

# TAX ALERT

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**2026**

**KRA Income & Expense  
Validation Effective  
1 January 2026**

# KRA Income & Expense Validation

The Kenya Revenue Authority (KRA) has issued a public notice confirming that, effective **1 January 2026**, all income and expenses declared in individual and non-individual income tax returns will be automatically validated when filing the **2025 year** of income returns.

This marks a major shift to data-driven enforcement and will significantly affect how expenses and income are assessed for tax purposes.



## What KRA Will Validate Against

KRA will cross-check declared figures using:

- TIMS / eTIMS electronic tax invoices
- Withholding tax (WHT) gross amounts
- Customs import records

Any mismatch may trigger adjustments, queries, or audits.

## Key Requirement

Except where specifically exempted by law, all income and expenses must be supported by valid **eTIMS electronic tax invoices**, correctly transmitted and reflecting the buyer's KRA PIN.

## Statutory Exemptions (No eTIMS Required)

Some transactions are excluded under Section 23A of the Tax Procedures Act and related regulations, including:

- ◆ Employee emoluments subject to PAYE
- ◆ Imports of goods and services
- ◆ Investment allowances and internal accounting adjustments
- ◆ Airline passenger ticketing
- ◆ Interest income and fees charged by licensed financial institutions
- ◆ Expenses subject to final withholding tax
- ◆ Services provided by non-residents without a permanent establishment in Kenya
- ◆ Any other exemptions gazetted by the Commissioner

## Implications for Taxpayers

Expenses without valid eTIMS invoices will be disallowed, increasing taxable profits.

Declared income must align with VAT sales, WHT records, and customs data.

Non-compliance may lead to additional tax, penalties, interest, and challenges in obtaining a Tax Compliance Certificate (TCC).

For VAT, only eTIMS invoices qualify for input VAT and refunds.

For TOT and rental income, KRA will rely heavily on eTIMS data to determine gross turnover.

## Expected Challenges

- 1 Timing differences between accounting records and eTIMS invoicing
- 2 Non-compliance by some suppliers (including government entities)
- 3 Capacity gaps among SMEs and informal suppliers

## Client Action Plan

With 2025 transactions already underway, taxpayers should act immediately:

- ✔ Confirm full onboarding and proper use of TIMS/eTIMS
- ✔ Reconcile accounting records with eTIMS, WHT, and customs data
- ✔ Engage suppliers and insist on eTIMS-compliant invoices
- ✔ Identify and properly document exempt transactions
- ✔ Update procurement and payment policies to enforce eTIMS compliance
- ✔ Train finance and operations teams on the new validation environment
- ✔ Train finance and operations teams on the new validation environment Consider buyer-initiated (reverse invoicing) where dealing with small suppliers below KES 5 million turnover.

## Transitional Concession – 2025 Returns (Filed in 2026)

Following KRA’s sensitisation meeting held on Friday, 23 January 2026, KRA has confirmed a critical transitional concession:

- TIMS / eTIMS electronic tax invoices
- Withholding tax (WHT) gross amounts
- Customs import records

Any mismatch may trigger adjustments, queries, or audits.

For 2025 returns filed in 2026, iTax will include a dedicated “Non-eTIMS Expense” line.

This is the final opportunity to claim legitimate business expenses that were not supported by eTIMS invoices during 2025.

This concession is temporary and expected to be removed for the 2026 tax year.

*Action Point:* Taxpayers should conduct a meticulous review of 2025 expenses and use this line cautiously and strategically.

## The Hard Deadline – 2027

While system validation went live on **1 January 2026**, the Commissioner’s position is clear:

- ◆ Full compliance is expected by the time 2026 returns are filed in 2027.
- ◆ Transitional tolerance will be significantly reduced.
- ◆ The legal basis (Section 16(1)(c) of the Income Tax Act) has been in force since 2024; enforcement is now automated.

### Non-Negotiable Business Rule: “No eTIMS, No Payment”

KRA strongly advises taxpayers to embed compliance into internal processes:

- ✔ Payments should only be approved upon receipt of a valid eTIMS invoice.
- ✔ Do not pay first and chase compliance later.
- ✔ This protects the taxpayer’s right to claim deductions.



# Conclusion

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KRA's 2026 validation framework will make unsupported expenses non-deductible by default and significantly increase audit risk.

Early preparation for 2025 audit is critical to avoid disputes, penalties, and cash-flow shocks when filing returns.

We recommend proactive reconciliations and tax health checks well before filing to ensure full compliance and minimize exposure.



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