



AN ALERT FROM THE BDO EA KENYA TAX PRACTICE

# BDO KNOWS:

## PAYE NEWS

9th January 2017



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### ► Introduction

The Finance Act 2016, which was assented on 13 September 2016, 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 2017. Affected organizations have to effect the changes in January Payroll and submit the correct PAYE return by 9<sup>th</sup> February 2017.

### ► 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' 2016 (per month in KES)	New rates effective from Jan' 2017 (per month in KES)
Tax on first 10,164 @ 10%	Tax on first 11,180 @ 10%
Tax on the next 9,576 @ 15%	Tax on next 10,534 @ 15%
Tax on the next 9,576 @ 20%	Tax on next 10,534 @ 20%
Tax on the next 9,576 @ 25%	Tax on next 10,534 @25%
Tax on income above 38,892 @ 30%	Tax on income above 42,782 @ 30%

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## ► Personal relief

The resident individuals' personal relief was increased to KES 15,360 per annum (1,280 per month) effective January 2017. The amount is set off against PAYE due from the individual. Up to December 2016, the relief was KES 13,944 per annum (1,162 per month). This results in a modest tax saving of KES 118 per month per individual.

## ► Mortgage interest

Mortgage interest on money borrowed to finance the purchase or improvement of premises occupied by the owners is an allowable deduction which reduces the amount of taxable income of an individual. Effective January 2017, the maximum allowable as a deduction shall be KES 300,000 per annum per individual (25,000 per month). This was increased from the previous maximum of KES 150,000 per annum (12,500 per month).

## ► Bonus, overtime and retirement benefits

With effect from 1<sup>st</sup> January 2017, employment income in form of bonus, overtime allowances and retirement benefits paid to employees who earn KES 11,180 and below per month (excluding such bonuses, overtime allowances and retirement benefits) shall be exempted from PAYE.

## ► 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 mortgage interest and reliefs to eligible employees, 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.

## ► Clients' concern

From our interaction with some of our client's, it is clear that some taxpayers have not understood the practical implications of the changes. Departments responsible for payroll preparation and PAYE computation should ensure that they are prepared for the changes by the time payroll for January 2017 is being prepared.

## BDO East Africa contacts:

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