



# IMPLICATIONS OF RECENT TAX CHANGES ON INDIVIDUAL TAX PAYERS

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# Introduction



In the recent past (2016 & 2017) the country has witnessed a number of changes in the tax regime ranging from rates, incentives and administration

We explore the changes over the same period affecting personal Income tax

# Individual tax rates



Effective 1<sup>st</sup> January 2017, the individual tax rates have been expanded by 10% with a further 10% increase to be effected from 1 January 2018. This increment affects personal relief increased by the same percentages. This comes after 12 odd years of waiting

# Tax rates Cont'



The expansion of tax bands and increase in personal relief, albeit modest, will marginally lower the PAYE tax burden and increase the take home income for employees. This may marginally improve their purchasing power

# Effect of the tax rate change



<b>Income</b>	<b>Shs. 20,000</b>	<b>Shs. 200,000</b>
<b>Net Tax 2016</b>	1342	53,932
<b>Net Tax 2017</b>	1160	53,323
<b>Net tax 2018</b>	977	52,656
<b>Savings</b>	365	1276
<b>change</b>	27.19%	23.66%

# Bonuses?



Bonuses, overtime and retirement benefits paid to employees earning a total income excluding these benefits amounting to Kshs.11,180.33 per month shall be tax free

## Bonus cont'



This favors low income earners effectively exempting them from tax,

Could this be an opportunity for tax evasion?

Philanthropy encouraged



Donations made to the Kenya Red Cross, County Governments or other national disaster management bodies to alleviate the effects of calamities which have been declared national disasters by the President are now tax deductible



# Fresh graduates!



Employers who hire at least 10 fresh graduates as interns for a period of 12 months will receive a tax rebate equivalent to 50 per cent of the trainees' salaries.

Employers are required to get approval from NITA. (ITA Section 39B)

# Housing sector



In order to boost housing sector, w.e.f 1 January 2017 housing companies that develop at least 400 units annually will be taxed at a lower rate of 15%.

# Housing sector Cont'



According to vision 2030, Kenya needs 200,000 housing units annually.

The current supply is 50,000 units annually creating a deficit of over 2Million housing units. Over 61% of Kenya's urban population dwells in slums according to World Bank report 2017

The reduced tax rate is expected to trigger a reduction in the housing costs to benefit especially low income earners.

# Mortgage interest relief.



Owner occupier mortgage relief has  
been doubled from Shs.12, 500 per  
month to Shs.25,000  
w.e.f 1 January 2017



## Mortgage Market

The number of mortgages in the banking sector has grown from 13,800 to 24,500 from 2010 to 2015. Notwithstanding the growth, uptake of mortgages in the country is low.



The average mortgage loan in Kenya stands at Shs 8.3 Million requiring repayment of over Shs 100,000 per month for 20 years at an interest rate of 15%. This pushes mortgages beyond reach for many but the incentive on the developers can be counted to reduce the housing cost

# Efforts to drive compliance



## Tax Procedures Act (2015)

- 30 days' period for registration or deregistration
- Increased responsibilities and exposure of tax representatives
- Increased regulation of tax agents
- Retention of documents required under tax law for at least 5 years
- Extension of time to file returns and pay taxes
- Reduced late payment interest from 2% to 1% p.m.
- Use of IT

# Offences and Penalties



Offence	Penalty
Failure to Register or deregister for tax purposes	KES 100,000 per month but not more than KES 1 Million
Late submission of returns	<ul style="list-style-type: none"><li data-bbox="794 792 1926 949">❑ PAYE - The higher of 25% of the amount due or KES 20,000</li><li data-bbox="794 971 1926 1220">❑ In the case of any other return- the higher of 5% of the tax payable or KES 20,000</li></ul>



# Offences and Penalties



Offence	Penalty
Failure to retain records and documents	<ul style="list-style-type: none"><li data-bbox="792 439 1926 596">❑ 10% of the amount payable to which the document relates</li><li data-bbox="792 618 1926 868">❑ Where no tax is payable for the reporting period, KES 100,000 shall apply as the penalty</li></ul>
Failure to comply with electronic tax system	KES - 100,000
Tax Avoidance	Double the liability

# Other Measures



- Simplification of iTax System
- Deactivation of PINs
- Failure to make returns for 3 months renders PIN inactive
- Links to other systems like IFMIS, eCitizen and NSSF

# Interactive Session

