



FEDERATION OF KENYA PHARMACEUTICAL MANUFACTURERS

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**FKPM MEMORANDUM ON THE FINANCE BILL 2025 (NATIONAL ASSEMBLY BILL
NO.19 OF 2025)**

SUBMITTED TO

THE DEPARTMENTAL COMMITTEE ON FINANCE & NATIONAL PLANNING,

NATIONAL ASSEMBLY HOUSE OF PARLIAMENT

NAIROBI, KENYA

BY

Dr. Vimal Patel

CHAIRMAN

FEDERATION OF KENYA PHARMACEUTICAL MANUFACTURERS (FKPM)

1.0 INTRODUCTION

The Federation of Kenya Pharmaceutical Manufacturers (FKPM) is the representative body which promotes, protects and regulates the interests of the Pharmaceutical Manufacturers in Kenya

In the matter of Article 118(1)(b) of the Constitution and in the matter of consideration by the National Assembly of the Finance bill 2025, (NATIONAL ASSEMBLY BILLS NO 19 OF 2025), The Federation of Kenyan Pharmaceutical Manufacturers (FKPM) hereby submit their proposal to refute the Bill which seeks to amend the Value Added Tax (CAP 476) to reclassify various items from ZERO RATE to exempt, including inputs or raw materials (either produced locally or imported) for manufacturing medicaments.

Provision/ Reference in the Bill e.g. Clause I	Proposal	Justification
Clause 36. Section A of Part I of the First Schedule to the Value Added Tax Act is amended in – (o) By inserting the following new paragraphs immediately after paragraph 154 – 155. Inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments as approved by the Cabinet Secretary in consultation with the Cabinet Secretary for the time being responsible for matters relating to health. (Page 348)	To remove this clause	The amendments proposed in the new Finance Bill 2025, moving the importation and local procured inputs & raw and materials from “zero rate VAT” to “exempt VAT” for the pharmaceutical industry will increase local manufactured costs, making more convenient to import goods, as the manufacturing sector will not be refunded the VAT costs of local inputs. Local suppliers of inputs & raw materials materials will not be able to claim back the VAT they have paid on their inputs and thus will increase their cost which in turn will be passed to the local pharmaceutical manufacturers (prices to local manufacturers will increase up to 16%). This will lead local manufacturers to transfer the higher production costs to consumers, making local manufacturing disadvantageous and less competitive, on both, local market and exports.

Clause 37. The Second Schedule to the Value Added Tax Act is amended in Part A – (a) By retaining paragraph 11 (Page 348)	To retain this clause
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2.0 BACKGROUND

The current Government has prioritized manufacturing and affordable healthcare. This is in line with the priorities the Country has set out in its development blue print document Vision 2030, to grow manufacturing sector to 15% of GDP.

The promotion of local manufacturing of generic drugs has been the key driver for many countries around the world and has successfully been used to reduce high healthcare costs and promote the home industry including in Kenya. The industry has brought down prices supplied to KEMSA by an average of 28% and improved availability of medicaments by over 33%.

Pharmaceutical Manufacturers contribution to GDP and benefits of Local Manufacturing

- Kenya currently has 34 pharmaceutical manufacturers.
- The contribution to employment is directly 8000 people and indirectly approximately 15,000.
- The combined turnover is approximately USD 200 million+
- Industry is proposing with favorable tax conditions the revenue from exports can grow to US\$700m with the current state of the industry.
- **Easy access to quality essential medicines that are AFFORDABLE.**
- Easy traceability & monitoring of locally manufactured medicines
- **Sustainability**
- Emergency Supplies easily available
- Revenue for the government (Corporate Tax, PAYE etc)
- **Growth of related industries and relevant service sectors**

Impact of proposals on medicaments proposed for exemption

The Finance Bill 2025 proposes to move inputs and raw material produced locally or imported supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments as approval from time to time by the Cabinet secretary from the current zero rating to VAT exempt.

The main impact is that VAT can now no longer be claimed, thus making medicaments made in Kenya more expensive for Kenyans and becoming uncompetitive in export markets leading to an overall slow down in the growth of the industry.

VAT on packaging made in Kenya – **VAT is added to the cost OF MEDICAMENTS.**
VAT on Raw Materials which may be procured from local traders – **VAT is added to the cost of raw materials**

