

Hesabu ERP Kenya Tax Guide

Kenya tax and compliance

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Documentation version 1.0, published 17 November 2026. The screens in your own workspace may differ slightly depending on your plan and settings.

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Kenya tax and compliance

VAT, eTIMS, withholding tax, turnover tax and a monthly compliance calendar, and how to set each up.

Kenya tax and compliance

Kenya tax overview and compliance calendar

The taxes a Kenyan business deals with, when each is due and where Hesabu ERP helps.

Beginner · About 15 minutes · Version 1.0 · Updated 17 November 2026

Overview

This chapter explains the main Kenyan taxes and how to record and report them in Hesabu ERP. Hesabu ERP keeps your records and calculates the amounts. You still file and pay through KRA's iTax and other portals, and your accountant remains responsible for advice.

> **Always check the current rules.** Tax rates, thresholds and deadlines change, often with each Finance Act. The Finance Act 2026 changes took effect mostly from 1 July 2026, with some filing timelines from 1 January 2027. Confirm everything with KRA or your tax adviser before relying on it.

The main taxes

Tax	Applies to	Where in Hesabu ERP
VAT	Sales of taxable goods and services by VAT-registered businesses	VAT
PAYE	Employees' income tax, withheld by the employer	Kenyan statutory deductions
NSSF, SHIF, Housing Levy, NITA	Employer and employee contributions	Kenyan statutory deductions
Withholding tax	Certain payments to suppliers, such as professional fees and rent	Withholding and turnover tax
Turnover tax	Small businesses within the threshold who are not VAT-registered	Withholding and turnover tax
Corporation or income tax	Profits of companies and individuals	Your financial reports. Prepared by your accountant
Electronic tax invoices	Invoices that KRA can validate	eTIMS

A monthly calendar

Confirm each date with KRA. This is a typical monthly pattern:

By the	What
9th	PAYE, SHIF and NSSF for the previous month
9th working day	Affordable Housing Levy for the previous month (counted in working days, not calendar days)
20th	VAT return and payment; withholding tax; turnover tax
End of month	Reconcile bank and M-Pesa, review payroll, check eTIMS invoices
Annually	Income tax return (end of June for individuals and, for most companies, six months after the year end), plus annual employer returns

How Hesabu ERP helps

1. Set tax accounts and tax templates once. See Sales taxes and VAT.
2. Record every sale and purchase with the right tax, and keep supplier invoices.
3. Run tax reports and payroll reports for each filing period.
4. Pay the authority and record the payment, so your liability clears.

Important notes

- Keep records for at least the period KRA requires (currently at least five years).
- Late filing and late payment carry penalties and interest. A reminder set in Calendar costs nothing.
- Ask your accountant to review your set-up once.

Next steps

Read VAT.

Related documentation

- VAT: setting up, recording and returning
- Electronic tax invoices and eTIMS
- Withholding tax and turnover tax
- Kenyan statutory deductions

Kenya tax and compliance

VAT: setting up, recording and returning

Charge 16% VAT correctly, claim input VAT and prepare the monthly return.

Advanced · About 35 minutes · Version 1.0 · Updated 17 November 2026

Overview

VAT is charged on taxable sales (**output VAT**) and can be claimed back on business purchases (**input VAT**). You pay KRA the difference each month. The standard rate is **16%**. Some supplies are **zero-rated** (0%, with input VAT claimable) or **exempt** (no VAT, no input claim).

> Registration is required once your taxable supplies reach the threshold (**KES 5 million** a year at the time of writing). Confirm the current rules and the treatment of your products with KRA.

Prerequisites

- Your company is VAT registered, with a **KRA PIN** and VAT number entered. See Creating and configuring your company.
- Accounts for VAT in your chart of accounts: **VAT Output (Payable)** and **VAT Input (Receivable)**, or one control account. See The chart of accounts.

Steps

Set up VAT templates

1. Search for **Sales Taxes and Charges Template** and click **Add**.
2. Name it *VAT 16%*. In the **Taxes** table, choose the type **On Net Total**, the **Account Head** (VAT Output), and the **Rate** 16.
3. Save. Create a *Zero Rated* template with rate 0, and an *Exempt* template with rate 0, so reports can separate them.
4. Do the same under **Purchase Taxes and Charges Template**, with the VAT Input account, for purchases.

Prices with VAT

If your prices already include VAT, tick **Included in Print Rate** on the tax row, so the net amount is calculated back.

Record sales and purchases

1. On each **Sales Invoice**, choose the correct **Taxes and Charges** template. See Creating a sales invoice.

2. On each **Purchase Invoice**, choose the purchase template, and enter the **supplier's PIN and invoice number**. Only claim input VAT on valid tax invoices that are in your business's name. See Recording supplier bills.
3. Set the default tax on items under **Item Tax Template**, so staff do not choose wrongly.

