

THE KENYA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY (KNCCI) SUBMISSION ON THE DRAFT FINANCE BILL, 2025

Background

The Kenya National Chamber of Commerce and Industry (KNCCI) represents the interests of businesses across the country, including Micro, Small, and Medium Enterprises (MSMEs), large corporates, and sectoral associations. With a mandate to promote, protect, and develop trade and investment, KNCCI works closely with both national and county governments to create a conducive business environment.

The Finance Bill, 2025, proposes a range of amendments to key tax laws, including the Income Tax Act, VAT Act, Excise Duty Act, Tax Procedures Act, and the Miscellaneous Fees and Levies Act. These proposed changes will have far-reaching implications on the cost of doing business, the competitiveness of Kenyan enterprises, and the overall economic landscape.

KNCCI has conducted a comprehensive review of the Bill, incorporating feedback from its membership, sectoral leaders, and policy experts. This submission presents our concerns, recommendations, and the anticipated impact of various clauses in the Bill. Our objective is to support sound fiscal policy while ensuring that tax measures do not unduly burden businesses or stifle economic growth.

The Missed Opportunity: Unleashing the Power of Kenya's MSMEs

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of any economy—but in Kenya, they have been systematically weakened by punitive tax regimes, duplicated licensing, and uncontrolled levies from both national and county governments.

Current State:

- **GDP Contribution:** Kenya's MSMEs contribute approximately 33% of GDP and support an estimated 15 million jobs. This contribution is modest when compared to global peers—Uganda's MSMEs contribute 49% of GDP, while in China, MSMEs generate over 60% of GDP, employ 80% of the urban workforce, and contribute more than 70% of tax revenue.
- **Tax Compliance:** Fewer than 2 million MSMEs are registered with the Kenya Revenue Authority (KRA), and fewer than 200,000 are affiliated with KNCCI—out of an estimated 7.5 million businesses. Most enterprises deliberately avoid formal registration due to the cost of compliance.

Challenges:

- **Punitive Tax Structures:** MSMEs are subject to turnover taxes on gross receipts regardless of profit, which is particularly burdensome for businesses with low margins.
- **Licensing and Levies:** Multiple uncoordinated licenses across county and national agencies increase operating costs. Numerous unpredictable levies from regulatory and sectoral agencies stifle profitability and discourage formality.

Potential Impact of Reforms:

If Kenya's MSMEs were enabled through harmonized taxation, simplified compliance, and a predictable policy environment to match China's performance levels, the national economic impact would be transformative:

- **Additional GDP Boost:** Ksh 4.05 Trillion
- **Additional Jobs created:** 12 million
- **Tax Revenue Growth:** Ksh 600–800 Billion annually
- **Poverty Reduction:** Millions lifted into self-reliance
- **Registered MSMEs with KRA:** 6 million (up from <2M)

Key Concerns and Rationale from KNCCI Members

- **Liquidity Strain:** The proposed removal of VAT refunds places undue pressure on exporters and manufacturers, reducing working capital.
- **Compliance Burden:** High compliance burden on MSMEs due to digital and motor vehicle taxes.
- **Impact on Informal Sector:** Excise and circulation taxes negatively impact the informal sector and low-income groups.
- **Disincentives for CSR:** Restrictions on deductions for CSR and value chain growth discourage corporate social responsibility initiatives.
- **Regulatory Unpredictability:** Sudden introduction of levies creates regulatory unpredictability.

