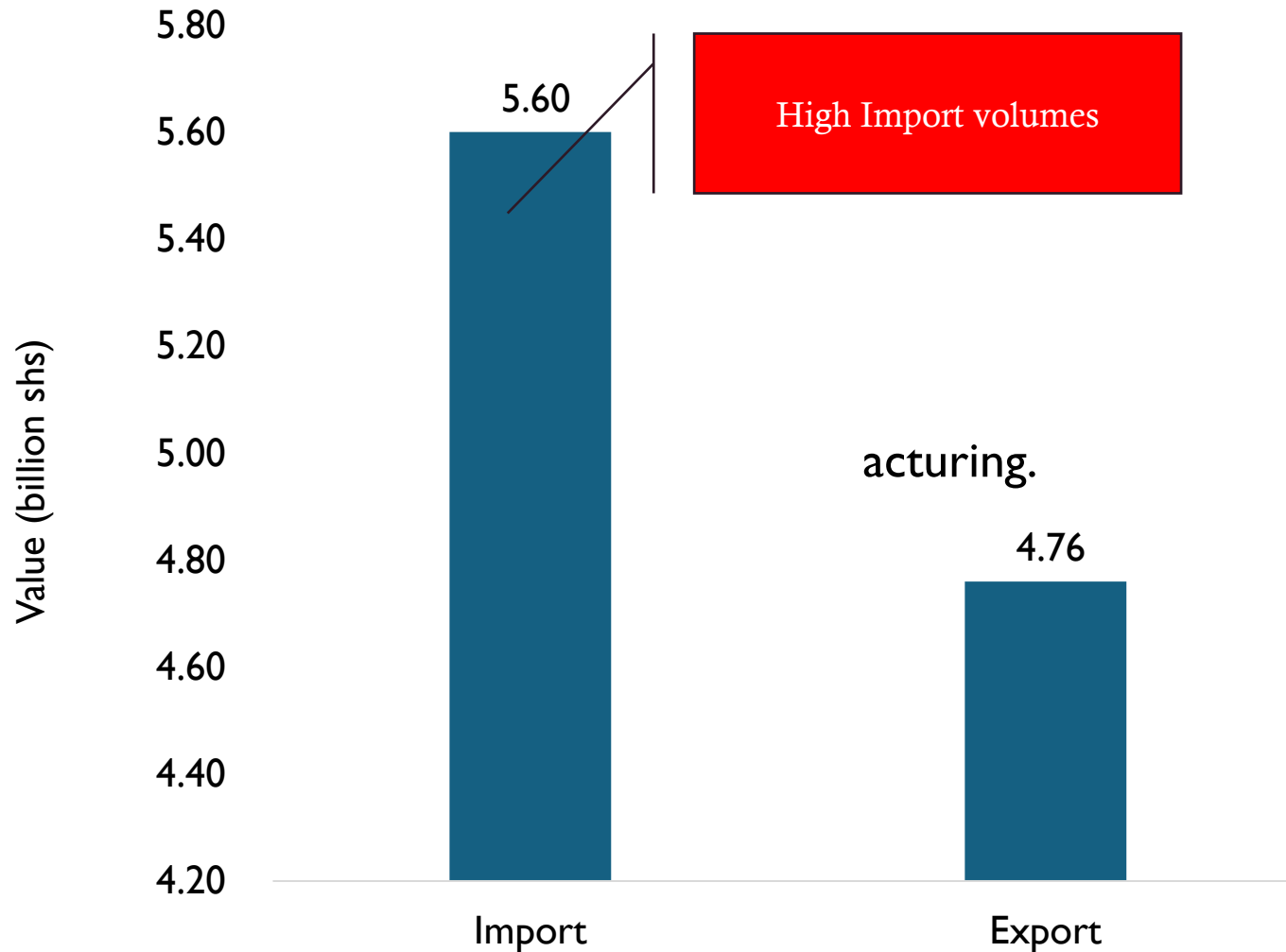


Source: ITC Trade Map, 2025

Over USD 50 million worth of foreign exchange through exports. Leading destinations being EAC region and US

