



ISO 9001:2008 CERTIFIED

RESIDENTIAL RENTAL INCOME TAX

WHAT YOU NEED TO KNOW

1. The law

The **Finance Act 2015** has introduced a new **Section 6A** in the **Income Tax Act Cap 470** Laws of Kenya, which provides for a **simplified tax regime on rental income**. The tax to be known as **residential rental income tax** shall be payable by any **resident person** (Individual or Company) from income which accrued in or derived from Kenya for the use or occupation of residential property.

2. Eligibility

The 10% tax rate on gross rental income shall be payable by a resident person (Individual or Company) and will apply to rental income that has accrued or is derived in Kenya for the use of **residential property where the rent income does not exceed Kshs. 10 million per annum**.

However, landlords who wish to remain in the current tax regime can elect in writing to the Commissioner, to be taxed under the normal tax rates.

Such landlords, who choose to remain in the current tax regime shall pay instalment taxes and file returns in the normal way. We have explained how taxpayers should compute their taxes under the current regime in our guide - ***Real Estate and Rental Income Taxation: What You Need to Know***, which is available for download from our website; www.kra.go.ke

3. Treatment of Partnerships

Partnerships are not taxable as per the Income tax Act. However, individual partners are taxed based on an individual share of income from the partnership. For purposes of this tax, if the individual share of gross rental income from the property is less than Kshs. 10 million, the partners will be eligible for the new tax at 10%.

4. Tax point for the new tax

The tax point for the residential rental income tax is when landlords receive rent from their tenants, either monthly, quarterly, semi annually or annually. However, returns must be filed monthly. Therefore, those receiving rent

quarterly, semi annually or annually will be expected to pay when they receive rent and file nil returns for other months.

5. Effective date of the new simplified tax regime (i.e. Residential Rental Income Tax)

The new rate of 10% tax on gross rent takes effect on **1st January 2016** and will apply to rental income received from **calendar month January 2016**. Eligible persons shall be required to file and make correct declaration through a simplified tax return via iTax System and pay tax due on or before the 20th day of month following the rent receipt.

The first return for **January 2016** shall be expected to be filed by **20th February 2016**.

Any tax not paid by the monthly due date will attract penalties and interest as specified in the Income Tax Act.

6. How to compute tax under this tax regime

- Prepare a rent schedule for all let property showing the number of property, rent received per property and gross rent received.
- Compute the tax payable at 10%.
- Complete a monthly tax return by declaring the gross rent and tax payable.

Worked out Example 1: Resident Individuals/Company

a) **Mr. Landlord** has two residential properties from which he is earning rents as follows:

- Property A with 5 units, at Kshs. 20,000 per month per unit
- Property B with 10 units at Kshs. 15,000 per month per unit

Assumptions:

b) All units were occupied by tenants throughout the month of January 2016.

c) Computation of taxable rent income and tax payable is as follows:

Gross Rent income for the Month of January 2016

| | |
|--------------------------------------|----------------|
| Property A - 5 units x Kshs. 20,000 | 100,000 |
| Property B – 10 units x Kshs. 15,000 | <u>150,000</u> |
| Total Rent income in Kshs. | 250,000 |

d) Computation of **Mr. Landlord's tax** for the month (on the assumption that he does not have any other incomes):

| | | |
|--|--------------|----------------------|
| Taxable monthly gross rent income - | Kshs. | 250,000 |
| Tax @ 10% | Kshs | 25,000 |
| Monthly Tax payable | Kshs | <u>25,000</u> |

e) The amount of **Kshs. 25,000** is payable on or before the **20th day of February 2016**

Note: the same rate of 10% applies for companies

7. Filing of return and payment of the tax

Compile your gross rent income from all properties and compute the tax payable at 10% of gross. The residential rental tax will be a final tax and will be paid on monthly basis using a simplified online payment return.

Therefore, eligible landlords shall not be required to file annual returns unless one has other incomes e.g. commercial rent, business income, farm income, etc.

Return must be filed online via iTax as follows;

- Log on to *iTax.kra.go.ke*

NB: To file return and pay online, first register with iTax via the iPage facility at KRA website.

- Download the residential rental income tax return form (*NB: the return can also be completed online without downloading*).
- Fill-in your tax returns.
- Upload the completed return/form.
- Generate the electronic payment slip to use in paying the tax at any KRA appointed bank or via Mpesa.
- To pay via Mpesa;
 - While generating the payment slip, select payment option of ‘**cash**’ and choose ‘**bank**’.
 - Use the **KRA Pay Bill Number 572572** and the **Account Number** is the **Payment Registration Number** quoted at the top right corner of the generated **Payment Slip**.

Note - For any month when the landlord does not receive any rent he/she will file a nil return.

8. Accounting for the tax in cases where the tenant is a withholding tax agent

Where the tenant is appointed as a withholding agent, the taxpayer will be issued with a withholding tax certificate for all amounts that have been withheld by the tenant. The landlords would then claim credit for the amount so withheld when filing their own return.

9. Exceptions to the Residential Rental Income Tax regime

This tax regime will **not apply** to;

- a) Rental income from commercial property.
- b) Where a person who would otherwise pay tax under this regime elects by notice in writing to the Commissioner **NOT** to be subjected to the Residential Rental Income Tax.
- c) Non- residents (as per Income Tax Act definition) landlords.
- d) Landlords earning residential rental income of more than Kshs. 10 million per year.

10. Benefits of the Residential Rental Income Tax

- a) Simplified tax computation at 10% flat rate on gross rent instead of the 10% - 30% rates in the current regime.
- b) Landlords shall not be required to produce records to account for expenses.
- c) This will be a final tax thus landlords will not be required to file annual returns if they do not have other incomes.
- e) Compliance will be easy and cost effective.

For further clarification, please contact;

- **Maurice Okelo** on Tel +254(020)2715540/2717611/2717642/2718513 Ext.2201 Email; maurice.okelo@kra.go.ke
- **Rose Kiendi** Ext.2036, Email; rose.kiendi@kra.go.ke
- **Josephine Mugure** Ext 2025, Email; josephine.mugure@kra.go.ke

Enquiries can also be directed to the KRA Call Centre; Tel: **+254 (020)4999999/+254 (0711) 099 999** or via email: callcentre@kra.go.ke. You may also contact the KRA Help Desk on Tel: **+254 (020) 2816095** or visit the Desk at Times Tower Building, Ground Floor or the nearest KRA Station for assistance. You can also communicate with us via email; rentalincome@kra.go.ke

For more details on the Residential Rental Income Tax visit the KRA website; www.kra.go.ke (web page named; **2015 landlords legislation**)

Note that the Income Tax Act Cap 470 of the laws of Kenya is available at KRA website: -www.kra.go.ke:

Disclaimer: *Taxpayers are notified that if there is any inconsistency between the provision of the Revenue Laws and the information contained herein, then the Revenue Laws shall prevail.*

December 2015

Enquiries

For further information, please contact
Taxpayer Education Programme
Tel. +254 (020) **2812010/2816095** or
KRA Contact:
Tel; +254 (020) 4999999
Cell: +254 (0711) 099 999
Email: *callcentre@kra.go.ke*

Domestic Taxes Department Head Office

Times Tower Building, 19th Floor
Haile Selassie Avenue
P.O. Box 30742-00100, Nairobi, Kenya
Tel: 020-310900
Website: www.kra.go.ke
KRA Online Services Portal:
<http://www.kra.go.ke/portal>