



TAX ALERT: JULY 2023 KENYA VAT ZERO-RATING OF EXPORTED SERVICES

Effective 1st July 2023, the Government, through the Kenya Finance Act 2023 (“the Act”), has zero-rated the exportation of taxable services, by amending the Second Schedule of the Kenya VAT Act 2013.

Previously, as per the Kenya Finance Act 2022 (in a provision applicable from July 2022 to June 2023), exported services were subject to 16% VAT, with zero-rating only applicable to exported BPO (Business Process Outsourcing) services.

Before that, as per the Kenya Finance Act 2021 (in a provision applicable from July 2021 to June 2022), exported services had a VAT-exempt status, meaning that entities purely dealing in exported services were not required to register for a VAT obligation, could not claim Input VAT incurred and had to fully expense the VAT in their books of accounts.

The return of this VAT zero-rated status, as was the position before the Finance Act 2021, is a much welcome move, as it aligns with the Organization for Economic Cooperation and Development (OECD) destination principle, which provides for allocation of taxing rights to the jurisdiction where the final consumption occurs. Kenya is also a burgeoning international services hub and the charging of this VAT was making the country less competitive in the global market.

For further information and assistance with interpreting your particular circumstances on your exported services, including businesses that had already raised tax invoices with VAT on Kenyan exported services before the Court of Appeal ruling on 28th July 2023, please get in touch with us through any of the contacts below:

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