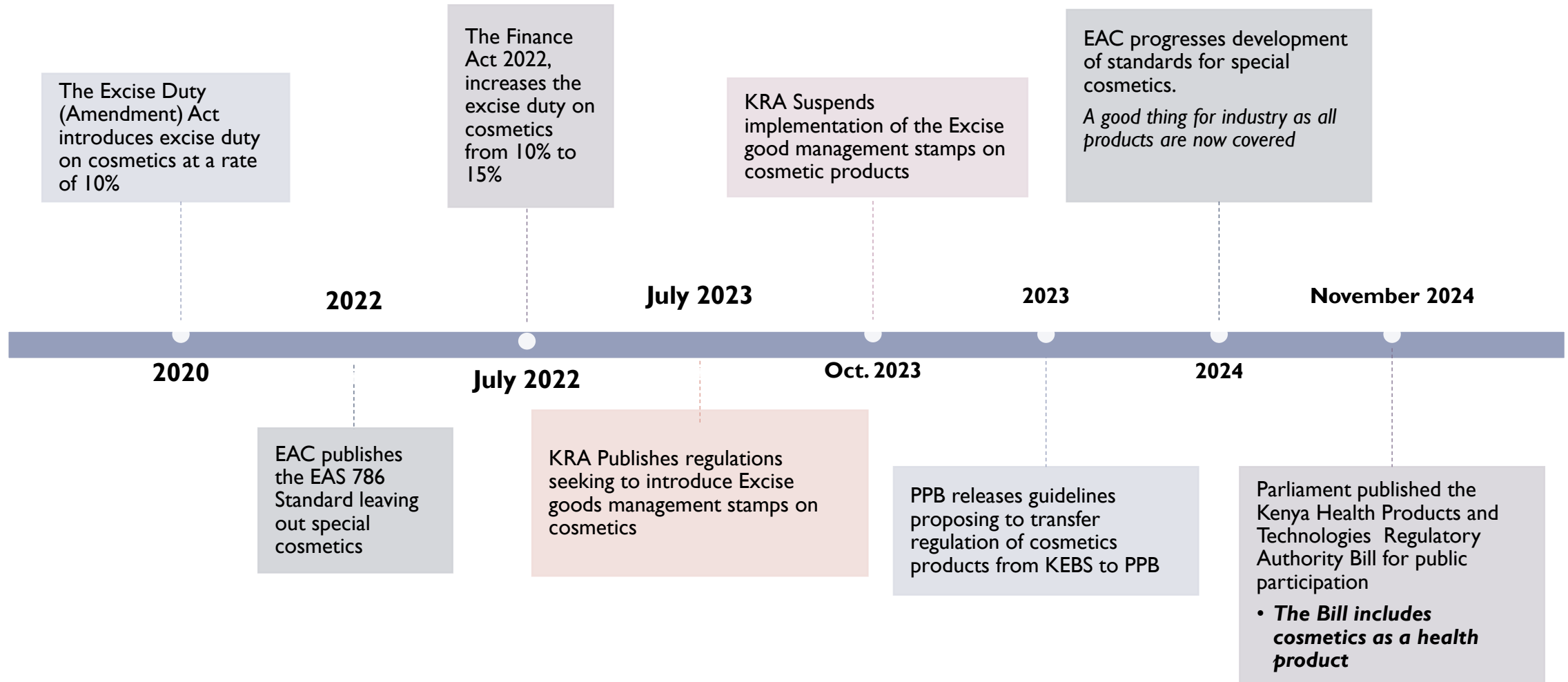


# Market Share



- Kenya imports cosmetics worth Kshs. 5.6 Billion implying existing potential for local manufacturing.
- Kenya is also the leading cosmetics manufacturer in the region with EAC Partner States accounting for over 70% of Kenya's Exports.

# Regulation of Cosmetic Products



**Recommendation:** Remove excise duty on cosmetics to enhance sector growth and increase exports

# Impact of Export and Investment Promotion Levy (EIPL)

# Tax Comparison within EAC on Key Raw materials for the Steel Sector

## I. Steel Billets – 7207.11.00

Name of tax	Kenya: Before the introduction of EIPL	Kenya before the Finance Bill 2025	Kenya After Finance Bill 2025	Uganda	Tanzania	Rwanda	Burundi
EIPL	-	17.5%	10%	-	-	-	-
Import duty	10%	10% (Stay)	10%	0%	0%	0%	0%
IDF	2.5%	2.5%	2.5%	-	-	-	-
RDL	1.5%	2%	2%	-	-	-	-
IDL	-	-	-	1.5%	1.5%	1.5%	-
AUL	-	-	-	-	-	0.2%	-
QIF	-	-	-	-	-	0.2%	-
<b>Total</b>	<b>14.5%</b>	<b>32%</b>	<b>24.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>0%</b>

### Note:

- Investor in the downstream production will favour lower-rate countries e.g., Uganda, Tanzania, and Rwanda

# Reverse trade effect on the finished products – Case study Rebars (7214)

Imports – 7214 in Tons	2020	2021	2022	2023	2024
Egypt					14969
Uganda			6059	466	7644
China	355	204	133	638	2786
Tanzania			139	64	721
India	4	6	11	5	14
Others	384	714	152	5	15
<b>Total</b>	<b>743</b>	<b>924</b>	<b>6,494</b>	<b>1,178</b>	<b>26,149</b>

The imports have significantly increased from 2023 to 2024. The increase signifies a 2,119% increase from 2023 to 2024. Exports from Uganda have significantly increased over the same period. On the other hand, exports declined drastically by 63% over the same period.

