



International Institute for Legislative Affairs

MEMORANDUM FOR HEALTH TAXES UNDER THE FINANCE BILL OF 2025 FOR THE FINANCIAL YEAR 2025/ 2026

SUBMITTED TO:

THE NATIONAL ASSEMBLY - THIRTEENTH PARLIAMENT

HEALTH TAXES: HEALTHIER POPULATIONS, WEALTHIER NATION

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MEMORANDUM ON HEALTH TAX ADJUSTMENTS FOR CONSIDERATION BY THE NATIONAL ASSEMBLY ON THE FINANCE BILL, 2025 (NATIONAL ASSEMBLY BILLS NO. 19 OF 2025)

INTRODUCTION

The International Institute for Legislative Affairs (IILA) is a not-for-profit organisation that works closely with policymakers, government departments, Members of Parliament, and other stakeholders in the policy and legislative process to draft and lobby for pro-people policies and legislation. Over the past, we have provided expertise in policy and legislative procedures in mental health, public health, tobacco control, alcohol control and road safety.

IILA presents this submission in support of enhanced taxation measures on alcoholic beverages under the Finance Bill 2025. This submission draws from local evidence, previous legislative outcomes, and international best practices in fiscal policy for public health. The paper builds on data and analysis from the Finance Bill 2024, outcomes from the Tax Laws (Amendment) Act of December 2024, and policy rationale on health-related taxation. Taxes on alcohol, tobacco, and unhealthy food such as sugary drinks remain a proven strategy for reducing consumption of these products, mitigating negative health and social externalities, and strengthening government revenue generation.

THE PROBLEM

The burden of Non-Communicable Diseases (NCDs) is rising in Kenya, currently accounting for 39% of total deaths and more than 50% of hospital admissions in the country¹. This problem continues to place a strain on the healthcare system, further exacerbating the burden and challenges that the public and government face in accessing social health coverage.

PART A: TOBACCO TAXATION

At the centre of the NCD epidemic, tobacco use is a key risk factor, causing more than 8,000 deaths in Kenya annually; yet this is one of the most preventable causes of disease and death.

Additionally, taxation is a cost-effective measure for reducing the consumption of tobacco products and the associated health effects while generating government revenue. Unfortunately, Kenya has not fully explored tobacco taxation as a public health intervention. Specifically:

- The tax rates on tobacco products are still low and fall below the recommended threshold by the World Health Organisation that taxes should form at least 70% of the price share of tobacco products. We are below 40%.
- Taxes on emerging nicotine products, such as oral nicotine pouches and electronic cigarettes, are much lower, yet these products are highly marketed to children and youth. Additionally, these products are a gateway to initiating the youth into smoking.

¹ <https://www.iccp-portal.org/sites/default/files/plans/Kenya-Non-Communicable-Disease-NCD-Strategic-Plan-2021-2025.pdf>

- Following the repeal of the inflation adjustment provision in the Excise Duty Act via the Finance Act of 2023², excise taxes on tobacco products are not adjusted to inflation, hence the value of the excise and price of tobacco products becomes eroded over time, making the products affordable over time. This is dangerous as it erodes the efforts and essence of tobacco taxation as a public health measure.

Currently, tobacco taxes as per the Tax Laws (Amendment) Act, 2024 are:

Product	Rate
Cigarettes with filters	KES 4,100/mille
Plain cigarettes	KES 4,100/mille
Oral nicotine pouches	KES 2,000/kg
Liquid nicotine for electronic cigarettes	KES 100/ml
Electronic cigarettes and other nicotine-delivery devices	40% of the retail price (unchanged since 2022)
Cartridges for use in electronic cigarettes	40% of the retail price (unchanged since 2022)

We have noted that the Finance Bill 2025 does not have provisions on increasing tobacco taxes. Whereas we applaud and appreciate the government through the National Assembly and other entities for increasing tobacco taxes through the Tax Laws (Amendment) Act passed in December 2024, we still call for increased efforts to increase and strengthen tobacco taxation to progressively and effectively address the tobacco epidemic. By not increasing tobacco taxes this year, the government is losing the opportunity to generate the much-needed revenue while delaying action towards protecting public health, particularly the youth.

