Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

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Kenyan Shilling (KES)

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January to December

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Kenya Revenue Authority (KRA)

www.kra.go.ke

2. Administration and Compliance

2.1 Monthly PAYE report – P10

The submission of the PAYE tax return (also called the P10 Return) for the month is done electronically via the KRA's online portal called iTax.

The deadline for the PAYE remittances is the 9th of every month.

2.2 Tax Deduction Cards - P9

Immediately after 31st December each year the employer should prepare a Tax Deduction Card

(P9) for each employee from whose salary P.A.Y.E. tax was deducted at any time during the year. Copies of Forms P9 should be distributed to the employees representing certificate of pay and tax for the year.

2.3 Form P.10B – Fringe Benefits Tax Return

Since Fringe Benefit Tax is payable by employer, the details of the fringe benefits and tax paid thereon should not be reflected on the employee's Tax Deduction Card – P9

Employers are therefore required to submit a return to the Department at the end of the year using Form P.10B to show names of the employees involved, loan amounts, rate of interest charged by employer, taxable fringe benefit values and amount of tax paid. The fringe benefit tax return – (P.10B) should be submitted by employer.

3. PAYE tax rates

3.1 Tax tables

Monthly PAYE tax table for 2025 tax year.

From (KShs)	To (KShs)	Rate
0,00	24 000,00	10%
24 000,01	32 333,33	25%
32 333,34	500 000,00	30%
500 000,01	800 000,00	32.5%
800 000,01	and above	35%

The PAYE tax calculation is based on the current income only. Except where you calculate the tax on certain lump sum earnings.

3.2 Secondary employees

There are employees who have two or more sources of income which fall within P.A.Y.E. provisions, e.g. a person with several directorships or a person with several part-time employments not falling within the definition "casual employment".

Their P.A.Y.E is calculated on the highest tax bracket **(35%)** of the taxable income.

Secondary employees are not entitled to the deductions and reliefs on the payroll.

Such employees should be granted monthly personal relief and deductions by the employer at their main source of employment income.

Part time directors fall under the category of Employees with multiple PAYE Sources of incomes.

3.3 Taxable Income

Income Tax Act, Section 5

"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.
- Non-cash benefits

4. Value of Benefit

Income Tax Act, Section 5
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 5 000*** per m*onth or KShs 60 000 per annum*). In other words, Non-cash benefits are only taxable when the aggregate taxable value of the benefits exceeds KShs 5 000 per month.

4.1 Motor vehicles

Income Tax Act, Section 5(2B) & Section 5(5)

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.

However, the Commissioner may determine a lower rate for the benefit where the employee can demonstrate and provide proof of restricted usage of the company car.

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

EXAMPLE

Initial cost of car to employer	500 000
Prescribed rate	2%
Type of Car	Hatch back
Engine size	2 000

Calculation of taxable benefit

Rate for type of car = 7 200

2% x 500 000 = 10 000

Higher of 10 000 and 7 200

= **10 000 per month**

4.2 Housing

Income Tax Act, Section 5(3)

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	DEFINITIONS

Normal employee	Employer owns the property	Higher of 15% employment income and the fair market rental value of the premises in that year.	"*Employment income*" is the taxable income. Excludes the value of the housing benefit, includes full taxable value of the car benefit. If taxable value of other benefits is less than KShs3 000, they must not be included.
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 .	*"Arm's length"* means a transaction in which the buyers and sellers of a product act independently and have no relationship to each other.
Agricultural employee	Employer own or rents the property	10% of the employment income.	"*Plantation*" does not include a forest or timber plantation. "*Agricultural employee*" does not include part-time director.
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.	*"Full time"* director who spends substantially all of this time on company business and who does not own or control more than 5% of the company's share capital or voting power.

Subtract the actual rent paid by the employee from the taxable value calculated above.

4.3 Employee share ownership plans (ESOPs)

Income Tax Act, Section 5(5)
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.

4.4 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.

4.5 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 KShs 1 000 000 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.

4.6 School fees

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

4.7 Employee staff meals

All employees can receive a non-taxable meal benefit of up to KShs 5 000 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.

4.8 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.

4.9 Loans to employees

See Fringe Benefits Tax section.

5. Exempt Income

Income Tax Act, Section 5(4)

5.1 Meal Benefit

Meal benefit is tax exempt up to KShs5 000 per month.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

Effective 1 July 2025

The tax-exempt threshold for per diems has increased from KShs2 000 to KShs10 000 per day.

Amounts up to KShs10 000/day are now tax-free and do not require receipts.

5.6 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.

5.7 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.

Where, however, such employee receives a cash sum either periodically or in one amount which he is free to save or spend as he chooses or for any other purposes and for the expenditure of which he does not have to account to the employer, the amount received is a taxable cash allowance. Passages paid for by the employer in circumstances other than what is explained above are a taxable benefit on the employee.

5.8 Low interest loan benefit

Income Tax Act, Section 12B
Employees are not taxed on the low interest loan benefit. The employer is taxed instead.

