Overview of Monthly Rental Income Tax

Overview of Monthly Rental Income (MRI)

A simplified tax regime on residential rental income known as Residential Rental Income Tax (popularly known as Monthly Rental Income or MRI was introduced through the Finance Act 2015 and came into effect on 1st Jan, 2016.

Who is eligible for MRI?

MRI is payable by a resident person (individual or company) on rental income accrued or derived in Kenya for the use or occupation of residential property.

Following the enactment of the Finance Act 2020, MRI is applicable to persons earning rental income which is in excess of two hundred and eighty thousand shillings but does not exceed fifteen million shillings during any year of income. with effect from 1st January, 2021.

However, a person may elect, by notice in writing to the Commissioner, not to be taxable under MRI in which case the annual income tax regime shall apply to such a person.

Property owners with rental income above Kshs. 15 million per year will be required to declare the rental income together with incomes from other sources (if any) while filing their annual income tax returns.

What is the MRI tax rate?

The rate of tax is 7.5%, effective 1st January, 2024, on the gross rent received and is final tax. (The 10% tax rate will only be effective until 31st December, 2023). No expenses, losses or capital deductions are allowed for deduction from the gross rent.

Exemptions from MRI

- Rental income from commercial property
- Non-resident landlords.
- Landlords who earn rental income in excess of Kshs. 15,000,000 per year.

Appointment Of Rental Income Tax Agents

The Finance 2023 Act has introduced a provision for appointment of rental income tax agents for the purposes of collection and remittance of rental income tax to the Commissioner (effective 1st July 2023.) The tax shall be charged at 7.5% (effective 1st January 2024) and remitted by the fifth working day after the deduction was made. Further, the Commissioner may revoke this appointment at any time.

When is MRI Return and Payment Due?

Where a person deducts MRI he shall within five working days after the deduction was made remit the amount so deducted to the Commissioner together with a return in writing of the payment of the amount of tax deducted.

Are there penalties applicable to MRI?

Late filing of MRI returns attracts a penalty of:

1. KShs. 2,000 or 5% of the tax due; whichever is higher for individuals Kshs. 20,000 or 5% of the tax due; whichever is higher for body corporates
2. Late payment penalty is 5% of the tax due.
3. Late payment interest is 1% per month or part of the month.

How to Register a Property for MRI

1. Registration is done online via https://itax.kra.go.ke
2. Under the registration tab , click on the very last option: Register Property details.
3. Click on next.
4. There are two sections, section A that has auto-filled details of the landlord and section B, which should be filled by the taxpayer depending on the type of property. There are three options of property.
5. New property - for a taxpayer who has never registered any property even prior to this enhancement.
6. Update property - for updating property details.

7. Deregister property - for taxpayers wishing to cancel already filled registration details
8. After selecting the type of property, proceed to fill out a PIN of a tenant of the said property.
9. The system will auto-populate the name of the taxpayer.
10. Fill out the needed details depending on the selected option, and enter an "estimated monthly rental income"
11. Then click on 'add'.
12. Enter any remarks under 'Application Remarks' and click on 'Submit'.
13. You will receive an 'Acknowledgement Receipt' for registered property details.

How to file MRI

1. Returns are submitted online via iTax https://itax.kra.go.ke
2. Under the returns tab, click on 'File Return'
3. Select the obligation "Income Tax - Rental Income" and click on next. There are two sections:

Section A

Select whether you are filing an Original Return or an Amended Return.

Section B

- The total number of properties will be auto-populated based on the number of properties added. If for none, this field will need to be entered.
- Enter your monthly rental income.
- The Tax on rental income will be automatically computed.
- Where you have any rental withholding certificates and credits for the month in reference, the system will auto-populate. The tax due will also be calculated factoring in all the credits where any apply.
- The final step is to click the 'Submit ' button .

MRI is a final tax; therefore, persons are not required to declare the same in their annual income tax returns.

How to pay for MRI

1. After filing the MRI return, generate a payment slip as follows;
2. Payment registration number is generated through itax via https://itax.kra.go.ke
3. Under the tab ‘Payments’, select ‘New Payment Registration’.
4. Select the tax head as Income Tax and Tax sub-head as Income tax - Rent.
5. Select the payment type as Self-Assessment Tax where the return has already been filed and proceed to enter the tax periods (year and month).
6. After selecting the radio button, click on the ‘Add’ button then select the payment mode as appropriate.
7. Press ‘Submit’ and retrieve a unique payment registration number, which will be used for either mobile payments or payments through banks.

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