CLAUSE-BY-CLAUSE SUBMISSION TABLE

INCOME TAX

S/I	FINANCE BILL CLAUSE	CLAUSE/PROPOSAL	CURRENT LAW	KNCCI PROPOSED CHANGE	GDP IMPACT (KSH BN)	JOBS IMPACT (NUMBER)	TAX REVENUE IMPACT (KSH BN)	COMPARISON (CHINA & HK)	COMPARISON (EAC)	CATEGORY	CLAUSES/NO.
2	Introduce	TOT and Housing Levy Reform + Start-Up Exemption	TOT at 1.5% + Housing Levy at 1.5%	Cap both at 0.5% for MSMEs with <1% margin; 3-year startup exemption.	+60 to +90 over 3 years	+500,000	+20 to +30 (long-term)	Startup tax holidays (3–5 yrs), preferential SME rates.	Presumptive tax reliefs and exemptions for start-ups.	INCOME TAX	Income Tax Act – Section 12C
3	Clause 6	New Section 12F: Significant Economic Presence Tax	Income Tax Act Sec. 12E – DST at 1.5%	Retain 1.5% to give competitive advantage to Kenyan businesses OECD	Neutral to positive in tech adoption	Supports digital jobs	+5–6	SEPT aligned with OECD norms; low rates to attract FDI	Limited implementation; Uganda at 5% for some digital platforms	INCOME TAX	Income Tax Act – Section 12F

				average is 3% SEPT aligned to OECD; avoid double taxation							
4	Clause 8 (b)(ii)	Section 15(3)(f): Capital Gains Loss Carryforward	Losses on asset transfers deductible against future gains (Income Tax Act)	Maintain deduction ; provide threshold exemption for informal traders	-10 to -20	-5,000 (scrap traders, public suppliers)	Neutral	Allowed with documentation; HK allows indefinitely	Rwanda/Uganda allow similar offsets	INCOME TAX	Income Tax Act – Section 15(3)(f)
5	Clause 8(c)	Loss Carryforward Limitation	10-year carryforward	Remove the Ceiling or on worse Maintain 10-year or allow indefinite for strategic sectors	-40 to -70	-10,000	+8 (short-term)	10 years or indefinite for key sectors.	Uganda: indefinite for some sectors. Rwanda: 10 years.	INCOME TAX	Income Tax Act – Section 15(7)

VALUE ADDED TAX

S/N O.	FINANCE BILL CLAUSE	CLAUSE/PR OPOSAL	CURRENT LAW	KNCCI PROPOSED CHANGE	GDP IMPACT (KSH BN)	JOB IMPACT (NUMBER)	TAX REVENUE IMPACT (KSH BN)	COMPARISON (CHINA & HK)	COMPARISON (EAC)
Clause 50	VAT Refund overall Audit Period increased from 210 days to 300 days	VAT Refund overall Audit Period increased from 210 days to 300 days	Used to be 210 Days	Reduce the days to 90 Days on the worse Retain the current period	Will destabilize exporter/ma nufacturer liquidity	Negative	Negative	Negative	Uganda offers refund on rolling basis

Clause 32	<p>1. Reduction of Waiting Period for VAT Refund on Bad Debts</p> <p>2. Allowing taxpayers to utilize approved VAT refunds on bad debts to offset other VAT liabilities</p>	<p>Reduction of Waiting Period for VAT Refund on Bad Debts:</p> <ul style="list-style-type: none"> The Bill proposes to reduce the waiting period for a taxpayer to apply for a VAT refund on bad debts to two (2) years from the date of supply. 		<p>Welcome move but we could make it even less than the 2 years</p>	<p>Protects working capital</p>	<p>Supports cash flow for SMEs</p>	<p>Big impact</p>	<p>More flexible relief frameworks</p>	<p>No major restriction in Uganda, Rwanda</p>
-----------	---	--	--	---	---------------------------------	------------------------------------	-------------------	--	---

Clause 33	Value Added Tax Act, 2013 Section Amended: Sec 31(a)	Limiting VAT pre-registration claim period from 36 to 24 months	Input VAT can be claimed within 36 months prior to registration, subject to conditions.	Retain 36-month window. 24 months is too short for most capital-intensive startups to claim input VAT especially in Hotels.	-12 to -20	-5,000 in investment-heavy sectors	Neutral		
Clause 32	Section 17(2B) (Addition)	Restricting input VAT claims to only directly used taxable supplies	Proportional input tax claims are allowed even where goods/services are used for both taxable and exempt supplies.	Reject strict restriction. Allow proportional deduction through apportionment, which is standard globally. This supports SMEs and reduces compliance complexity.	-8 to -14	-3,500	Minimal gain, offset by reduced voluntary compliance	Apportionment models widely used.	Rwanda and Uganda apply proportional allocation methods.

