FINANCE BILL 2025

CHANGES ON PENSION

PROPOSED CHANGES TO PENSION PROVISIONS IN THE FINANCE BILL 2025

To sustain and strengthen ongoing pension reforms, the government of Kenya has proposed several strategic measures in the 2025 Finance Bill. These include the complete separation and de-linking of governance between the Public Service Superannuation Scheme (PSSS) and the non-contributory pension scheme, enhancing transparency and accountability.

Additionally, the government plans to modernize public service pension administration through digitization and the re-engineering of pension management systems. To ensure the long-term sustainability of pension benefits and to protect entitlements, an actuarial valuation will be undertaken.

The following are the key pension-related reforms proposed under the 2025 Finance Bill;

1. Elimination of Age-Based Exemptions

Tax exemption on pension income under the Income Tax Act is limited to individuals aged 65 and above. The 2025 Finance Bill is looking to expand this exemption to include pension benefits paid out from registered pension schemes, including provident funds, individual retirement funds, public pension schemes and the NSSF, once a member attains the retirement age set by the specific fund or scheme, replacing the previous fixed age requirement.

2. Extension of Tax Exemptions in Pension Schemes.

The Bill proposes the extension of exemption to cover gratuity or other allowances paid under a public pension scheme, retirement annuity payments, early withdrawals due to ill health and withdrawals made after being a member of a fund for at least twenty years.

3. Proposed Removal of Pension and Income Tax Reliefs Under Section 8 of the Income Tax Act.

The Bill proposes to amend Section 8 of the Income Tax Act by removing subsections 4, 5, 6, 7, 9 and 9A. These subsections currently provide valuable tax reliefs and exemptions for specific incomes and pension fund withdrawals.

- **Section 8(4)** - The initial Kes 300,000 of total pensions and retirement annuities received by a resident individual from a registered fund or the National Social Security Fund within a given year shall be considered tax-exempt income.
- **Section 8(5)** - Certain sums are exempt from tax under the Commissioner's rules. These include up to 600,000 shillings from registered pensions or provident funds, amounts based on years of service, benefits from NSSF, funds used to buy or build a home and pensions from unregistered funds with non-deductible contributions.

- **Section 8(6)** - Upon the death of an employee in a registered fund, the widow, widower or dependents qualify for the same tax-exempt pension and lump sum amounts as if the employee had received them. If the fund only provides a lump sum to the estate, the first Kshs 1.4 million is tax-exempt.
- **Section 8(7)** - When a beneficiary of a registered retirement or home ownership savings plan dies, the fund balance is considered withdrawn and included in their income for that year. However, if the funds are given to a spouse, they can be transferred to them. If given to children under 18, the funds are included in their income. If given to another depositor, the funds can be transferred to that person.

- Section 8(9) - If the Commissioner finds that an individual retirement fund no longer meets registration requirements, it will lose its status as a retirement fund and the remaining balance will be added to the beneficiary's income for the year it fails to comply.
- Section 8(9A) - If the Commissioner cancels the registration of a home ownership savings plan, the balance in each depositor's account will be included in their income for the year the cancellation occurs, unless the funds are transferred to a similar approved plan within 12 months with the Commissioner's written approval, in which case they won't be included in the depositor's income.

CONCLUSION

The Finance Bill 2025 introduces commendable reforms aimed at modernizing and sustaining Kenya's pension system. However, the proposed elimination of longstanding tax reliefs could undermine retirement income security for many. A more balanced approach—preserving certain protections while modernizing others—would better serve the bill's goals without eroding public trust in pension systems.

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