



DATE : 30<sup>th</sup> May, 2025.

REF : KATO /EXEC/IV (3)

The Clerk of the National Assembly,  
P. O. Box 41842 - 00100  
Nairobi, Kenya  
Main Parliament Buildings  
[cna@parliament.go.ke](mailto:cna@parliament.go.ke)

Dear Sir,

**RE: SUBMISSION BY THE KENYA ASSOCIATION OF TOUR OPERATORS (KATO) ON THE FINANCE BILL 2025**

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The Kenya Association of Tour Operators (KATO), formed in 1978, is a non-political Tourism Trade Association catering for the interests of over 300 of the most experienced tour operators in Kenya. KATO's key focus is to ensure that Kenyan Tour Operators maintain the highest possible standard of service to clients so as to enhance the reputation of Kenya as a preferred tourism destination. KATO also engages positively with Government over issues that are of concern to members and in so doing strives to seek a win-win outcome.

The Association fully appreciates the Government's obligation to collect tax revenues. We however note, with a measure of concern, that some provisions of the proposed Finance Bill 2025 will have an adverse impact on tour operations.

We have outlined the key area of concern in the attached Matrix and urge Parliament to retain the VAT exemption on specially designed locally assembled motor vehicles for transportation of tourists.

Yours Sincerely,

**Fred Kaigua ACI Arb, CPM (MTI)**  
**CHIEF EXECUTIVE**

**FINANCE BILL 2025**  
**SUBMISSION BY THE KENYA ASSOCIATION OF TOUR OPERATORS (KATO)**

No.	Cause	Description of the Clause	Proposal	Justification
1	First Schedule to Cap. 476, FIRST SCHEDULE [s.2(1)] EXEMPT SUPPLIES PART I – GOODS  SECTION A	VAT Exemption on specially designed locally assembled motor vehicles for transportation of tourists, purchased before clearance through Customs by tour operators recommendation by the competent authority responsible for tourism promotion.	<p>Whilst removing the VAT exemption on the specialized locally assembled tourist vehicles may in the short-run generate some additional VAT revenue, it will in the long run have detrimental consequences for the Kenyan economy.</p> <p>We urge Parliament to retain the VAT exemption on specially designed locally assembled motor vehicles for transportation of tourists.</p>	<p><b>Negative Impacts on the Tourism Industry:</b></p> <p><b>1. Increased Cost of Vehicles:</b></p> <p>The VAT exemption was initially introduced as an incentive to tour operators to invest in modern fleets and offer a competitive product. Revoking this incentive will lead to a substantial price increase in the price of these specialized vehicles, placing them above the reach of many operators.</p> <p><b>2. Higher upfront investment by Tour Operators</b></p> <p>The higher costs required upfront will hinder tour operator's ability to purchase new vehicles and to upgrade aging fleets in time. The knock-on effect of this will be:</p> <ul style="list-style-type: none"> <li>a) Reduced quality of services offered to tourists due to aging vehicles.</li> <li>b) Decreased competitiveness compared to regional tourism destinations with lower operational costs.</li> <li>c) Discouragement of new entrants into the tourism sector, hindering its growth potential.</li> </ul>

				<p><b>Impact on Tax Revenue:</b></p> <ul style="list-style-type: none"> <li>• <b>Boost to Local Auto Industry:</b> The VAT proposed to be deleted has significantly impacted on the local auto industry by promoting local vehicle assembly and boosting sales. Removing this exemption will discourage local manufacturers from investing in the production of specialized tourist vehicles due to decrease demand at the higher prices.</li> <li>• <b>Increased reliance on imported vehicles</b> Tourism has a very high price elasticity of demand and due to the cheaper pricing, a number of operators will opt for imported units. This will in turn result in increased foreign exchange outflow.</li> <li>• <b>Job Creation Potential:</b> A thriving market for locally assembled tourist vehicles creates significant job opportunities throughout the supply chain: <ul style="list-style-type: none"> <li>1. Increased demand for skilled labour in vehicle assembly plants.</li> <li>1. Job creation in supporting industries like parts manufacturing and maintenance services.</li> <li>1. Positive spillover effect on other sectors like metal fabrication and upholstery.</li> </ul> </li> </ul>
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