EXCISE DUTY

No.	S/NO.	FINANCE BILL CLAUSE	CLAUSE/PROPOSAL	CURRENT LAW	KNCCI PROPOSED CHANGE	GDP IMPACT (KSH BN)	JOBS IMPACT (NUMBER)	TAX REVENUE IMPACT (KSH BN)	COMPARISON (CHINA & HK)	COMPARISON (EAC)
11	Clause 38	amends the Excise Duty Act, 2015	Excise on Digital Services (20%)	No specific excise on non-resident digital services	Not a good proposal as we already have VAT and Digital Tax	-15 to -25 (tech growth)	-5,000 digital economy jobs	6–8 short term	Regulates but avoids heavy front-end levies	Not yet implemented at scale

MISCELLANEOUS / OTHER

No.	S/NO.	FINANCE BILL CLAUSE	CLAUSE/PROPOSAL	CURRENT LAW	KNCCI PROPOSED CHANGE	GDP IMPACT (KSH BN)	JOBS IMPACT (NUMBER)	TAX REVENUE IMPACT (KSH BN)	COMPARISON (CHINA & HK)	COMPARISON (EAC)
12	Misc	Income Tax	Non-Deductibility of Club Subscriptions and CSR	Business-related CSR and sponsorships deductible	Retain deductibility for sponsorships promoting trade, sports, education	Positive for social capital	Supports thousands in sponsored events/programs	Minimal impact	CSR often deductible with conditions	Treated as allowable expense in Uganda/Rwanda if justified
13	Clause 50	Section 47(3)	Extension of Audit Period for Refunds 1. ascertain and determine a refund	Refund audits must be completed in 120 days and	Due to ETIMS and iTax, we expect the period to reduce to less	-2 to -4 from delayed liquidity	Delays cash for MSMEs, risks short and long-term layoffs. This is encouraging	More strain on MSMEs causing reduced in GDP, Employment	Tight refund audit windows with digital resolution	Uganda allows 120–150 days with checks

			<p>application is extended from 90 days to 120 days.</p> <p>2. T period to complete the audit is extended from 120 days to 180 days.</p>	Determination on 90 days	than 30 days in determination and Audit 30 Days Total 60 Days		inefficiency at the expense of economic growth. We should avoid normalizing inefficiency.	and overall Tax revenue		
14	Clause 34	Section 42(1)	Mandatory Invoicing on Supplies whether Vatable or exempt	Invoicing is limited to taxable supplies	Limit new requirement to taxable goods only	Avoids administrative costs to MSMEs	Protects informal businesses from compliance burdens	Neutral	Invoice mandatory only for taxable services	Generally exempted from full VAT compliance
15	Misc	VAT Act 2013 66A	Penalties for Misuse of VAT Exemptions	Enforcement through VAT assessments and audits	Tier penalties, include safeguard for good faith use	Avoids distortion in trade and services	Protects legal and service sector jobs	+1–2 with proper enforcement	Graduated penalties, strong appeal frameworks	Uganda: penalty bands based on severity
16	MISC	Tax Procedures Act (Cap. 469B)	Commissioner's Powers on Tax Disputes (Agency Notices)	KRA may not issue agency notice if matter is in court	Judicial oversight required before freezing accounts	Maintains investor and business confidence	Avoids SME collapse and job losses due to liquidity freeze	Neutral to negative if abuse unchecked	Court or tribunal approvals mandatory	EAC region cautious—Kenya unique in scope of proposed power

