

## **I.T.1. Notes**

### **NOTES ON FILLING YOUR INCOME TAX RETURN AND SELF ASSESSMENT - YEAR 2005**

These notes are for your general guidance; nothing contained in the notes affects your obligation to make a full and true statement of your income. If you require any assistance, visit your nearest Income Tax Office.

#### **A. IMPORTANT**

All income declared in this return should be for the Calendar year 2005.

#### **B. WIFE'S INCOME**

If you are married and your wife is living with you, her income is deemed to be your income for Income Tax purposes and it should be included in your return. You need not include your wife's income if you are permanently separated. A married woman should complete her own return if:-

- (a) She is permanently separated from her husband either by court order or by agreement.
- (b) She is resident of Kenya and her husband is not.
- (c) She opts to file a separate return on her employment, professional or self-employment income.

#### **C. PENALTIES**

For failing to furnish accounts and for making an incorrect income return or statement or for claiming false personal reliefs you will be liable to additional tax. Failure to furnish a full and true return and accounts where needed or making a false return/statement may also be the subject of a criminal charge.

#### **D. DATE OF SERVICE**

Where a notice or other document is served through the post service is deemed in absence of proof to the contrary to have been effected:-

- (a) where it is sent to any address in Kenya, 10 days after the date of posting.
- (b) Where it is sent to any address outside Kenya, at the time at which the notice would be delivered in the ordinary course of post.

### **INCOME FROM EMPLOYMENT OR SERVICES RENDERED**

#### **VALUE OF BENEFITS (OTHER THAN CAR OR HOUSING)**

- 1) You should include the value of any benefit advantage or facility, of whatsoever nature enjoyed as a result of your employment. This covers among other things the value of any free or partly free:-
  - (a) Board, residence or meals provided at your employer's place of business.
  - (b) Domestic servants.
  - (c) Transport from your residence to your place of work.
  - (d) Goods and services.

Benefits in kind or in the form of service, however need not be included if the total value from all employments during the year was less than KShs.24,000/=. Moreover, if your employer provides a free medical service this need not be included except that if your employer pays your doctor's bills or reimburses you in cash, the amount is liable to tax. Expenditure borne by the employer, on passages of an employee is liable to tax except in those cases where the employee was recruited or engaged outside Kenya solely for the purposes of serving the employer, and is not a citizen of Kenya. If however, such an employee receives passage money and uses it for purposes other than the cost of own or his family's passage, e.g. for conveyance of his car, then the passage money is liable to tax.

You should consult with your employer as to the value of benefits received. If any amount is paid by your employer on your behalf for personal liabilities such as household bills, these are regarded as income from employment and must be returned. If your employer pays income tax for you, please call for relevant notes from the employer to enable you calculate tax on tax.

With effect from 12th June, 2003, the value of benefit is taken as the higher of cost of such benefit to the employer or the fair market value, provided that the Commissioner can prescribe values when the cost or fair market value is not easy to determine. The Commissioner's prescribed rates are:-

**A SERVICES MONTHLY RATES (SHS.) ANNUAL RATES (SHS.)**

|  |       |        |
|--|-------|--------|
| Electricity (communal or from a generator) | 1,500 | 18,000 |
| Water (communal or from borehole)          | 500   | 6,000  |

Provision of furniture 1% per month of cost to employer. If hired, the cost of hire should be brought to charge.

Telephone (landline and mobile phones) 30% of bills.

**B AGRICULTURAL EMPLOYEES**

|             |     |        |
|-------------|-----|--------|
| Water       | 200 | 2,400  |
| Electricity | 900 | 10,800 |

Also to be charged is low interest rate which is the difference between employer's loan rates and current and prescribed rate based on market lending rates which were: January to June -4% and July to December - 8%.

**2) VALUE OF CAR PROVIDED BY EMPLOYER**

Use of your employer's car for private purposes is a benefit. You should state (a) model, (b) make, (c) rating of the car provided by your employer. Car benefits have also been taxed under PAYE.

