KENYA REVENUE AUTHORITY

Tulipe Ushuru, Tujitegemee!



PAY AS YOU EARN (PAYE)

Disclaimer: KRA notifies taxpayers that it will not accept responsibility for payments not received, credited and validated in the relevant KRA accounts.

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PAYE AS YOU EARN (PAYE)

PAYE is a system of tax collection whereby employers are required to deduct tax from the employment income of their employees and remit the tax to the Kenya Revenue Authority.

Taxable Employment Income

- Taxable employment income includes, all cash payments however described and the value of non-cash benefits (exceeding Kshs 5,000 per month).
- 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.
- Any excess mileage reimbursement to employee based on the rates that are higher than AA Kenya rates will be taxable on the employee. Effective 1st July, 2023.
- Club entrance and subscription fees shall be treated as taxable income to the extent that the expense has been allowed against the employer's income.
- Charged on both Residents and Non-Residents.
- Tax accounted for by Employers only.

Who is eligible for PAYE registration?

Any person who pays emoluments to an employee(s) is required to register for the PAYE obligation, upon which the person is required to:

- Deduct tax from the employee(s) emoluments
- Remit and account for the tax deducted to the Kenya Revenue Authority

Income Tax Individual Tax Rates

For purposes of computing PAYE, an employer is required to apply the Individual Income Tax Rates (Bands) that range from 10% to 35% as per Finance Act 2023 as tabulated below (effective 1st July, 2023);

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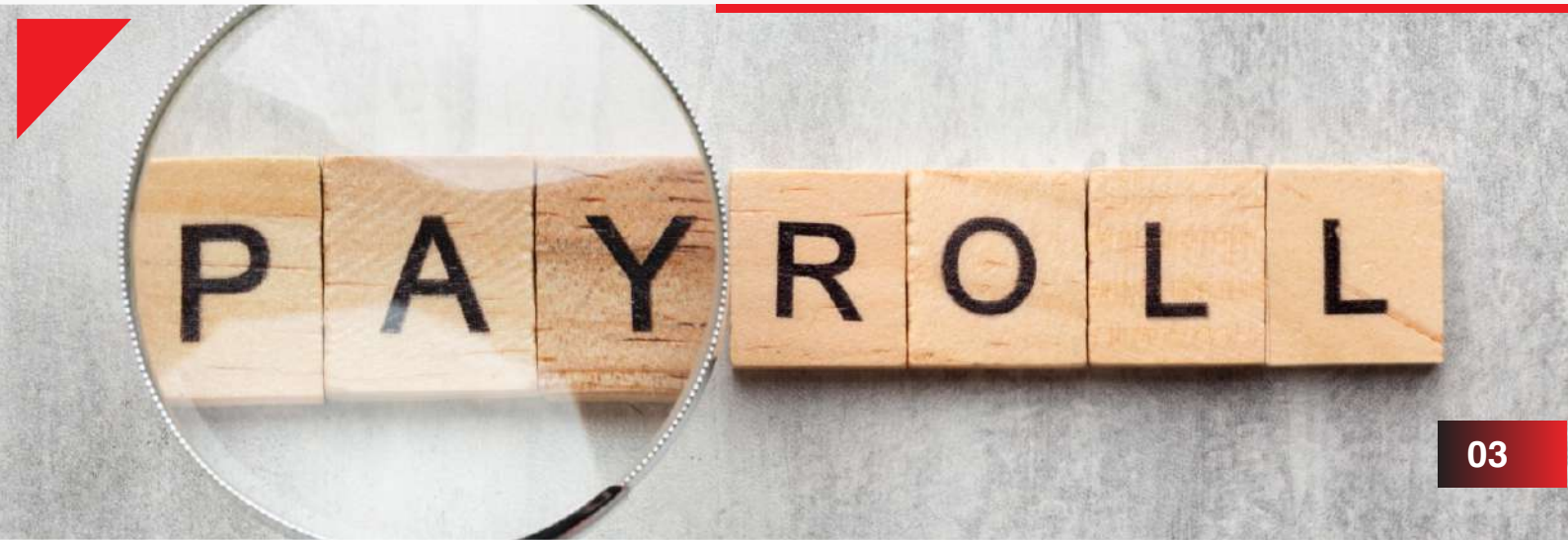
Income Tax Individual Tax Rates

For purposes of computing PAYE, an employer is required to apply the Individual Income Tax Rates (Bands) that range from 10% to 35% as per Finance Act 2023 as tabulated below (effective 1st July, 2023);