17	MISC	<p>Section 59A(1B)</p> <p>he bill proposes to delete Section 59A(1B) of the Tax Procedures Act, which currently stipulates:</p> <p>“The Commission er shall not require a person to integrate or share data relating to— (a) trade secrets; and (b) private or personal data held on behalf of customers or collected in the</p>	Access to Bank/M-Pesa Data Without Court Order	Requires court warrant	Maintain judicial oversight as per Constitution Article 31.	-30 to -45	-25,000	+2–3 (but offset by compliance loss)	Strict judicial safeguards.	Court or ministerial oversight required.
----	------	--	--	------------------------	---	------------	---------	--------------------------------------	-----------------------------	--

		course of business								
18	MISC	Act Amended: Miscellaneous Fees and Levies Act	Eco Levy on all imported Electronic products-10%	Standard VAT/customs duties only.	Should be suspended to allow a well research on impact to MSMEs players	-20 to -25	-30,000	5	Device subsidies or e-waste regulations; no consumer eco levy.	Uganda exempts educational tech; Rwanda taxes only luxury electronics.
19	Clause 59	Miscellaneous Fees and Levies Act (Cap. 469C)	Export Levy on Semi-Finished Products	Levy of 17.5% on semi-finished goods exports	Delay implementation. Build capacity and offer incentives and low power rate	+10 to +20 (local value addition)	+25,000 industrial jobs	Short-term dip, long-term manufacturing tax base growth	Protective levies coupled with local incentives	Uganda encourages in-country processing with levy reliefs
20	18	Not specific	Section 15(7): Limiting Tax Loss Carryforward to 5 Years	10 years carryforward allowed (Income Tax Act)	Retain the current status	-40 to -70	-10,000 in long-term projects	+8 (short-term only)	10 years or indefinite for capital sectors	Uganda: indefinite for some; Rwanda: 10 years

A Call to Action: Enabling Enterprise for National Transformation

Kenya cannot tax its way out of poverty. However, it can empower its way to prosperity. The current hostile fiscal regime has driven the majority of MSMEs underground. Formal registration with KRA remains below 2 million, and active engagement with institutions like KNCCI is limited due to the high cost of compliance.

With a supportive fiscal and regulatory environment—including margin-based taxation, a unified MSME licensing portal, and the elimination of arbitrary levies—KRA could expand MSME registration to over 6 million. KNCCI could reach and support over 1.5 million actively engaged enterprises. This would expand the tax base, enhance policy legitimacy, and fast-track inclusive economic growth.

The Finance Bill, 2025, presents a generational opportunity. By enabling enterprise, not burdening it, Kenya can ignite its largest economic transformation yet.

A Call to Action for Legislators

Kenya is standing on a ticking economic bomb—where businesses are retreating into informality, avoiding growth, and collapsing silently.

If the Finance Bill, 2025, is enacted without bold reforms to support MSMEs, the country risks:

- Killing the golden goose that could fund national development
- Eroding tax morale and undermining voluntary compliance
- Accelerating youth unemployment and deepening poverty

This is a critical juncture. Parliament must rethink the taxation and licensing model for MSMEs—not as a revenue trap, but as the foundation for inclusive, sustainable economic transformation.

“You cannot tax poverty into prosperity. But you can enable enterprise into productivity.”

Let Parliament lead this shift. By embracing a pro-business, pro-growth fiscal framework, Kenya can ignite the single largest economic transformation in a generation.

Conclusion

KNCCI reiterates its commitment to working with the National Treasury, Parliament, and all relevant stakeholders to ensure the Finance Bill, 2025, supports economic recovery, employment creation, and Kenya’s long-term development goals.

We urge the National Assembly to adopt these proposals to protect enterprise viability, enhance Kenya’s business environment, and ensure inclusive and sustainable economic growth.

Submitted By:

Dr. Erick Rutto

Chamber President