Prepare the return

1. Open the **VAT Audit Report** (or **Sales Register** and **Purchase Register**) for the month.
2. Compare the totals of taxable, zero-rated and exempt sales, and the input VAT, with the **VAT Output** and **VAT Input** account balances in the **Trial Balance**. They should agree.
3. Calculate the VAT payable: output minus input. If input is larger, the difference may be refundable or carried forward.
4. File the return on iTax and pay by the due date (normally the **20th** of the next month).
5. Record the payment with a **Payment Entry** or a **Journal Entry** from the bank to the VAT account, so the liability clears.

Practical example

In October, Mwangaza Hardware sells KES 5,800,000 plus VAT (KES 928,000) and buys KES 3,200,000 plus VAT (KES 512,000). The VAT payable is 928,000 − 512,000 = KES 416,000. It is paid and recorded by 20 November.

Important notes

- VAT may only appear on an invoice for a **taxable** supply. Do not charge VAT on exempt goods.
- Fees for digital payment services (card and gateway fees) are not VAT-exempt under the 2026 changes. Ask your accountant how to treat them.
- Keep supplier invoices and credit notes. Reverse input VAT on goods returned. See Purchase returns and debit notes.
- Bad debt VAT claims have a time limit, which the 2026 Act extended to three years.

Common mistakes

- Claiming input VAT without a valid supplier invoice.
- Mixing VAT-inclusive and exclusive prices.
- Not posting the VAT payment, so the account keeps growing.

Next steps

Read Electronic tax invoices and eTIMS.

Related documentation

- Sales taxes and VAT
- Electronic tax invoices and eTIMS
- Kenya tax overview and compliance calendar
- Creating a sales invoice
- Recording supplier bills

Kenya tax and compliance

Electronic tax invoices and eTIMS

What KRA's electronic tax invoice system requires, and how it is set up with your Hesabu ERP plan.

Intermediate · About 20 minutes · Version 1.0 · Updated 17 November 2026

Overview

eTIMS (Electronic Tax Invoice Management System) is KRA's system for issuing invoices that KRA can see and validate. VAT-registered businesses are required to use it, and others may be too. KRA also uses it to validate which expenses can be claimed for income tax: an expense backed by an invoice not issued through eTIMS may be disallowed.

> **Check the current rules** with KRA for your business type, and for any waiver or penalty changes. The Finance Act 2026 says KRA will give notice and consider an explanation before penalising a failure to issue an electronic invoice, but you should not rely on that.

How it works

1. Your business registers for eTIMS on iTax and chooses an integration method.
2. Each sale is sent to KRA, which returns a **validated invoice** with a unique control code and a **QR code**.
3. The customer receives the validated invoice, and can claim the expense.

What this means for Hesabu ERP

- **eTIMS is part of every Hesabu ERP plan.** Our team sets it up with you, so you do not need to connect it yourself. Ask us to start, and tell us your KRA PIN and how you sell (counter, delivery or online).
- **KRA must approve your connection first.** You apply for eTIMS on iTax and ask for the **VSCU** service type. After KRA approves it, a small KRA program runs for your business and Hesabu ERP connects to it. We help with the setup, but the approval is KRA's.
- **What is connected:** sales invoices and credit notes. Stock movements and purchase confirmations are not yet sent from Hesabu ERP.
- Until it is set up, you can issue the validated invoice from KRA's eTIMS tool, then record the same sale in Hesabu ERP and enter the **KRA invoice number** in a field (add one if needed, see Custom fields and forms).
- Make sure every customer has the **KRA PIN** recorded, so the invoice names them properly. See Creating and managing customers.

Using eTIMS in Hesabu ERP

Once your connection is set up and switched on:

1. **Items:** open each item and, in the **KRA eTIMS** section, choose its **KRA item classification** and, if needed, its **KRA tax code** (A exempt, B 16%, C 0%, D non-VAT, E 8%). Hesabu ERP registers the item with KRA the first time you sell it.
2. **Customers:** record the customer's **KRA PIN** (Tax ID) where they have one.
3. **Selling:** create and submit the Sales Invoice as usual. It is sent to KRA in the background. A few seconds later the invoice shows **eTIMS: Sent**, with KRA's receipt number, signature and QR code, and you can print it with the **KRA eTIMS Invoice** print format.
4. **If it is not sent:** the invoice shows **Queued** (the connection was unavailable, and it is retried automatically) or **Failed** (read the **eTIMS message**, fix the cause, then click **Actions > Send to eTIMS**).
5. **Returns:** a credit note is sent to KRA like an invoice. Choose the **credit note reason** first, and make sure the original invoice was sent. A sent invoice cannot be cancelled; issue a credit note instead.

