

AAK/RA/NA/Y25/F01

5<sup>th</sup> June 2025

**Mr. Samuel Njoroge, CBS**

Clerk of the National Assembly  
P.O. Box 41842-00200  
Nairobi, Kenya

Dear Sir,

**RE: THE ARCHITECTURAL ASSOCIATION OF KENYA'S SUBMISSION ON THE FINANCE BILL 2025**

Please receive warm greetings from the Architectural Association of Kenya (AAK).

Established in 1967, AAK is the premier association for Built Environment professionals encompassing Architects, Engineers, Town Planners, Quantity Surveyors, Landscape Architects, Construction Project Managers, Environmental Design Consultants and Interior Designers. As an umbrella Association, AAK brings together professionals in central government, local authorities, the private sector and academia and acts as a link between professionals and stakeholders in the wider construction industry, including policy makers, manufacturers, real estate developers, and financial institutions, amongst others.

Following your invitation for submissions of memoranda, proposals, and comments, we write in reference to the proposed Finance Bill 2025. We acknowledge the critical role this Bill plays in actualizing the national government's fiscal policies and outlining key revenue measures for the forthcoming financial year. In this regard, we have reviewed its potential impact on the building and construction sector, particularly concerning the business operations of our members. Accordingly, we are pleased to submit our feedback and recommendations, which we believe will contribute to a more effective and comprehensive legislative framework. Specifically, we wish to address the following critical recommendations:

1. **Ensure Progressivity in Taxation:** Realign personal income tax brackets to protect low and middle-income workers from growing tax burdens. Avoid blanket tax policies which disproportionately affect the financially underprivileged, including raising VAT on essentials items including basic goods and services.
2. **Secure and Encourage SMEs:** Implement graduated tax compliance mechanisms for small and informal enterprises rather than applying uniform enforcement across all businesses. Additionally, initiate tax holidays, ease the filing process, and use turnover-based taxes for micro and small businesses to promote formalization and compliance.



3. **Re-evaluate VAT Reforms to Protect the Construction Sector:** Retain and extend VAT exemptions on critical construction products, as mentioned in the proposed amendments in Part I of the First Schedule of the Excise Duty Act.
4. **Tighten Enforcement, Not Rates:** Shift emphasis to broadening the tax base and strengthening the enforcement mechanisms rather than raising current tax rates. Investing in tax administration systems, training, and data integration to fight tax evasion will make the process more efficient.
5. **Foster Transparency and Public Trust:** Make public the cost-benefit analysis supporting each proposed amendment. Furthermore, organize inclusive stakeholder forums prior to the enactment of the Bill to provide genuine feedback and promote legitimacy of the process.
6. **Align Revenues with the Objective of the Recovery:** Re-examine fiscal contractions that can discourage spending and investment in a recovering economy. Target policies that can drive growth of the building and construction sector with positive tax treatment or incentives.

In conclusion, please find attached a detailed summary of the concerns and recommendations raised by our members. We are confident that this constructive feedback will enhance the effectiveness and intended outcomes of this Bill.

Yours faithfully,



**GEORGE A. NDEGE**  
**PRESIDENT, ARCHITECTURAL ASSOCIATION OF KENYA.**



### **SUMMARY OF AAK'S MEMORANDA ON THE FINANCE BILL 2025**

<b>INCOME TAX ACT</b>			
<b>Amendment</b>	<b>Proposal</b>	<b>Description</b>	<b>Implication and Justification</b>
Clause 8 – Section 15 of the Income Tax Act	Allow 100% deduction for diminution in value of implements and utensils used in production (excluding machinery/plant). Include deductions for construction of public sports facilities and infrastructure (schools, hospitals, roads).	Supports deductions for infrastructure development, which could benefit professionals involved in public projects.	Encourages investment in public infrastructure but limits flexibility by removing the Cabinet Secretary's discretion to extend tax deficit carry-forward beyond 10 years. We recommend expanding deductible categories to include affordable housing, green buildings, and urban resilience infrastructure, and propose reinstating flexibility for carrying forward tax deficits beyond 10 years for long-term projects.
Clause 60 – Stamp Duty Exemption	Exempt stamp duty on internal company property transfers during reorganizations.	Eases restructuring for real estate and construction firms.	AAK supports the clause and proposes extending it to joint ventures, PPP projects, and mergers in the built environment sector.
Clause 35 – New Section 66A of the VAT Act	Require VAT to be paid if zero-rated or exempt goods are used inconsistently with their intended purpose.	Could discourage innovation or adaptive reuse in construction.	We request clear guidelines and propose providing a grace period or waiver mechanism for community-based or adaptive projects.
Clause 42 – Excise Duty on Float Glass	Introduce 35% or KSh. 200/kg excise duty on imported float glass.	Raises cost of imported construction materials, especially for finishing and interior works.	We recommend exemptions or lower rates for float glass used in affordable housing, green buildings, or public infrastructure.
Clause 59 – Export and Investment Promotion Levy	Reduce levy on steel products (e.g., bars, rods) from 17.5% to 10%	Benefits large-scale construction and infrastructure projects.	We support the clause and recommend further reductions for affordable housing and public works.
Clause 36 (h-m) – VAT Exemptions Removed	Repeal VAT exemptions for geothermal, oil, and mining exploration inputs; equipment for solar and	Affects sustainable construction, transport, and energy infrastructure.	AAK advocates for the reinstatement of exemptions for green energy and sustainable





