



AN ALERT FROM THE BDO EA KENYA TAX PRACTICE

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PAYE NEWS

12th January 2018



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◆ Introduction

The Finance Act 2017 brought a number of changes to the administration of various taxes. In this write up, we have only highlighted the changes that will affect the PAYE operation with effect from January 2018. Organizations have to effect the changes from January payroll and submit the correct PAYE return by 9th February 2018.

◆ PAYE /Personal tax bands

The PAYE tax bands have been expanded and the new rates are as outlined below alongside the old ones.

Old rates effective until Dec' 2017 (per month in KES)	New rates effective from Jan' 2018 (per month in KES)
Tax on first 11,180 @ 10%	Tax on first 12,298 @ 10%
Tax on the next 10,534 @ 15%	Tax on next 11,587 @ 15%
Tax on the next 10,534 @ 20%	Tax on next 11,587 @ 20%
Tax on the next 10,534 @ 25%	Tax on next 11,587 @25%
Tax on income above 42,782 @ 30%	Tax on income above 47,059 @ 30%

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◆ Personal relief

The resident individuals' personal relief was increased to KES 16,360 per annum (1,408 per month) effective January 2018. The amount is set off against PAYE due from the individual. Up to December 2017, the relief was KES 15,360 per annum (1,280 per month). This results in a modest tax saving of KES 128 per month per individual.

◆ Bonus, overtime and retirement benefits

This was effective from 1st July 2016. But with the expansion of the lower tax bracket the beneficiaries will be expanded to persons who earn KES 12,298 and below per month. Their bonuses, overtime allowances and retirement benefits will be exempted from PAYE.

◆ Withdrawals from registered pension schemes

The Act has enhanced the tax bands for taxation of withdrawals from NSSF, registered pension funds and provident funds (before the expiry of fifteen years from the date of joining the fund) where the withdrawals are in excess of the tax-free amounts as shown below alongside the old ones.

Old rates effective until Dec' 2017 (annual in KES)	New rates effective from Jan' 2018 (annual in KES)
Tax on first 121,968 @ 10%	Tax on first 147,580 @ 10%
Tax on the next 114,912 @ 15%	Tax on the next 139,043 @ 15%
Tax on the next 114,912 @ 20%	Tax on the next 139,043 @ 20%
Tax on the next 114,912 @ 25%	Tax on the next 139,043 @ 25%
Tax on income above 466,704 @ 30%	Tax on income above 564,709 @ 30%

◆ Practical implications

Due to these changes, organizations will need to update their payroll software to effect the new PAYE rates, the new personal relief rate and the new tax rates for withdrawals from registered pension schemes, as outlined above. Some software are flexible and clients can amend the formulas. However, some software may need to be updated by the respective vendors. This may come at a fee. Managers need to have discussions with their payroll software providers to ensure the system is appropriate. KRA will also update the P10 excel sheet on ITAX so as to accommodate these changes.

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