

# Structured planning

## Tax Alert Kenya – Income tax on Individuals

Latest news on law, tax and business in Kenya

12 January 2017 · [www.roedl.de/www.roedl.com](http://www.roedl.de/www.roedl.com)

### > Changes on Taxation of individuals

The assenting of Finance Act 2016 has been lauded for its introduction of fiscal policies that address the plight of Kenyan workers struggling to survive in a harsh economic climate characterised by escalating inflation.

There are 3 major changes introduced by Finance Act 2016 in the taxation of individuals, namely:

- New tax bands
- Increased personal relief
- Increased mortgage relief
- Exemption of bonuses and overtime

#### New Tax bands

Annual income	Monthly income	Rate
On first KShs 134,164	KShs 11,180	10%
On next KShs 126,403	KShs 11,181 – KShs 21,714	15%
On next KShs 126,403	KShs 21,715 – KShs 32,248	20%
On next KShs 126,403	KShs 32,249 – KShs 42,781	25%
On all income over KShs 513,373	KShs 42,782 <	30%

The new tax bands represent a widening of the old tax bands by 10%. These are applicable from **1 January 2017**.

#### Increased personal relief

This will now be **Kshs 15,360 p.a.** – a 10% increase from the old amount of **Kshs 13,944**.

The new rate takes effect from **1 January 2017**.

#### Increased mortgage interest relief

This has been doubled to Kshs 300,000 p.a. (KShs 25,000 p.m.) from KShs 150,000 p.a. (KShs 12,500 p.m.)

Effective date: **1 January 2017**.

#### Exemption of Bonuses and Overtime

Income from employment paid in the form of bonuses, overtime and retirement benefits are now exempted from tax, for low income earners whose taxable income before overtime and bonus allowances, is less than Kshs 134,164 p.a. (KShs. 11,180 p.m.)

This took effect on **1 July 2016**.

### > Enabling law

The new tax bands and personal relief have been captured in the Income Tax Act (“ITA”) by amending Head A and B of the Third Schedule to the Act.

Mortgage interest relief has been revised upwards under section 15(3)(b) of the ITA.

The exemption of bonuses and overtime has been effected by introducing paragraph 53 under Part I of the First Schedule to the ITA.

### > Our Comment

The widened tax bands and increased personal relief have finally come to fruition this year after lobbying by stakeholders in the past 4 years.

Indeed, the tax bands and personal relief have remained constant for over a decade despite the harsh economic conditions that increased the cost of living.

It is evident that this change will mostly benefit low income earners receiving less than KShs 43,000 p.m. in taxable income.

We present below a tabular comparison of the benefit:

Monthly salary	Tax under current Band	Tax under proposed Band	% Change
25,000	2,127	1,859	-13%
150,000	38,608	38,000	-2%

Likewise, exemption of bonuses, overtime and retirement benefits paid to low income earners will

serve as a safety net aimed at improving their living standards.

The increase in mortgage interest relief is another measure that will help Kenyans who are overburdened by loans used to purchase or improve their owner-occupied residential premises.

We expect the Kenya Revenue Authority to revise the current PAYE online filing template in line with the changes. This should be in place before the 9th day of February 2017.

We are in a position to assist employers interested in identifying and implementing tax planning opportunities arising out of the current changes. Similarly, we shall be glad to address any challenges affecting compliance with the new changes.

*This is a general guideline tax alert and should not be a substitute for proper tax advice. For queries and clarification, kindly get in touch with Rödl & Partner.*

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*„Each element of our human towers supports another. This works only if we put to that more than just the physical abilities of all of us. It is the solidarity that gives us strength, structure, stability and – last but not least – the courage we need to develop great things.“*

*Castellers de Barcelona*



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**Imprint Tax Alert Kenya, 12 January 2017**

**Publisher:** **Rödl & Partner (Kenya) Limited**  
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