The invoice total must match the tax codes on your items. If they do not, the invoice is not sent and the message tells you the two totals.

Steps: a good routine

1. Register for eTIMS on iTax and confirm the method you will use.
2. Make sure every sales invoice shows your PIN, the customer's PIN where available, the description, quantity, price, and tax.
3. Share the validated invoice (with its QR code) with the customer.
4. Each month, compare the invoices in KRA's portal with those in Hesabu ERP. Fix differences before the VAT return.
5. Ask suppliers for eTIMS invoices, and only record purchases supported by valid ones. See VAT.

Practical example

A wholesaler issues invoices through its integrated system. At month end, the accountant matches the total of validated invoices in KRA's portal with the Sales Register, and finds one invoice missing. It is corrected before the VAT return is filed.

Important notes

- Credit notes and returns also need to be reported to KRA. Use Credit notes and debit notes and follow the eTIMS procedure for them.
- Do not alter an invoice after it is validated. Issue a credit note instead.

Common mistakes

- Issuing a plain invoice from the system, and a separate one from eTIMS, for the same sale.
- Recording supplier invoices that are not eTIMS-validated.

Next steps

Read Withholding tax and turnover tax.

Related documentation

- VAT: setting up, recording and returning
- Kenya tax overview and compliance calendar
- Creating a sales invoice

Kenya tax and compliance

Withholding tax and turnover tax

Deduct withholding tax from supplier payments, and understand turnover tax for small businesses.

Advanced · About 30 minutes · Version 1.0 · Updated 17 November 2026

Overview

Withholding tax (WHT) is tax you deduct from certain payments to suppliers, and pay to KRA on their behalf. **Turnover tax (TOT)** is a simplified tax on the gross sales of small businesses that are not VAT-registered.

> Rates below are a summary from KRA's published table (resident payees). Check KRA and your accountant for the current rate for each payment, since the Finance Act 2026 also changed how some fees are classified.

Withholding tax: common resident rates

Payment	Rate
Management, professional and training fees	5%
Consultancy and agency fees	5%
Contractual fees	3%
Rent of buildings	12%
Dividends	5% (nil for shareholders with more than 12.5%)
Interest (bank)	15%
Insurance commissions	10%
Royalties	5%

Non-residents have different rates, usually higher.

Set it up

1. Create accounts: **WHT Payable** (a liability) and, if you are the one being withheld from, **WHT Receivable** (an asset).
2. Search for **Tax Withholding Category** and click **Add**. Name it *Professional Fees 5%*. In the **Rates** table, add the fiscal year and the **Tax Withholding Rate** 5. In **Accounts**, choose the company and the *WHT Payable* account. Create one per rate.
3. On the **Supplier**, choose the **Tax Withholding Category** that applies.

Record a payment

1. Create the **Purchase Invoice** from the supplier. The system calculates the withheld tax from the category. Check it.
2. When you pay, the **Payment Entry** pays the supplier the invoice amount less the withholding.
3. Pay the withheld amount to KRA by the **20th** of the next month, through iTax. Record it with a Payment Entry or Journal Entry to clear **WHT Payable**.
4. Give the supplier a **withholding tax certificate** for the amount you withheld.

If a customer withholds from you

Your customer pays you less than the invoice and gives you a certificate. Record the shortfall as **WHT Receivable** in the payment, and use the certificates to reduce your own income tax.

Turnover tax

TOT is a **1.5%** tax on gross monthly sales for resident businesses with annual turnover between **KES 1 million and KES 25 million** that are not VAT-registered, at the time of writing. Check the current thresholds.

1. Create a **TOT Payable** account.
2. Each month, run the **Sales Register** for gross sales.
3. Calculate 1.5% of the total, file the return and pay by the **20th** of the next month.
4. Record the expense and payment with a Journal Entry.

A business that registers for VAT stops paying turnover tax.

Practical example

A company pays a consultant KES 200,000. At 5%, it withholds KES 10,000, pays the consultant KES 190,000, and pays KES 10,000 to KRA by the 20th of the next month.

Important notes

- Do not withhold on payments that are exempt, and do check each supplier's status.
- Obtain the supplier's PIN before paying. Without it, you cannot file correctly.
- Keep certificates and iTax receipts for your audit.

Common mistakes

- Paying the supplier the full amount, and having to recover the withholding later.
- Forgetting to remit what you have withheld.

Next steps

Return to Kenya tax overview.

Related documentation

- VAT: setting up, recording and returning
- Kenya tax overview and compliance calendar
- Recording supplier bills
- Recording customer and supplier payments

Support

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