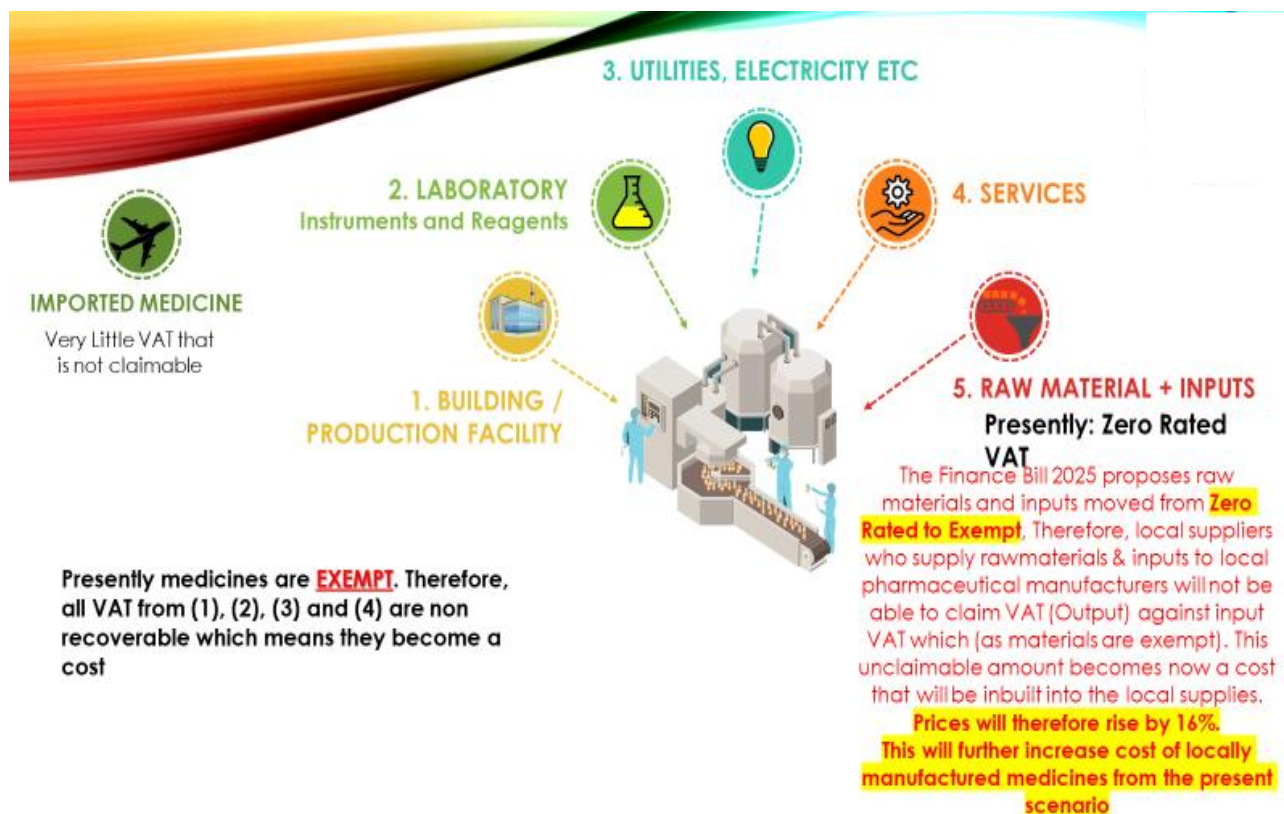
In addition, as the Finished Pharmaceutical Products are Exempt, the following cannot be claimed:

VAT claims on investment projects – **VAT is added to the cost**

VAT on electricity, water etc. – **Cost that is passed on to final consumer.**

Most other industries in Kenya can offset these VATs against their VAT on Sales.

The pharmaceutical Industry cannot offset and this becomes a cost which we pass on as more expensive medicines which makes us UNCOMPETITIVE in the Kenyan and Export market



Impact of The Proposed Legislation

Investments:

A proposed new facility or upgrade of facility to WHO standards will cost 16% more not including cost of land.

- For e.g US\$ 10million is now costing US\$11.6m. Not including cost of land.
- Laboratory equipment to WHO standards is at least US\$1-2million. This will become 16% more expensive.

Impact: New Investors and project will move to friendlier tax regime countries.

Existing investors: Over time will be priced out of the market. Killing the existing industry.

Exports of pharmaceuticals will be restricted on grounds of quality and pricing.

Pricing of Pharmaceuticals:

- Kenyan made Pharmaceuticals will be more expensive (16%) than Imports. Uncompetitive and thus can lead to decline of industry. Currently has been growing at 12% CAGR over last 5 years.
- US\$ are now sent abroad in additional payments for medicines that could and ARE already being manufactured in Kenya
- Unsecure supply chains.
- No innovation like Raw Material manufacturing opportunity
- We continue with expensive and frequent out of stocks medicines.

Examples of the impact on manufactured commodities at zero rate and exempt rates.

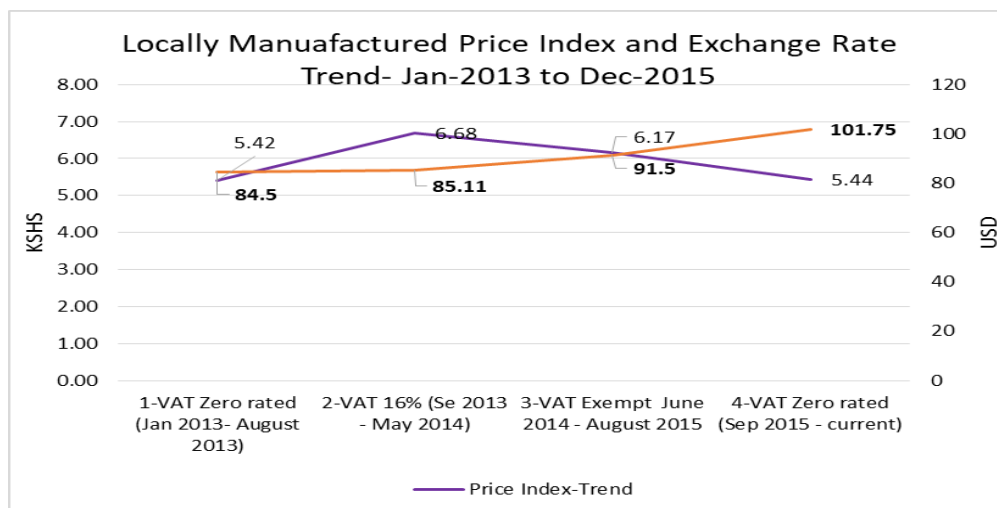
Scenario 1: Raw materials zero rated.