5.9 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). The employee should provide a valid exemption certificate from the KRA. See Legal Notice No. 36 of 2010 amended the Persons with Disabilities Act (Act No. 14 of 2003)**.**

5.10 Gratuity

Refer to gratuity section below.

6. Lump Sum Payments and Gratuities

Gratuity earned or relating to periods prior to 1st July, 2025, even where payment is made after this date, is chargeable to tax. The gratuity is taxed as part of employment income and is taxable in the year it was earned. This means that where gratuity is paid to an employee, it should be spread to the period to which it relates, up to four (4) years back, and any remaining amounts relating to periods beyond four (4) years shall be deemed income of the fifth year. The gratuity will then be taxed at the applicable tax rates in the respective years.

In computing the taxable income for the periods outlined above, the employer shall consolidate the gratuity payable for each year with other employment income earned by the employee during the respective period and subject the consolidated income to tax at the prevailing tax rate for that year. Tax payable shall be the difference between the tax arrived at on the consolidated amount and what was paid earlier on the emoluments already received.

Gratuity paid to a registered pension scheme
Where an employer pays gratuity relating to periods prior to 1st July, 2025 to a registered pension scheme, the gratuity amounts paid into the scheme shall not be chargeable to tax, subject to prescribed limits in the respective years of income. This shall apply to the extent that the employee had not enjoyed deduction for pension contribution in the respective years of income.

Gratuity paid from a public pension scheme
For gratuity paid out of a public pension scheme, which was exempted from tax by the Tax Laws (Amendment) Act, 2024, effective 27th December, 2024, the guidance above shall apply with respect to periods prior to December 2024 before the exemption came into force.

6.1 Calculation of Tax on Gratuity

Employment income is assessable on accrual basis; that is, over the period it has been earned and become due for payment. The time the Income is received is, therefore, immaterial.

Where an amount is received in respect of employment or a service rendered in a year of income different from the year of accrual, such income is deemed to be income of the year of accrual.

However, there is a provision which states that where the year of accrual is earlier than 4 years prior to the year of receipt, the income is to be treated as that of year of income which expired 5 years prior to the year in which the income is received or prior to the year of income in which employment ceased.

Method

i. Take total taxable pay for the year as per the Tax Deduction Card (P9).

ii. Add gratuity amount for that year

iii. Calculate tax chargeable on the revised total taxable income - (i) + (ii).

Apply annual individual rates of tax.

iv. Deduct personal relief for the year

v. Deduct total PAYE deducted and already paid - (per P9)

vi. The balance is tax payable on the gratuity.

6.2 Compensation for Termination of Employment

Liability extends to any payment, whether voluntary or obligatory made to a person to compensate him for the termination of his contract of employment or services, whether the contract is written or verbal and whether or not there is provision in the contract for such payment.

Following the amendment to proviso (i) and (iii) to section 5 (2) (c) the determination and method of assessing compensation received on termination of contract shall be as follows:-

Methods of Spreading Compensation

Where the contract is for an unspecified term and provides for terminal payment, the amount paid as compensation is to be spread forward and assessed at the rate equal to employee's remuneration per annum received from the contract immediately before termination.

Where the contract is for unspecified term and does not provide for compensation, amount received as compensation shall be deemed to have accrued evenly over three years period immediately following termination of contract. The effect of the amendment is that any amount paid as compensation on termination of contract shall be taxed in full.

7. Allowed Tax deductions

7.1 Pension contributions

Income Tax Act, Section 22A

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

- The actual contribution or
- KShs 360 000 p.a. (or KShs 30 000 per month) or
- 30% of taxable pensionable income

Pensionable income is equal to the employee's cash pay; no fringe benefits included.

7.2 Owner Occupied Interest

Income Tax Act, Section 15(3)(b)

In ascertaining the total income of a person for a year of income interest paid on amount borrowed from specified financial institution shall be deductible. The amount must have been borrowed to finance either:

- the purchase of premises or
- improvement of premises - which he occupies for residential purposes.

The amount of interest allowable under the law must not exceed KShs 360 000 per year (KShs 30 000 per month).

If any person occupies any premises for residential purposes for part of a year of income the allowable deduction shall be limited to the period of occupation.

On the other hand, no person may claim a deduction in respect of more than one residence.

Note the following:

- Interest which has accrued but has not been paid does not rank as an allowable deduction for this purpose.
- Secondary employees are not entitled to this deduction, they may claim from the primary employer.

7.3 Affordable Housing Levy (AHL)

Effective 27 December 2024, employee contributions under the Affordable Housing Act, 2024, are tax-deductible.

7.4 Social Health Insurance Fund (SHIF)

Effective 27 December 2024, contributions to the Social Health Insurance Fund (SHIF) are tax-deductible.

7.5 Post-retirement medical funds

Effective 27 December 2024, the contributions to post-retirement medical funds are deductible, up to KShs15 000 per month.