OUR PROPOSAL

The increase of excise tax on tobacco products is considered the most effective way of addressing the tobacco epidemic, and a win-win-win strategy in that it leads to reduced consumption and associated health problems; it prevents initiation of non-users, hence protecting the youth from picking up the habit, and it provides an avenue for government revenue³.

We propose that:

- The government adopts a proactive approach to progressively increase tobacco taxes to reach, at a minimum, the recommended rate by the WHO
- The tax structure for emerging tobacco and nicotine products should be reformed and simplified to ensure effective administration, enforcement and to make the products less affordable
- The inflation adjustment component of excise taxes should be reinstated to ensure that the real value of tobacco excise taxes, prices and revenue is not eroded over time.

² https://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/2023/TheFinanceAct_No.4of2023.pdf

³ <https://www.who.int/activities/raising-taxes-on-tobacco#:~:text=WHO%20supports%20all%20its%20Member,excise%20to%20drive%20price%20increases>

CALL TO ACTION

Raising the price of tobacco by increasing excise taxes reduces consumption and saves lives, while generating revenue for the government. Yet, this policy measure is underutilised.

We therefore call on the government to protect the youth and save the next generation. Increase taxes on tobacco and nicotine products.

PART B: CONTEXTUAL JUSTIFICATION FOR ALCOHOL TAXATION

Non-Communicable Diseases (NCDs) now account for 39% of all deaths and over 50% of hospital admissions in Kenya. Harmful use of alcohol is a leading contributor to this burden. Alcohol consumption is directly associated with increased risk of liver disease, mental health disorders, road injuries, domestic violence, and productivity loss. According to the WHO Global Status Report on Alcohol and Health (2018), alcohol ranks among the top five risk factors for disease and disability worldwide.

Fiscal policy tools, especially excise taxation, serve as cost-effective mechanisms for reducing consumption and discouraging early initiation, particularly among youth. The WHO has consistently advised that increasing the price of alcohol through taxation significantly reduces alcohol-related harm. In the Kenyan context, excise taxation also offers a sustainable revenue stream for financing universal health coverage and other public priorities.

ASSESSMENT OF THE 2024 TAX POLICY SHIFT AND LESSONS LEARNED

The shift introduced in the Finance Bill 2024 from volume-based taxation to Alcohol-by-Volume (ABV) taxation marked a critical evolution in the administration of alcohol taxes. Under this structure, excise duty is charged based on the pure alcohol content rather than the quantity of liquid products. This model aligns better with public health objectives, as it targets the actual psychoactive component in alcoholic drinks.

The Tax Laws (Amendment) Act, 2024, enacted on 27th December 2024, further refined the alcohol tax regime by codifying ABV-based taxation in the First Schedule to the Excise Duty Act. Key provisions include:

- Wines and fortified wines taxed at KES 22.50 per centilitre of pure alcohol.
- Beer, cider, perry, mead, opaque beer, and fermented beverage mixtures with non-alcoholic ingredients taxed at KES 22.50 per centilitre of pure alcohol, with a concessional rate of KES 10 per centilitre applied to licensed small independent brewers.
- Spirits and liqueurs of alcohol strength exceeding 6% taxed at KES 10 per centilitre of pure alcohol.

These adjustments represented a harmonized attempt to recalibrate excise tax based on alcohol content and promote public health outcomes. However, implementation outcomes have been uneven:

Product	Tax (2023)	ShareTax (2024)	SharePrice Change	Consumption Change	Revenue Change
Beer	28.5%	22.8%	-11.0%	+3.3%	-28.1%
Wine	12.5%	15.5%	+4.9%	-2.9%	+23.1%
Spirits	15.6%	24.1%	+16.6%	-10.8%	+58.9%

The reduction in beer excise tax, intended to support small brewers and affordability, was exploited by large manufacturers to roll out budget brands at lower prices, undermining the intended deterrence effect. Consequently, beer became more accessible to young and price-sensitive consumers, leading to increased uptake and reversing health gains. In contrast, wine and spirit taxation achieved the dual goals of curbing harmful use and generating additional revenue.