Raw Material Required (Inputs) Purchased Locally	Nett (KES)	Input VAT (Claimable)	Total (KES)	Input VAT (Claimed)	NETT Cost (KES)
A1	100.00	16.00	116.00	(16.00)	100.00
A2	40.00	6.40	46.40	(6.40)	40.00
A3	60.00	9.60	69.60	(9.60)	60.00
A4	200.00	32.00	232.00	(32.00)	200.00
TOTAL	400.00	64.00	464.00	(64.00)	400.00

Scenario 2: Raw materials and inputs exempt. **NB.** The input VAT paid by supplier will be inbuilt in the cost to the manufacturers input or raw material supplied.

Raw Material Required (Inputs) Purchased Locally	Nett (KES)	Input VAT (Cost inbuilt by Supplier)	Total (KES)	Input VAT (Claimed)	NETT Cost (KES)
A1	100.00	16.00	116.00	0.00	116.00
A2	40.00	6.40	46.40	0.00	46.40
A3	60.00	9.60	69.60	0.00	69.60
A4	200.00	32.00	232.00	0.00	232.00
TOTAL	400.00	64.00	464.00	0.00	464.00

The trend showed an increase in prices to consumers when medicaments were exempt and a decrease in consumer prices when the same was zero rated after September 2015. Therefore, the proposed exemption on medicaments will negatively impact consumers and also contradict the Governments agenda to provide affordable healthcare.



1-Prior to August 2013, the industry operated under a Zero-Rating VAT regime in which inputs (raw materials and packaging materials) & finished products were zero-rated for VAT.

2-In September 2013, VAT became applicable for all inputs at a rate of 16%, while the finished product was classified as exempt

3-In June 2014, VAT exemption was granted for inputs and the industry operated under an 'Exempt' regime.

4-In September 2015, the Zero-Rating regime was reinstated under the VAT Act 2015, whereby inputs & raw materials were zero-rated for VAT.

June 2018 – The Tax laws Amendment Bill proposed to move inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya from Zero rate to Exempt – This proposal was not approved

June 2023: The Finance Bill 2023 sought to bring back the June 2018 proposal back through the Finance Act. – This proposal was not approved

5-Finance Bill seeks to move back to VAT exemption for inputs & raw materials which led to higher prices for consumers and slower industry growth. The above statistics has clearly demonstrated that moving to VAT exempt regime is not beneficial for pharmaceutical manufacturers or consumers or developing export markets.

FKPM PROPOSAL AND RECOMMENDATIONS

The following are FKPM proposals on the **Finance Bill, 2025** for your consideration:

We propose that Treasury consider that for the Kenyan Pharmaceutical Manufacturers:

Zero rate inputs and raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments as follows:

100% Inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved from time to time by the Cabinet Secretary in consultation with the Cabinet Secretary responsible for matters relating to health

No	Provision/ Reference in the Bill	Proposal
1	Clause 36. Section A of Part I of the First Schedule to the Value Added Tax Act is amended in – (o) By inserting the following new paragraphs immediately after paragraph 154 – 155. Inputs or raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments as approved by the Cabinet Secretary in consultation with the Cabinet Secretary for the time being responsible for matters relating to health. (Page 348)	To remove this clause
2	Clause 37. The Second Schedule to the Value Added Tax Act is amended in Part A – (a) By retaining paragraph 11 (Page 348) Paragraph 11	To retain Paragraph 11

	(Inputs and raw materials (either produced locally or imported) supplied to pharmaceutical manufacturers in Kenya for manufacturing medicaments, as approved by the Cabinet Secretary in consultation with the Cabinet Secretary responsible for matters relating to health	
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The First Schedule of the VAT Act 2013 relates to Exempt Supplies

The Second Schedule of the VAT Act 2013 relates to Zero Rated Supplies

Additional Proposal

No	Proposal
1	<p>To move the following from the First Schedule (Exempt) to the Second Schedule (Zero Rated) of the VAT Act 2013 or to provide a VAT rate of 4%</p> <p>Medicaments of specified tariffs numbers;</p> <p>All Medicaments under Tariff Heading 3003 and 3004 manufactured by local Manufacturers</p> <p>(This is also the practice in Uganda)</p>