Monthly Pay Bands (Kshs.)	Annual Pay Bands (Kshs.)	Rate of Tax (%)
On the first Kshs. 24,000	On the first Kshs. 288,000	10
On the next Kshs. 8,333	On the next Kshs.100,000	25
On the next Kshs. 467,667	On the next Kshs. 5,612,000	30
On the next Kshs.300,000	On the next Kshs. 3,600,00	32.5
On all income above Kshs. 800,0000	On all income above Kshs. 9,600,000	35
Monthly Pay Bands (Kshs.)		
Kshs. 2,400.00	Kshs. 28,800.00	

PAYE Due Date

Employers are required to deduct tax (PAYE) from their employees' emoluments at the prevailing Individual Income Tax Rates and remit the amounts deducted to KRA on or before the 9th day of the following month. A PAYE return should also be filed through iTax on or before the 9th day of the following month.



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Non Cash Benefits Chargeable to Tax

Gains or profits from employment that are not paid in cash are chargeable to tax. Such gains or benefits include:

- Value of car benefit- where an employee is provided with a motor vehicle by his employer
- Value of housing- where an employer provides the employee with residential housing.
- Loans at interest rates that are lower than the prevailing market rate
- Value of benefit, advantage or facility in excess of the allowable limit of Kshs 5,000 per month or Kshs. 60,000 per year.
- Pension contribution paid by a tax-exempt employer to an unregistered scheme.
- Pension contribution paid by an employer to a registered or unregistered scheme in excess of the allowable amount of Kshs 30,000 or Kshs 360,000 per year.



Employment Income not Chargeable to PAYE

- Meals provided by the employer up to a maximum of **Kshs 5000 per month or Kshs. 60,000 per year.**
- Per diem / Night-out allowance of **Kshs. 10,000 per day**
- Medical Cover by employer
- In the case of non-Kenyan citizens who are in Kenya solely to serve the employer, expenditure on passages between Kenya and any place outside Kenya borne by the employer.

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- Pension contribution made by an employer, who is a person chargeable to tax, to a registered or unregistered scheme that is within the allowable limit of **Kshs. 30,000 per month or Kshs. 360,000 per year.**
- *Gratuity paid with respect to employment contracts for a continuous period of at least three years or, upon renewal or extension of such contract beyond three years. Further, the maximum contribution is limited to 31% of the emoluments, earned by the employee for the period of the contract. Effective 1st July 2026*

Allowable deductions

These are the amounts deducted from an employee's emoluments in order to arrive at the amount which will be subjected to tax.

Amounts deductible in determining the taxable employment income shall include:

1. Amount deducted as Affordable Housing Levy pursuant to the Affordable Housing Act, 2024.
2. Contribution to a post-retirement medical fund subject to a limit of Kshs. 15,000 per month.
3. Contributions made to the Social Health Insurance Fund (SHIF).
4. Mortgage interest, not exceeding Kshs. 360,000 per year or Kshs. 30,000 per month, upon money borrowed by a person from one of the financial institutions specified in the Fourth Schedule of the Income Tax Act, to purchase or improve premises occupied by the person for residential purposes.
5. Contribution made to a registered pension scheme or provident fund or a registered individual retirement fund up to a limit of Kshs. 360,000 per year or Kshs. 30,000 per month.

Tax Reliefs

1. Personal Relief

- Personal Relief is granted to resident individuals.
- It is meant to lighten the tax burden on the taxpayer.
- It is currently set at Kshs 2,400 or Kshs 28,800 per year.

2. Insurance Relief

- Insurance relief is granted to an employee who has paid insurance premiums for life or health or education policies for himself, his wife or child.
- Relief is given at 15% of premiums paid up to a maximum of Kshs 5,000 per month or Kshs 60,000 per annum.
- For education and health, the policy Must have a maturity period of at least 10 years.

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3. **Affordable Housing levy Act, 2024 (Affordable Housing Levy)**
    1. Each employee shall pay the Affordable Housing Levy at a rate of 1.5% of the employee's gross regular monthly pay; and the employer to match the same.
    2. The employer is required to remit the amount comprising the employee's and the employer's contributions on or before 9th of the following month.