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	wind energy; locally manufactured passenger vehicles.		transport components used in urban development.
Insertion of a new section 66A in the Value Added Tax Act	<i>Where a person imports or purchases goods or services which are exempt or zero-rated and the person subsequently disposes of, or uses, the goods or services supplied in a manner inconsistent with the purpose for which the goods or services were exempted or zero rated, the person shall be liable to pay tax on the goods or services at the applicable rate at the time of disposal or inconsistent use.</i>	<b>Liability to pay tax for exempt and zero-rated supplies</b>	This provision requires taxpayers to ensure that exempt or zero-rated goods are used strictly for their intended purposes and within reasonable timeframes. This introduces the risk of retrospective taxation, creating uncertainty and potential cash flow challenges – particularly for prolonged or long-term construction projects. Affected goods include those used in constructing tourism facilities, recreational parks, convention and conference centers, specialized hospitals, and housing under the Affordable Housing Scheme, as outlined in the First and Second Schedules. Moreover, the provision places an increased administrative burden on businesses, necessitating enhanced internal audit mechanisms, inventory tracking, and tax compliance systems to monitor the use of exempt or zero-rated inputs. This is likely to raise operational costs, especially for smaller construction firms.
Amendment of section 17 of the Value Added Tax Act	<i>Section 17 of the Value Added Tax Act is amended in subsection (5) — (a) by deleting paragraph (c);</i>	<b>Reduction of timeframe for refund of VAT paid</b>  The Bill proposes to reduce the timeframe to allow taxpayers to apply	The proposed changes will shorten the period within which businesses can claim VAT refunds. While this may enhance KRA's efficiency and oversight, it is likely to impose additional financial strain on construction firms,





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	<p><i>(b) by deleting paragraph (d) and substituting therefor -with the following new paragraph—</i></p> <p><i>(c) the registered person lodges the claim for refund of the excess tax within twelve months from the date the tax becomes due and payable;</i></p>	<p>for a refund of VAT paid from 24 months to 12 months from the date the tax becomes due and payable.</p>	<p>increasing the risk of losing valid refund claims in the event deadlines are missed, particularly in high-value construction projects with unpredictable timelines.</p> <p>Construction projects are typically capital-intensive and span extended periods. Delays are common due to factors such as approval bottlenecks, site conditions, weather, and payment schedules. A shortened refund window would require contractors and developers to seek VAT recovery more quickly, which may not align with their cash flow patterns. This misalignment could strain liquidity and increase dependence on external financing or borrowing.</p>
<p>Amendment of section 31 of the Value Added Tax Act</p>	<p><i>Section 31 of the Value Added Tax Act is amended in subsection (1) –</i></p> <p><i>(a) in paragraph (a), by deleting the words "three years" and substituting therefore the words "two years";</i></p> <p><i>(b) in the proviso—</i> <i>i) by inserting the following new paragraph immediately after paragraph (c) —</i> <i>(ca) the amount may be used to offset any other</i></p>	<p><b>Reduction of the VAT Refund Period for Bad Debts</b></p> <p>The Bill aims to reduce the timeframe for taxpayers to claim VAT refunds on unpaid invoices from the current three years to two years from the date of supply. Additionally, it introduces one key provision:</p> <p>(a) Any VAT refunded by the Kenya Revenue Authority (KRA) may,</p>	<p>This is a positive development for taxpayers, as it shortens the timeline for claiming VAT on bad debts, allowing firms in the construction sector to recover taxes paid on such debts more quickly, thereby improving their cash flows.</p>







