

Sage in Kenya

Payroll Taxes 2021

1. General Information

Official currency

Kenyan Shilling (KES)

Tax year

January to December

Revenue service

Kenya Revenue Authority (KRA)
www.kra.go.ke

2. Tax Rates

Tax table for 2021 tax year

Income Band (KShs)	Rate (%)
First 12 298	10%
Next 11 587	25%
Over 47 059	30%

Secondary employees

There are employees who have two or more sources of income which fall within PAYE provisions. Their PAYE is calculated on the highest tax bracket of **30%** of the taxable income.

3. Taxable Income

"Monthly pay" includes income in respect of any employment or service rendered, accrued in or derived from Kenya.

This will include:

- Wages, salary, leave pay, sick pay, payment in lieu of leave, directors' fees and other fees, overtime, commission, bonus, gratuity or pension whether payable monthly or at longer or shorter intervals.
- Cash allowances, e.g. house or rent allowance, telephone allowance, round sum allowance etc.
- The amount of any private expenditure of the employee paid by the employer otherwise than as a loan, e.g. house rent, grocery bills, electricity, water, telephone bills, school fees,
- Non-cash benefits when the aggregate value exceeds KShs 3 000 per month.
- The value of housing, where provided by the employer.

4. Non-cash benefits

Value of Benefit

Where an employee enjoys a benefit, advantage or facility of whatsoever nature in connection with employment or services rendered; the value of such benefit should be included in employee's earnings and charged to tax.

Note that the minimum taxable aggregate value of a benefit, advantage or facility is **KShs 3 000 per month or KShs 36 000 per annum**). In other words, Non-cash benefits are only taxable when the aggregate taxable value of the benefits exceeds KShs 3 000 per month or KShs 36 000 per annum.

Motor vehicles

Taxed on the higher of Commissioner's fixed scale rate (see below) and the annual prescribed rate, which is calculated as 2% per month of initial cost of the vehicle to the employer. Where an employee has been provided with a hired or leased vehicle, the taxable value of the car benefit is the lease or hire charges.

Fixed Monthly Rates for Motor Cars

Type of Car	Monthly rates (KShs)
Salon, Hatch Backs and Estates	
0 - 1200 cc	3 600
1201 - 1500 cc	4 200
1501cc - 1750 cc	5 800
1751 - 2000 cc	7 200
2001 - 3000 cc	8 600
Over 3000 cc	14 400
Pick-ups, Panel Van Unconverted	
0 - 1750 cc	3 600

Over 1750 cc	4 200
Land Rovers/Cruisers	
All sizes	7 200

Housing

The value of premises, excluding the value of any furniture or other contents so provided, is determined as follows:

TYPE OF EMPLOYEE	OWNED OR RENTED	TAXABLE VALUE
Normal employee	Employer owns the property	Higher of 15% employment income and the fair market rental value of the premises in that year.
Normal employee	Employer rents the property	Higher of 15% employment income and actual rent paid by employer if paid under an agreement made at arm's length with a third party, otherwise use fair market rental value .
Agricultural employee	Employer own or rents the property	10% of the employment income.
Director	Employer own or rents the property	Higher of 15% of total income (or employment income, in case of full-time director), fair market rental value and the actual rent paid by the employer.

Employee share ownership plans (ESOPs)

Registered ESOPs qualify for beneficial taxation. The taxable benefit shall be the difference between the offer price and the fair market value of the shares at the date of grant. The benefit will be taxable upon vesting of shares. Benefits from unregistered ESOPs are subject to the general rules on taxation of other employment benefits.

Employer pension contributions

Employees of employers who are tax exempt are liable to tax on all employer pension contributions to an unregistered scheme or on the excess contribution to a registered fund.

Medical Benefits

Where an employer has a written plan or scheme, or by practice, provides free medical service to all his employees the value of such medical services is a non-taxable benefit of all employees and all directors. However, for the non-whole time service director the medical benefit is limited to a maximum of KShs1 000 000 per year.

Where there is no plan or scheme, payments made to employees' towards medical services is a taxable cash payment and must be included in the employees' pay for the month in which payment is made and taxed accordingly.

School fees

Education fees of employee's dependants or relatives is taxable where the same was not taxed on the employers.

Employee staff meals

All employees can receive a non-taxable meal benefit of up to KShs 4,000 per month. The meals can be provided by either the employer's own canteen/cafeteria or provided by a registered taxpayer, whether the meals are provided at the employer's premises or the third party's registered supplier premises.

Utility benefits

The Commissioner's current prescribed monthly rates for some utilities are:

- Furniture – Higher of amount paid per month if hired OR 1% of actual cost (purchase price).

Furniture owned by employer is a separate benefit from housing benefit.

- Telephone - 30% of the phone bill.

This telephone benefit includes both landline and mobile phone usage.

- Water where provided communally – KShs 500 (KShs 200 for agricultural employees)
- Electricity where provided communally - KShs 1 500 (KShs 900 for agricultural employees)

All other benefits e.g. security, water, servants, electricity etc. are taxable at the higher of the cost to the employer of providing the benefit or the fair market value.