## Note:

- Investor in the downstream production will favour lower-rate countries e.g., Uganda, Tanzania, and Rwanda

# Tax Comparison within EAC on Key Raw materials for the Steel Sector

## I. Wire rods – 7213.91.10 & 7213.91.90

Name of tax	Kenya before the EIPL	Kenya before the Finance Bill 2025	Kenya After Finance Bill 2025	Uganda	Tanzania	Rwanda	Burundi
Export & investment promotion levy (EIPL)	-	17.5%	10%	-	-	-	-
Import duty	25%	25%*	25%	0%(DRS)	0% (DRS)	0% (DRS)	0% (DRS)
Import declaration fee (IDF)	2.5%	2.5%	2.5%	-	-	-	-
Railway development levy (RDL)	1.5%	2%	2%	-	-	-	-
Infrastructure development levy (IDL)	-	-	-	1.5%	1.5%	1.5%	-
African Union Levy (AUL)	-	-	-	-	-	0.2%	-
Quality Inspection Fee (QIF)	-	-	-	-	-	0.2%	-
<b>Total</b>	<b>29%</b>	<b>47%</b>	<b>39.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>0%</b>

### Note:

- Kenya has DRS at 0% on select wire rod grades
- Investors will favour lower rates in countries such as Uganda and Tanzania.
- High tax in Kenya has led to increase in the cost of production of essential steel product such as nails, barbed wire, galvanized wire etc.
- EAC-wide duty remission exists for those grades that are not manufactured within the EAC.

# Impact of EIPL on Kraftliner for manufacture of Corrugated Cartons – 4804.11.00, 4804.31.00

- THE ISSUE:** The Finance Bill 2024 proposes the introduction of 3% Export Investment and promotion Levy on kraftliner of Hs code 4804.11.00 used in the manufacturer of high performance cartons for export of horticultural products.

Key Taxe(s) on kraft paper	Kenya		Uganda	Tanzania	COMESA
	2022	2025			
Export and Investment promotion levy	10%	3%	0	0	10%
IDF	2.5%	3%	1.5%	0	2.5%
RDL	2%	1.5%	0	1.5%	1.5%
Import Duty (Stay of application)	35%	35%	0%	25%	0%
Total	<b>49.5%</b>	<b>42.5%</b>	<b>1.5%</b>	<b>26.5%</b>	<b>14%</b>

Kenya remains uncompetitive in the region in the manufacture of corrugated cartons used in the export of horticulture products.

Data source: KAM sources



## Regional comparative analysis Impact on Sack kraft for manufacture of Unga/milk packaging – 4804.29.00, 4804.21.00, 4804.39.00

**THE ISSUE:** Sack kraft attracts Export Investment and promotion Levy at a rate of 10%,. Sack kraft is used for the manufacture of unga/milk and other food grade packaging

Key Tax(s) bleached kraft paper of HS code 4804.29.00( Neither locally nor regionally manufactured	Kenya, 2022	Kenya, Current (2025)	Uganda	Tanzania	COMESA
Export and Investment promotion levy	-	10%	0	0	10%
IDF	1.5%	2.5%	1.5%	0	2.5%
RDL	1.5%	2%	0	1.5%	1.5%
Import Duty (Stay of application)	10%	35%	0%	25%	0%
<b>Total</b>	<b>13%</b>	<b>49.5%</b>	<b>1.5%</b>	<b>26.5%</b>	<b>14%</b>

Kenya is uncompetitive in the region in the manufacture of sacks and bags used in packaging of unga/milk packaging and other products such as cement and tea.

Data source: KAM sources

# Projected impact of taxes on material used for manufacturer UNGA Bags

The price of unga bags will increase by approximately 55% from Kshs. 6.96 to Kshs. 10.8 per 2kg empty pkt

Price in 2022		Rice in 2023	Finance Bill 2024 (3% EIPL)		
Type of bag	Ksh	Ksh	Price (Kshs)	Price Difference (Kshs)	%Increase
2 kg packet	6.96	10.44	10.8	3.84	55%
2 kg bailer	52.2	75.4	77.7	25.5	48.9%

Data source: EAC Gazette 2023 and Finance Bill 2024

## Recommendation:

**Exempt the raw materials for manufacture of tea sacks and other packaging from EIPL –**

- Sack kraft used for the manufacture of packaging such as tea sacks
- Kraftliner used for manufacture of packaging cartons.

