KENYA BANKERS ASSOCIATION

BANKING SECTOR PROPOSALS FOR FISCAL BUDGET 2026/27

No	Issue	Current Situation	Banking Industry Proposal	Justification
1	**PAYE Tax Bands**	The Finance Act 2023 introduced two PAYE tax bands to individual rates of tax by amending paragraph 1 of Head B of the Third schedule of the Income Tax Act. The current Individual rates of Tax for PAYE are as below; **Monthly** On the first KES 24,000 — 10% On the next KES 8,333 — 25% On the next KES 467,667 — 30% On the next KES 300,000 — 32.5% On all income over KES 800,000 — 35% ***Other changes introduced affecting the personal income include;*** • Affordable Housing Levy at 1.5% of gross pay introduced through Finance Act 2023. • Social Health Insurance Fund at 2.75% of gross pay introduced in 2024 through Social Health Insurance Act, 2023. • Phased implementation of NSSF increasing maximum monthly contributions to 4,320 per employee. These changes have significantly affected the purchasing power of salaried Kenyans resulting to a 10.7% decline in real wages according to the Parliamentary Budget Office Report 2025.	To review down the PAYE tax rates across all the pay bands that will result in: 1. Faster expansion of the fiscal space both short-term and long term sustainably. 2. Empowered Kenyans with the ability to generate and circulate wealth. 3. Increased consumption with enhanced business activities and vibrant local investment. 4. Natural broadening of tax base. 5. Strong economic growth ahead of the general election and stop the periodic slow down in business activities before and after the general elections. We recommend that the Third Schedule to the Income Tax Act is amended to introduce the revised tax bands as below.	In the last 5 years the Country's Real Wages have declined by 12% according to KNBS data due to inflation and other factors including increased taxes. The revised tax bands will- • Strengthen the purchasing power of Kenyan households, stimulating broader economic activity. • Elevate entrepreneurial participation and accelerate growth of Micro, Small and Medium Enterprises (MSMEs) that are funded and owned by salaried workers • Spur economic vibrancy & increase tax collection through multiplier effect driven by increased consumption from enhanced disposable incomes. • Kenya's labour market competitiveness has declined regionally due to the high personal taxes that discourages attraction of skilled labour.

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	PAYE Tax Bands		1. The individual rates of tax shall be: On the first KES 30,000 10% On the next KES 20,000 15% On the next KES 50,000 20% On the next KES 300,000 25% On amounts over KES 400,000 30% ***We recommend that personal relief be increased from Kes 2,400 to Kes 3,000 per month.*** This will be in line with Medium Term Revenue Strategy (MTRS) and National Tax Policy aspiration to expand individual tax bands & cushion income earners.	
2	**Amendment of the WHT and WHVAT payment timelines to the 5th day of the month following the month in which the deduction is made.**	The Finance Act, 2023 introduced an amendment to the ITA and the Tax Procedures Act, 2015 which requires all WHVAT agents to remit WHVAT within five (5) working days of making the payment to their suppliers. This requirement is onerous to comply with as banks have to ensure they have additional compliance mechanisms to avoid penalties associated with non-compliance. This has increased the agency costs as some taxpayers, including banks, have been forced to hire personnel to comply with this legislation.	We propose that section 35 (5) of the ITA be amended to read as follows: ***Where a person deducts tax under this section he shall, on or before the 5th day of the month following the month in which the deduction was made:*** 1. Remit the amount so deducted to the Commissioner t ogether with a return in writing of the amount of the payment, the amount of tax deducted, and such other information as the Commissioner may specify; and 2. Furnish the person to whom the payment is made with a certificate stating the amount of the payment and the amount of the tax deducted	**Enhancing revenue collection** Remitting WHT and WHVAT within five days of payments places a strenuous compliance burden on the taxpayer and risks eroding the government's efforts to collect additional revenue. ***Many taxpayers are resorting to making payment to suppliers once a month which is affecting circulation of working capital especially for MSMEs due to delayed payments.***

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			We propose that section 42 (4B) of the TPA be amended to read as follows: ***The tax withheld under this section shall be remitted to the Commissioner by the 5th day of the subsequent month after the deduction was made.***	According to the Total Tax Contribution Report [1] by KBA, on average, three full-time employees were engaged in tax compliance functions, at an estimated annual cost of KES 13.5m per bank. Beyond regular staffing, each bank surveyed incurred an additional KES 1.9m on average to hire extra personnel dedicated specifically to tax compliance. For those that engaged external consultants, the average annual cost stood at KES 3.8m. These figures underscore the substantial internal and external resources now directed toward managing tax obligations. This in our view is contrary to the design of a fair tax code which should not impose punitive compliance burdens on taxpayers.

[1] https://www.kba.co.ke/wp-content/uploads/2025/10/KE-KBA-TTC-2024-Report.pdf

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