PAYE Return Filing

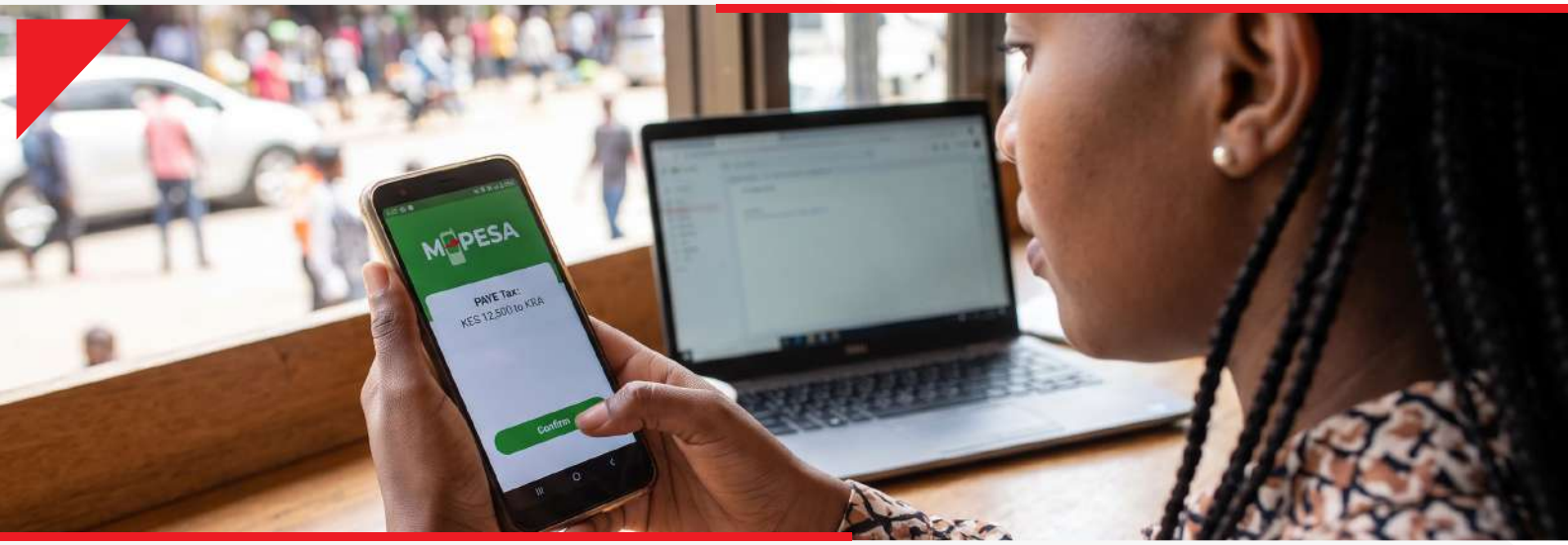
- At the end of the month an employer is required to compile a list of all the employees from whom he has deducted tax and submit the information to the Commissioner via a PAYE Return.
- PAYE returns are submitted online via iTax portal; https://itax.kra.go.ke.
- If there is no PAYE to declare, the taxpayer will be required to submit a nil PAYE return.
- Log in to iTax itax.kra.go.ke using the KRA PIN and password, click on Returns tab and select File Return option.
- Select the tax obligation as Income Tax - PAYE then click on next.
- Download the Excel return form, fill appropriately and click on **'VALIDATE'** at the end of the **Sheet N_ Tax Due.**
- The system will create a zipped file, which is found in the Documents folder.
- Log back to your iTax profile. Under "Returns" tab, select "File Return", Upload the zipped return in the "Upload Form" section, Agree to the Terms and Conditions by marking the check box then click on submit.

Step by step procedure for PAYE Payment

- Login to iTax using your PIN and password via https://itax.kra.go.ke.
- Click on Payments tab, select Payment Registration.
- Select Tax head as Income Tax.
- Select Tax Subhead as Income Tax- PAYE.
- Select Payment Type as Self-Assessment.
- Select Tax Period.
- Select the liability and click on add.
- Select Mode of Payment as Other Payment Mode or RTGS.
- Click on the submit button.

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The system will generate a Payment slip, which you will download and use to make the payment. A copy of the payment slip is sent to the taxpayer's registered email address.



Make Payment through any of the following methods

1. The bank using the Payment slip generated by the system.
2. M-PESA by using the Pay bill number 222 222, Account number is the Payment Registration Number, enter amount, MPESA PIN, and press OK to complete the payment.
3. Debit/Credit Card: Fill in the details in the fields marked with an asterisk

Penalties

The due date for filing a PAYE return and payment of the taxes deducted from employees is 9th of the following month. Where an employer does not observe the due dates, the penalties below shall apply:

1. Late filing
   - The higher of 25% of the tax due or Kshs. 10,000.
2. Late Payment
   - Penalty of 5% of the tax due; and
   - Late payment of PAYE attracts interest at 1% per month or part of a month on the unpaid tax until the tax it is paid in full.
   - For education and health, the policy Must have a maturity period of at least 10 years.
3. Penalty for failure to deduct and account for tax is 25% of Tax Involved or Kshs. 10,000.00 whichever is higher.

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