5. Exempt Income

Meal Benefit

Meal benefit is tax exempt up to KShs4 000 per month.

School fees

Education fees of employee's dependants or relatives will not be taxed on the employees provided the same has been taxed on the employers.

Life Insurance

Employer contributions towards the employee's life insurance is taxable except where paid to a registered or unregistered pension fund/scheme or individual retirement fund.

Group life insurance

Premiums paid by the employer for group life policy are not taxable benefits on the employees unless such a cover confers a benefit on an employee.

Subsistence Allowance (Per diems)

Employees working outside their normal duty station will be required to account for per diems received in excess of the tax free threshold of KShs2 000 or be taxed on the unsupported amount. The first KShs2 000 per day spent while away on business trips is tax free. This applies to allowance for both local and international travel.

Medical Benefits

Where an employer has a written plan or scheme, or by practice, provides free medical services to all his employees the value of such medical services is a non-taxable benefit of all employees and all directors. However, for the non-whole time service director the medical benefit is limited to a maximum of KShs 1 000 000 per year.

Employers' pension contributions

Employers' contribution to a pension or provident fund or individual retirement fund.

Passages

When an employer himself pays for or reimburses the cost of tickets for passages, including leave passages for his employee and family, the value of the passages is a non-taxable benefit of the employee if the employee is recruited outside Kenya and is in Kenya solely for the purpose of serving his employer and he is not a citizen.

Gratuity

An amount paid by an employer as gratuity or similar payment in respect of employment or services rendered, which is paid into a registered pension scheme is exempt up to a maximum of KShs240 000 for each year of service. See lump sum and gratuity section below.

Pension

Monthly or lump sum pension granted to a person who is sixty-five year of age or more is exempt from tax.

Persons with disabilities

Persons with disabilities are exempt from tax on their taxable income of up to Kshs. 1.8 million p.a (Kshs. 150,000p.m).

6. Tax deductions

Pension contributions

For the NSSF and other registered pension / Provident funds, the deduction is the lowest of:

- The actual contribution or
- KShs 240 000 p.a. (or KShs 20 000 per month) or
- 30% of taxable pensionable income

Owner Occupied Interest

The amount of interest allowable under the law must not exceed KShs 300 000 per year (KShs 25 000 per month).

7. Tax Reliefs

Resident's Personal Relief

A resident individual with taxable income is entitled to a personal relief of KShs 2 400 per month, KShs 28 800 per year.

Insurance relief (Life insurance)

A resident individual shall be entitled to insurance relief at the rate of 15% of premiums paid subject to maximum relief amount of KShs 5 000 per month (or KShs 60 000 per annum).

8. Fringe Benefits Tax

When employer provides loan to an employee and charges interest which is below the prescribed rate of interest, then the difference between the prescribed rate and employer's loan rate is a benefit from employment chargeable to tax.

The benefit is computed as the difference between the interests charged by employer and prescribed rate of interest.

Fringe benefit is taxable at corporation rate of tax of 30%.

9. National Social Security Fund (NSSF)

The National Social Security Fund (NSSF) is a government retirement benefit and membership is compulsory for employees. Both the employer and employee contribute to this fund.

Old NSSF Act

Contributions are set at 10% of monthly wage up to a maximum of KShs 400 per month; half paid by employer and half by employee.

Employer contribution limit: Fixed amount of KShs 200. Employee contribution limit: Fixed amount of KShs 200.

New NSSF Act

Under the new legislation, the mandatory pension contribution will be 12% of the pensionable wages made up of two equal portions of 6% from the employee and 6% from the employer subject to an upper limit of KES 2,160 for employees earning above KES 18,000.

www.nssf.or.ke

10. National Hospital Insurance Fund (NHIF)

The National Hospital Insurance Fund (NHIF) is a government medical aid scheme and membership is compulsory for employees. Only the employee contributes to this fund.

Contribution rates

Gross Income (KShs)	Monthly Rate (KShs)
1 – 5 999	150
6 000 – 7 999	300
8 000 – 11 999	400
12 000 – 14 999	500
15 000 – 19 999	600
20 000 – 24 999	750
25 000 – 29 999	850
30 000 – 34 999	900
35 000 – 39 999	950
40 000 – 44 999	1 000
45 000 – 49 999	1 100
50 000 – 59 999	1 200
60 000 – 69 999	1 300
70 000 – 79 999	1 400
80 000 – 89 999	1 500
90 000 – 99 999	1 600
100 000 and above	1 700

For more information on the NHIF visit www.nhif.or.ke

11. Industrial Training Levy

The industrial levy is charged under Kenya's Industrial Training Levy Act. The monies go into a revolving fund that is used to reimburse approved training cost.

The applicable rate is KShs600 per employee. Paid annually by the 9th of the subsequent month following the end of the Employer's accounting

This is an employer contribution.

For more information on the ITL visit <http://www.nita.go.ke/>

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