PROPOSALS

While we acknowledge the amendments by the December 2024 amendment, we still make the following proposal in regard to alcohol control:

1. Revision of Excise Duty on Beer

It is proposed that the excise duty on beer be revised upward from KES 22.5 to KES 33 per centilitre of pure alcohol. This adjustment is supported by modelling, which indicates that such a revision would restore the excise tax share above 28%, reduce youth initiation, and raise government revenue by an estimated 1.6%.

2. Retention and Strengthening of Rates on Wine and Spirits

The excise duty for wine (KES 22.5/centilitre of alcohol) and spirits (KES 16/centilitre) should be maintained or increased. These rates have been demonstrated to reduce consumption and improve public finances, aligning with WHO's "best buys" for NCD prevention.

3. Reinstatement of Automatic Inflation Adjustment Mechanism

The inflation adjustment provision, which was repealed by the Finance Act 2023, should be reinstated. Without this mechanism, the real value of alcohol excise duties declines over time, reducing their effectiveness. Annual inflation indexing, tied to the official KNBS rate, would preserve tax value and policy impact.

ALIGNMENT WITH NATIONAL AND GLOBAL OBJECTIVES

The proposed measures are consistent with Kenya's Vision 2030, the Sustainable Development Goals (particularly SDG 3.4), and the WHO Global Alcohol Strategy. At the national level, these proposals support the Medium-Term Plan IV, which prioritizes NCD reduction and expansion of health financing.

Excise taxation on alcohol is a cornerstone intervention for both fiscal sustainability and population health improvement. These measures will also complement ongoing efforts under the National Tax Policy 2023, the Medium-Term Revenue Strategy (MTRS) for the FY 2024/25- 2026/27, the National NCD Strategic Plan (2020/21 – 2025/26) and the Bottom-Up Economic Transformation Agenda (BETA).

POLICY RATIONALE AND RESPONSES TO INDUSTRY ARGUMENTS

Opposition to higher alcohol taxes typically rests on three arguments:

- That higher taxes will increase illicit alcohol consumption
- That jobs will be lost in the formal alcohol sector
- That the sector already pays significant taxes

Empirical data shows that illicit alcohol consumption is more effectively addressed through regulatory enforcement and licensing reform than through low taxation. Moreover, the economic costs of alcohol harm, in terms of healthcare, lost productivity, and criminal justice, far exceed the sector's fiscal contributions. Higher excise tax leads to greater net societal gain.

CONCLUSION AND RECOMMENDATIONS

To support public health, fiscal sustainability, and national development goals, the following recommendations are made:

- Increase the beer excise duty to KES 33 per centilitre of alcohol.
- Retain or enhance the rates for wine and spirits.
- Amend clause 42 (table on excise on tariff description and rate of excise duty) Spirits of undenatured extra neutral alcohol of alcoholic strength exceeding 90% purchased by licensed manufacturers of spirituous beverages from the current proposed Ksh. 500 per litre to at least Ksh 900 per litre. This will restrict access to the raw material and protect against use for illicit alcoholic drinks.
- Reintroduce annual inflation adjustments on excise duty.

These reforms are necessary to align Kenya's alcohol taxation framework with international standards and ensure long-term impact in reducing alcohol-related harm while enhancing domestic resource mobilization.

PART C: SUGAR-SWEETENED BEVERAGES (SSBS)

Non-communicable diseases (NCDs) are a growing threat to Kenya's public health and economic well-being. With over 39% of hospital deaths attributed to NCDs, Kenya must adopt effective and evidence-based strategies to combat their root causes. A leading contributor to NCDs is the consumption of sugar-sweetened beverages (SSBs), which provide excessive calories without any nutritional value.