8. Tax Reliefs

Income Tax Act, Third Schedule

8.1 Resident's Personal Relief

Every individual in receipt of income liable to tax is entitled to a relief, known as "Personal Relief", granted against tax payable and is not refundable to Taxpayer.

A resident individual with taxable income is entitled to a personal relief of KShs2 400 per month, KShs28 800 per year.

This is a uniform relief and employers are advised to automatically grant personal relief to all employees irrespective of their marital status. Individuals serving several employers qualify for personal relief from only one employer (i.e., main employment).

8.2 Insurance relief

Insurance relief is 15% of premiums paid subject to maximum relief amount of KShs 5 000 per month (or KShs 60 000 per annum).

This relief also applies to premiums paid by the employee for life insurance.

9. Fringe Benefits Tax

Income Tax Act, Section 12B

Only affects low interest loan and no interest loan benefits.

Not taxable in hands of employees.

9.1 Loans to employees

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.

Low interest rate employment benefit provisions will also apply to a director and will continue to apply even after the employee or director has left employment as long as the loan remains un-paid.

EXAMPLE	Calculation of taxable benefit

Loan amount by employer	1 500 000	2% - 0% = 2%
Employer's interest rate	NIL (interest free)	1 500 000 x 2%
Prescribed rate	2%	30 000 per annum
		= 2 500 per month

The prescribed rate of interest is based on the market lending rates as the Commissioner may prescribe from time to time.

9.2 Fringe Benefits Tax – Payable by employer

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

Fringe benefit tax shall be charged on the total taxable value of Fringe benefit each month and the tax is payable on or before the 10th day of the following month to the Pay-Master General in the same way as normal P.A.Y.E. remittance. Employers will therefore pool together all the Fringe benefits for the employees in each month.

The provision of loans shall include a loan from an unregistered pension or provident fund.

"Market Interest Rate" means the average 91 days Treasury Bill rate of interest for the previous quarter.

The above provisions will continue to apply even after employee leaves employment as long as the loan remains un-paid.

Fringe benefit tax is payable even where corporation tax is not due by the employer in question.

10. National Social Security Fund (NSSF)

The National Social Security Fund (NSSF) is a government retirement benefit and membership is compulsory for employees.

Following the ruling of the Court of Appeal on the NSSF Act No. 45 of 2013, the NSSF requires all employers to comply with the law effective February 2023.

The rates to be implemented are per the 1st year of the Third Schedule of the NSSF Act No. 45 of 2013 are listed below:

Both employees and employers contribute 6% each.

Earnings Limits from 1 February 2025:

- Lower Earnings Limit (LEL): KShs8 000 per month (For January 2025 KShs 7 000)
- Upper Earnings Limit (UEL): KShs 72 000 per month (For January 2025 KShs 36 000)

Tiered Contributions:

- Tier I Up to KShs 8 000
- Tier II KShs 8 001 – KShs 72 000

Employers are required to remit contributions to the NSSF by the 9th of every month.

www.nssf.or.ke

11. Training Levy (NITA)

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.

Industrial Training Levy deductions will be paid annually by the 9th of the subsequent month following the end of the Employer's accounting period/financial year at the rate of KShs600 per employee per annum.

If the employee does not complete the entire year, you should pro rata the contribution for the employee's periods of service.

This is an employer contribution.

Effective October 2022, the Industrial Training Levy should be processed and paid to the Kenya Revenue Authority(KRA) on a monthly basis.

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

12. Affordable Housing

Levy (AHL)

The Finance Act 2023 introduced the AHL with effect from 1st July, 2023. Kenya Revenue Authority has been appointed as the collecting Agent of the Affordable Housing Levy (AHL).

- The employer's contribution at 1.5% of the employee's gross monthly salary; and
- The employee's contribution at 1.5% of the employee's gross monthly salary.

"Gross monthly salary" constitutes basic salary and regular cash allowances.

This include housing, travel or commuter, car allowances and such regular cash payments and would exclude those that are non-cash as well as those not paid regularly such as leave allowance, bonus, gratuity, pension, severance pay or any other terminal dues and benefits.

13. Social Health Insurance (SHI)

The Social Health Insurance (SHA) is set to replace the National Hospital Insurance Fund (NHIF) as part of healthcare reforms in Kenya. It aims to provide more comprehensive and inclusive healthcare coverage to all Kenyan residents.

13.1 Important Dates

- 1 October 2023 - Official start date for the Social Health Authority (SHA) operations.
- 1 July 2024 - Initial planned start date, postponed due to setbacks
- 1 October 2024 – New start date

13.2 Contribution Rate

According to Section 10 of The NHIF Regulations, 2023, a contributor in salaried employment is required to pay a standard contribution at a rate of **2.75%** of the gross monthly income derived from employment in the preceding month.

The Social Health Authority (SHA) has clarified that gross salary for SHIF contributions includes basic salary and regular monthly allowances. Employees will contribute 2.75% of this gross salary, with flexibility for employers to select applicable allowances.

Minimum contribution is KSh300. No maximum contribution.

This is a contribution made by the employee only.

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