

BDO KNOWS:

UNDERSTANDING PAYE

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1. Introduction

There is no difference between taxation of Kenyan citizens and expatriates.

Who and what is taxable?

Any amount payable to:

- Any person who is, or was at the time of employment or when the services were rendered a resident person.
- A non-resident person in respect of any employment with or services rendered to any employer who is resident in Kenya.

Taxable employment income includes:

- all cash payments however described; and
- the value of non-cash benefits (exceeding KES 3,000 per month).

1.1 Cash Emoluments

Cash pay includes; wages, salary, sick pay, leave pay, fees, commissions, bonuses, service gratuity, allowances, director's fees, overtime, pension, entertainment and any other payments received in respect of employment. Wages from casual employments are excluded and are defined as 'any engagement with any one employer which is made for a period of less than one month, the emoluments of which are calculated by reference to the period of engagement or shorter intervals. Regular part time employees and regular casual employment where employees are employed casually but regularly are not considered casual employees'.



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Amounts that are mere reimbursement of expenses e.g. subsistence allowance on official duty (per diem) or mileage allowance are not considered taxable pay. Per diems of up to KES 2,000 per day are tax free, but round sum allowances are treated as taxable earnings.

1.2 Non Cash Benefits and Taxation Provisions

Non-cash benefits include housing, cars, utilities, school fees, domestic servants, club subscriptions, telephone expenses, provision of furniture, groceries, security, shares options, life insurance premiums, interest free/low interest loans and tax free remuneration where the employer bears the tax burden **amongst others**.

Non-cash benefits are required to be taxed at their cost value or the fair market values whichever is higher. The Commissioner may, from time to time, prescribe the value of the benefit where the cost or the fair market value cannot be determined. The prescribed rates currently in force are:

- Furniture - 1% of the cost per month. Full cost if hired;
- Water - KES 500 per month. (KES 200 for agricultural employees);
- Electricity (communal) - KES 1,500 per month (KES 900 for agricultural employees);
- Telephone (mobile and landlines) - 30% of bills; and
- ESOP's - market value less offer price.

A motor-vehicle benefit is valued at the higher of Commissioner's prescribed values (based on c.c. rating) and 2% of the capital cost. Where a vehicle is leased, the benefit value is the higher of the prescribed rates and lease hire costs. Restricted use may be allowed by the Commissioner upon application and proof of restricted use.

Note: Non-cash benefits aggregating to less than KES 3,000 per month (or KES 36,000 per annum) are tax exempt.

Housing benefit valuation for tax purposes is calculated as follows:

- for an owner director of a company - the higher of: 15% of total income, market rental value or rent paid by employer;
- for whole time service director - the higher of: 15% of employment income, market rental value, or rent paid by employer;
- for employees - the greater of 15% of employment income and actual rent paid at arm's length. Where premises are owned by the employer the rental market value is taken;
- For agricultural employees: 10% of employment income (required to reside at the farm);
- Where premises are occupied for part of the year the benefit is apportioned accordingly; and
- Any rent paid by the employee to the employer is deducted from the total housing benefit.

1.3 Tax -Free Employment Benefits

There are some components of remuneration packages that are specifically not taxable on employees and directors. These are:

- Home/leave travel expenses provided by an employer to expatriates but with conditions;
- Amounts paid by employer as contributions to pensions and provident funds schemes;
- educational fees paid for employee's dependants and relatives provided that such amounts are disallowed and added back in the employer's tax computations and tax is paid thereon;
- medical services and medical insurance for full time employees (subject to a KES 1 million limit for directors holding more than 5% of company's shares). Only the principal employee, spouse and up to four children not older than 21 years will enjoy the exemption;
- benefits whose accumulative value does not exceed KES 3,000 per month;

- Employer canteen meals not exceeding KES 4,000 per month (KES 48,000 per annum);
- Fringe benefit tax;
- Monthly pension withdrawals not exceeding KES 25,000;
- Full pensions paid to senior citizens (over 65 years);
- First KES 150,000 per month for the disabled;
- Bonus, airtime, and retirement benefits paid to employees whose monthly salary does not exceed Kes 12,298;
- Interest earned on Home Ownership Savings Plan (HOSP) deposits of up to KES 3 million;
- Gratuity paid to registered retirement schemes up to KES 240,000 per annum;
- Group insurance cover unless it confers a benefit to an employee; and
- Earnings from casual employment but with conditions.

1.4 Tax Rates - Monthly

Income bracket (KES)	Tax rate	Tax (KES)	Cumulative tax (KES)
1 - 12,298	10%	1,229.80	1,229.80
Next 11,587	15%	1,738.05	2,967.85
Next 11,587	20%	2,317.40	5,285.25
Next 11,587	25%	2,896.75	8,182.00
Over 47,059	30%		

1.5 Personal and Other Reliefs

Personal reliefs represent the amount deducted by an eligible person from the pay and tax payable by him/her.

- A uniform personal relief- KES 16,896 per annum (KES 1,408 per month) is claimable by all resident employees;
- Life, health and education insurance relief - 15% of premiums subject to a maximum of KES 60,000 per annum;
- Mortgage interest relief on owner occupied property - maximum of KES 300,000 per annum (KES 25,000 per month); and
- Home ownership savings plan - KES 4,000 per month to a maximum of KES 48,000 per annum for a maximum period of 10 years.

1.6 Employee Loans

An employee who receives a loan from his/her employer at a rate lower than the prescribed market rate will be deemed to have derived a benefit. A fringe benefit tax will be computed at the corporate tax rate of 30% and to be borne by employer.

1.7 Pension and Provident Funds

- Pension contributions by an employee to a registered pension fund are an allowable deduction against taxable employment income but up to a maximum of KES 20,000 per month.
- Insurance premiums paid by an employer to a registered or unregistered pension fund or to individual retirement fund, or for group life cover shall not be taxable on the employee unless such cover confers a benefit to the employee or his dependents.
- An individual who is not a member of a registered fund and who contributes to an individual retirement fund is entitled to claim the contributions subject to the limits prescribed above.
- Contributions made by employers to registered or un-registered funds are not chargeable to tax on the employee. However, Contributions by a non- taxable employer e.g. not-for - profit organizations will be taxable on the employee.

BDO East Africa contacts:

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