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	<p><i>value added tax liability, upon approval by the Commissioner;</i></p> <p><i>ii) by deleting paragraph (d);</i></p> <p><i>(iii) by deleting paragraph (e)</i></p>	<p>with KRA approval, be applied to offset other outstanding VAT liabilities;</p>	
<p>First Schedule to Cap.476, it is proposed to amend.</p> <p>- FIRST SCHEDULE [s. 2(1)]</p> <p>EXEMPT SUPPLIES</p> <p>Part I - GOODS</p> <p>SECTION A</p>	<p><i>109. Goods imported or purchased locally for the direct and exclusive use in the construction of houses under an affordable housing scheme approved by the Cabinet Secretary on the recommendation of the Cabinet Secretary responsible for matters relating to housing.</i></p>	<p><b>16% VAT rate on Goods for Affordable Housing Projects</b></p> <p>The Bill proposes to impose VAT at the standard rate of 16% on goods imported or locally purchased for the direct and exclusive use in constructing houses under an affordable housing program, subject to approval by the relevant Cabinet Secretary upon recommendation from the housing authority.</p>	<p>Reclassifying previously exempt goods to the standard VAT rate of 16% directly increases input costs for construction materials and equipment, undermining the cost-efficiency of affordable housing initiatives. As a result, increased costs will likely be passed on to buyers or reduce the quality/number of units delivered, threatening the affordability and scale of such programs.</p> <p>Furthermore, this may deter private sector developers from consulting in affordable housing projects. The increased cost burden, unless offset by government subsidies or incentives, will make the AHP less financially attractive.</p> <p>Beyond affordable housing, this may also affect suppliers, contractors, and other stakeholders in the construction value chain. Higher costs could dampen demand for construction services, slow job creation, and reduce sector growth momentum.</p>





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			<p>Reclassifying previously exempt goods to the standard VAT rate of 16% will significantly raise input costs for construction materials and equipment, compromising the cost-effectiveness of affordable housing projects. These increased costs are likely to be passed on to buyers or result in construction of fewer or lower-quality housing units, jeopardizing both the affordability and scale of the AHP, which currently has a delivery rate of 1%.</p> <p>In addition, the higher cost burden may discourage the participation of private developers in affordable housing developments. The increased cost burden, unless offset by government subsidies or incentives, will make the AHP less financially attractive.</p> <p>The impact extends beyond affordable housing, potentially affecting suppliers, contractors, and other stakeholders across the construction value chain. Elevated costs could reduce demand for construction services, slow job creation, and weaken the overall growth of the sector.</p>
	<i>Specialized equipment for the development and generation of solar Land wind energy, including</i>	<b>Removal of VAT exemptions on Energy Sector Projects</b>	Imposing VAT on renewable energy inputs would increase the cost of power generation, as energy developers are likely to





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	<i>photovoltaic modules, direct current charge Controllers, direct current inverters and deep cycle batteries that use or - store solar power, upon recommendation to the Commissioner by the Cabinet Secretary responsible for matters relating to energy.</i>	The Bill proposes to remove VAT exemptions on products used in the development and generation of solar and wind energy.	<p>transfer these additional expenses to Kenya Power and Lighting Company (KPLC) – ultimately leading to higher electricity prices for consumers. This proposal runs counter to the government’s commitment to affordable energy and warrants reconsideration.</p> <p>Solar and wind technologies are essential components of sustainable building practices. Introducing VAT on these inputs raises the initial cost of incorporating renewable energy into buildings, potentially discouraging developers from embracing green technologies. It may also dissuade both local and international investors from pursuing green-certified projects, including consultants engaged in the AHP, which seeks to enhance access to affordable homes.</p> <p>Moreover, taxing renewable energy components undermines efforts to meet global climate goals such as the Paris Agreement, as well as national commitments under the National Climate Change Action Plan (NCCAP) III, and the recently updated Nationally Determined Contributions (NDCs) for 2031-2035. This could also hinder the adoption of green building certifications due to affordability constraints.</p>
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EXCISE DUTY ACT			
Amendment	Proposal	Description	Implication and Justification
Amendment of the First Schedule to the Excise Duty Act	<p><i>42. Part I of the First Schedule to the Excise Duty Act is amended –</i></p> <p><i>(a) in the second table –</i></p> <p><i>by inserting the following new descriptions and corresponding rates of excise duty –</i></p> <p><i>i) Imported printed polymers of ethylene of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly combined with other materials of tariff number 3920.10.90 but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin</i></p> <p><i>ii) Imported printed polymers of vinyl chloride containing by weight not less than 6% of other plates, sheets, film, foil and strip, of other strip, of plastics, noncellular and not reinforced, laminated, supported or similarly</i></p>	<b>The government seeks to boost revenue by imposing excise duty on these products classified under their respective tariff codes.</b>	<p>The introduction of excise duty on these products is expected to raise importation costs for construction materials commonly used across the sector. These additional costs are likely to be passed on to developers, contractors, and end-users, leading to an overall increase in construction costs – particularly for large-scale projects. This will heighten budgetary pressure on developers, potentially causing project delays and driving up housing prices.</p> <p>Materials such as plastics and sheets are integral in low-cost housing, and are widely used for roofing, insulation, waterproofing, and construction of temporary structures. Increasing their prices could limit access to these essential materials.</p>