SSBs include carbonated drinks, fruit juices with added sugars, sweetened teas and coffees, and energy drinks. These beverages increase the risk of obesity, type-2 diabetes, cardiovascular disease, and certain cancers. Adolescents and young adults are particularly vulnerable, with females consuming more sugar-based beverages than males.

Given the mounting health and economic costs of SSB-related illnesses, taxation presents a viable policy tool. We propose that the excise tax rate of SSBs be increased via the Finance Bill 20205.

WHY SSB TAXES ARE IMPORTANT

The introduction of an excise tax on SSBs is justified on both health and fiscal grounds:

- **Health Justification:** Kenya has one of the highest rates of overweight and obesity in sub-Saharan Africa, with nearly 30% of women and 18% of men affected. Reducing sugar intake is proven to lower the risk of obesity and related conditions. The World Health Organization (WHO) recommends sugar taxes as a "best buy" intervention for reducing NCDs.
- **Fiscal Justification:** SSB taxation is a cost-effective and impactful intervention that is yet to be fully utilised in Kenya. It triggers reduction in consumption of the unhealthy products, while generating revenue that can be invested in health promotion and NCD prevention programmes, in line with the National tax Policy 2023. Specifically, Policy (2023): states that excise taxes are to be levied on SSBs (among other goods e.g., tobacco alcohol, etc.) to address the negative externalities caused by the consumption of these products and that the applicable rates will be adjusted periodically. Additionally, the policy notes that the government may dedicate part of excise duty revenue for use in the mitigation of the negative effects on society emanating from the consumption of these goods or services.
- The current tax structure for SSB in Kenya is volumetric, i.e., based on the unit quantity (in litres) of the beverage as established in the Excise Duty Act (EDA) (2015) Cap 472. The Finance Act of 2023 repealed the inflation adjustment of excise taxes. This is problematic since the value of the SSB taxes are eroded over time, consequently making the products affordable over time.

SSB TAX RATES OVER THE YEARS:

Product Description	Rate as per Finance Act 2018	Rate as per Finance Act 2021	Rate as per Finance Act 2022	Rate as per Finance Act 2023	2025
Fruit juices (including grape must), and vegetable juices, unfermented and not containing added spirit, whether or not containing added sugar or other sweetening matter (including soft drinks, e.g., carbonates, concentrates, energy drinks, juice)	Shs. 10 (\$0.077) per litre	Shs. 12.17 (\$0.094) per litre	Shs.13.30 (\$0.10) per litre (July) Shs. 14.14 (\$0.11) per litre (due to inflation adjustment applied in Oct)	Inflation adjustment requirement repealed The previous rate applies	2022 rates are still applicable
Powdered juice (first introduced in 2023)	N/A	N/A	N/A	Shs. 25 (\$0.19) per kg	2023 rates still applicable

- Through the Medium-Term Revenue Strategy (MTRS) for the FY 2024/25- 2026/27, the government is considering reviewing the tax regime for sugar-sweetened non-alcoholic beverages to base taxation on sugar content as a means to prevent obesity and diet-related NCDs, informed by research to be conducted within the EAC region. The MTRS thus proposes a shift to a tax rate based on the amount of sugar (sugar content) in the SSBs.

PROPOSAL

We propose that the following:

- 1. Review of the product category to broaden the tax base and ensure all relevant non-alcoholic sugary drinks are included in the category.**
- 2. Increase the current excise tax rates for these products by at least 10%**
- 3. That the inflation adjustment on excise taxes be reinstated to ensure the value of these taxes is preserved and the products do not become affordable over time.**

CONCLUSION

The introduction of a sugar-based excise tax on sugar-sweetened beverages is a timely and evidence-backed strategy to address Kenya's NCD crisis. Not only does it promise substantial health gains by reducing obesity and diabetes, but it also offers a new revenue stream that can support the country's public health goals.

To maximize impact, we urge that the tax be implemented as part of a comprehensive NCD prevention strategy that includes:

- Public education campaigns on the dangers of excessive sugar consumption.
- Mandatory front-of-package labelling.
- Promotion of healthy diets and physical activity.

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