The fixed rates are:-

**MOTORCARS MONTHLY RATES (SHS) ANNUAL RATES (SHS)**

(i) Saloon Hatch Backs & Estates

|                 |          |           |
|-----------------|----------|-----------|
| Upto 1200 cc    | 3,600/=  | 43,200/=  |
| 1201 to 1500 cc | 4,200/=  | 50,400/=  |
| 1501 to 1750 cc | 5,800/=  | 69,600/=  |
| 1751 to 2000 cc | 7,200/=  | 86,400/=  |
| 2001 to 3000 cc | 8,600/=  | 103,200/= |
| over 3000 cc    | 14,400/= | 172,800/= |

(ii) Pick-ups Panel van (uncovered)

|              |         |          |
|--------------|---------|----------|
| upto 1750 cc | 3,600/= | 43,200/= |
| over 1750 cc | 4,200/= | 50,400/= |

(iii) Landrovers/Cruisers 7,200/= 86,400/=

**Note:** (i) Range Rovers and vehicles of similar nature are classified as saloons. Enter value of car in line 35.

(ii) Where actual cost of benefit is higher than fixed rates then actual cost is taken.

(iii) Where an employee is provided with a motor vehicle by employer, the benefit should be taken as the higher of:-

- (a) Fixed rates determined by the Commissioner as shown above or a prescribed rate of 2% of the cost of the vehicle.
- (b) Where such vehicle is hired from a third party; the higher of the cost of hiring the vehicle and Commissioner's rates should be taken.

**3) VALUE OF HOUSING PROVIDED BY EMPLOYER**

The value of housing provided is determined as follows:-

- (a) Ordinary employee and a whole time service Director - 15% of cash earnings plus value of benefits less rent actually charged by the employer and paid by employee provided that:
  - (i) where rent is paid to a third party under an agreement that is at arms length, take the higher of 15% as computed or the rent paid.
  - (ii) where rent is paid under an agreement that is not at arms length, take the market value or rent paid whichever is higher.
  - (iii) where the premises are owned by the employer, take the market value of the premises.
- (b) Agricultural employee - (required by terms of his employment to reside on a plantation or farm) - 10% of cash earning plus value of the benefits less rent charged by employer and paid by employee.
- (c) Hotel employee who is also provided with full board - 20% cash earnings plus value of benefits other than housing.
- (d) For director other than whole time service Director, the value of quarters is determined at 15% of total income from all sources.
- (e) Enter the net figure in line 36.

**4) PENSION CONTRIBUTIONS**

Contributions made to any registered fund or to a registered provident fund are now an admissible deduction in arriving at an employee's taxable pay.

The employee's deductible contribution is the least of:-

- (a) 30% of pensionable pay in the year.
- (b) Employee's actual contributions in the year
- (c) Kshs.210,000/= in the year restricted to KShs.17,500/= per month of service where contributions are in respect of a part year of service.

**5) QUALIFYING INTEREST**

"Qualifying Interest" is the aggregate interest discount or original issue discount receivable by a resident individual in any year of income from:-

- (i) Bank or financial institution registered under the Banking Act
- (ii) Building Society.
- (iii) Central Bank of Kenya.

This will not include interest from:-

- (a) Housing bond in excess of KShs.300,000/=.
- (b) Cooperative Societies.

**6) INSURANCE RELIEF**

The amount of insurance relief is 15% of premium paid provided that:

- (i) it is in respect of the taxpayer's life or life of his wife or child.
- (ii) it secures a capital sum that is payable in Kenya or the currency of Kenya.
- (iii) a copy of the policy is attached.
- (iv) if it is an education policy, it is for a minimum of ten years.
- (v) the term of the life or education policy commenced on or after 1st January 2003.
- (vi) the insurance relief shall not exceed Shs. 36,000.

**7) RATES OF TAX**

**A** The individual rates of tax shall be:-

|                                  | <b>Rate in each twenty shillings</b> |
|----------------------------------|--------------------------------------|
| on the first Shs.121,968/=       | 10%                                  |
| on the next Shs.114,912/=        | 15%                                  |
| on the next Shs.114,912/=        | 20%                                  |
| on the next Shs.114,912/=        | 25%                                  |
| on all income over Shs.466,704/= | 30%                                  |

Enter in line 49.

**B** The wife's employment, wife's professional and wife's self-employment income rates of tax shall be:-

|                                  | <b>Rate in each twenty shillings</b> |
|----------------------------------|--------------------------------------|
| on the first Shs.121,968/=       | 10%                                  |
| on the next Shs.114,912/=        | 15%                                  |
| on the next Shs.114,912/=        | 20%                                  |
| on the next Shs.114,912/=        | 25%                                  |
| on all income over Shs.466,704/= | 30%                                  |

Enter in line 45.