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	<p><i>combined with other materials of tariff number 3920.43.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin</i></p> <p><i>iii) Imported printed poly (ethylene terephthalate) of polycarbonates, alkyd resins, polyallyl esters or other polyesters of other plates, sheets, film, foil and strip, of plastics, noncellular and not reinforced, laminated, supported or similarly of tariff number 3920.62.90, but excluding those originating from East African Community Partner States that meet the East African Community Rules of Origin</i></p> <p><i>iv) Imported printed cellular of other plastics of other plates, sheets, film, foil and strip of tariff number 3921.19.90, but excluding those originating from East African Community Partner States that meet the East African</i></p>		
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	<i>Community Rules of Origin</i>		
TAX PROCEDURES ACT			
Amendment	Proposal	Description	Implication and Justification
Amendment of section 47 of the Tax Procedures Act	<p><i>Section 47 of the Tax Procedures Act is amended as follows:</i></p> <p><i>(b) in subsection (2), by deleting the words "ninety days" and substituting them with "one hundred and twenty days".</i></p> <p><i>(c) in subsection (4A), by deleting the words "one hundred and twenty days" and substituting them with "one hundred and eighty days".</i></p>	<p><b>These amendments extend the statutory timelines for KRA to process refund and offset applications, potentially delaying the recovery of overpaid taxes for affected taxpayers.</b></p>	<p>Extending the timelines for processing tax refunds will significantly impact the construction sector, primarily by creating cash flow challenges caused by delays of up to six months. These delays may force firms to postpone payments, extend project timelines, and increase reliance on credit to sustain operations.</p> <p>Longer refund periods also raise financial carrying costs, particularly for projects dependent on progress payments that include VAT refunds, or for medium to large-sized contractors managing multiple projects. This can lead to inflated project budgets, with the additional costs often passed on to clients. Furthermore, prolonged delays may discourage smaller contractors and sub-contractors from registering for VAT or formalizing their operations, which limits growth of the construction sector.</p> <p>Unpredictable refund timelines could also reduce the country's appeal to foreign investors and institutional financiers, who</p>

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			prioritize stability and efficiency in tax administration.
Amendment of section 59A of the Tax Procedures Act	<i>Section 59A of the Tax Procedures Act is amended by deleting subsection (1B).</i>	<b>The bill proposes a full repeal of Section 59A(1B), thereby granting the Commissioner authority to integrate tax systems with those of taxpayers. However, this change removes existing safeguards for trade secrets and personal or customer data collected during business operations, raising concerns over the protection of confidential information.</b>	Construction firms manage highly sensitive information such as architectural designs, building plans, project budgets, tendering strategies, supplier agreements, pricing models, and client data – including land ownership documents. Granting unrestricted access to this information without proper safeguards poses a significant risk to data security. This not only threatens these firms' competitive advantage but also heightens their exposure to data breaches and industrial espionage/spying. Such practices are in direct violation of the Data Protection Act, 2019.
Amendment of the Third Schedule of the Tax Procedures Act	<i>59. The Third Schedule to the Miscellaneous Fees and Levies Act is amended –  (a) in tariff description "Semi-finished products of iron or non-alloy steel containing, by weight, &lt;0.25% of carbon; of rectangular (including square) cross-section, the width measuring less than twice the thickness", by deleting the expression '175%' appearing in the corresponding export and investment promotion levy rate and substituting</i>	<b>This amendment lowers the import costs of specific hot-rolled steel products commonly used in construction, fabrication, and light manufacturing. The revised rate aims to promote local value addition by making essential industrial inputs more accessible and affordable.</b>	Hot-rolled steel is essential for constructing structural elements of buildings such as beams, columns, and reinforcements. Reducing import duties or taxes would lower input costs for contractors and developers, improving profit margins particularly in large-scale or steel-intensive projects. More affordable steel would also support the delivery of cost-effective housing, including units under the AHP, by improving overall project affordability. This could enhance cash flow and allow for better capital allocation to other critical areas such as labor and equipment, thereby

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	<p><i>therefor the expression "10%";</i></p> <p><i>(b) in tariff description "Bars and rods of iron or nonalloy steel, hot-rolled, in irregularly wound coils of circular cross-section measuring less than 14 mm in diameter of cross section measuring less than 8 mm", by deleting the expression "17.5%" appearing in the corresponding export and investment promotion levy rate and substituting therefor the expression "10%";</i></p> <p><i>(c) in tariff description "Bars and rods of iron or non-alloy steel, hot-rolled, in irregularly wound coils of circular cross-section measuring less than 14mm in diameter; other", by deleting the expression "17.5%" appearing in the corresponding tariff number and export and investment promotion levy rate and substituting therefor the expression "10%".</i></p>		<p>boosting job creation across the construction value chain.</p>
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