

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

### **WHAT YOU NEED TO KNOW WHEN FILLING YOUR INCOME TAX RETURN - YEAR 2014**

#### **PLEASE NOTE**

1. These notes are for general guidance only. Nothing contained herein affects your obligation to make a full and true statement of your income. You may visit any Domestic Taxes Department Office near you if you need any assistance.
2. The Return is not valid if completed on estimated basis or if not completed in all aspects and if not accompanied by accounts and other supporting documents as necessary.
3. All income to be declared in this return is for the calendar year 2014.

#### **WIFE'S INCOME**

The income of a married woman living with her husband is deemed to be the income of the husband, for Income Tax purposes. A married woman may complete her own return if:-

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

#### **OFFENCES**

It is an offence under the Income Tax Act to make an incorrect return of income by omitting or understating therein any income which should have been declared, or to make an incorrect statement in a return in compliance with a notice given under this act, or give incorrect information regarding any matter including incorrect information for a claim for a personal relief affecting the liability to tax of another person.

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

##### **1. VALUE OF BENEFITS OTHER THAN CAR AND HOUSING**

The value of any benefit, advantage or facility of whatsoever nature enjoyed as a result of your employment should be included in your taxable income. Examples include;

- i. Board, residence or meals provided at your employer's place of business.
- ii. Domestic servants.
- iii. Transport from your residence to your place of work.
- iv. Goods and/or services provided by your employer.

#### **PROVIDED THAT;**

- a. The benefit is not taxable if the total value from all employments during the year is less than Ksh 3000 per month or Ksh 36000 per annum
- b. Free medical services provided by your employer should not be included BUT if the employer pays your Doctor's bills or reimburses you in cash then the amount so paid or reimbursed is taxable.
- c. Expenditure paid by the employer on passage for an employee on passage between Kenya and any other country is taxable 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 his own or his family's passage, e.g. for conveyance of his car, then the passage money is taxable.
- d. If any amount is paid by your employer on your behalf for personal liabilities such as household bills, such amount is income from employment and must be declared.
- e. If your employer pays income tax for you, please obtain relevant notes from the employer to enable you calculate tax on tax.

You should consult with your employer as to the value of benefits received if in doubt.

**NOTE**

With effect from 12th June, 2003, the value of a benefit is the higher of cost of such benefit to the employer or fair market value, provided that the Commissioner shall prescribe the value when the cost or fair market value of benefit cannot be determined.

The Commissioner's prescribed rates for some of the benefits are as follows:

**A. SERVICES**

<b>SERVICE</b>	<b>MONTHLY RATE (Ksh)</b>	<b>ANNUAL RATE (Ksh)</b>
Electricity (communal/generator)	1500	18000
Water (communal/borehole)	500	6000
Provision of furniture, telephone: 1% per month of cost to employer. If hired, cost of hire should be charged. Telephone (landline and mobile) chargeable at 30% of bills		

**B. AGRICULTURAL EMPLOYEES - required under terms of employment to reside in a plantation**

<b>SERVICE</b>	<b>MONTHLY RATE (Ksh)</b>	<b>ANNUAL RATE (Ksh)</b>
Electricity (communal/generator)	900	10800
Water (communal/borehole)	200	2400

Also to be charged is low interest benefit which is the difference between employer's loan rates and current prescribed rate based on market lending rate.

**2. VALUE OF CAR BENEFIT PROVIDED BY EMPLOYER**

Where an employee is provided with a motor vehicle by employer he shall be deemed to have received a benefit equal to the higher of the Commissioner's rates determined from time to time and the prescribed rate of benefit.

i. The current Commissioner's determined rates for 2014 are: -

**a) Saloons, Hatch backs, and Estates**

<b>CC Rating</b>	<b>Monthly (Ksh)</b>	<b>Annual (Ksh)</b>
Up-to 1200	3600	43200
1201-1500	4200	50400
1501-1750	5800	69600
1751-2000	7200	86400
2001-3000	8600	103200
Over 3000	14400	172800

**b) Pick-Ups and Panel Vans (uncovered)**

<b>CC Rating</b>	<b>Monthly (Ksh)</b>	<b>Annual (Ksh)</b>
Up-to 1750	3600	43200
Over 1750	4200	50400

**c) Land Rovers and Land Cruisers**

<b>Monthly (Ksh)</b>	<b>Annual (Ksh)</b>
7200	86400

**NB:** Range Rovers and vehicles of similar nature are classified as saloons.

The prescribed rate for 2014 is

- 2% of the initial cost of the vehicle or,
- Where such vehicle is hired from a third party the employee shall be deemed to have received a benefit equal to the higher of the cost of hiring the vehicle and the prescribed rate.  
Enter the value of car in Line 31.

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

The value of housing provided by employer is determined as follows:

- a. In case of an 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, the value shall be the higher of 15% as computed or the rent paid.
  - ii. Where rent is paid under an agreement that is not at arms length, the value shall be the market value or rent paid, whichever is higher.
  - iii. Where the premises are owned by the employer, the market value of the premises shall be charged.
- b. Agricultural employee - (required by terms of his employment to reside on a plantation or farm) - 10% of cash earnings 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% of cash earnings plus value of benefits.
- d. In the case of director other than a whole time service director, the value of the benefit is 15% of his total income from all sources.  
Enter the figure determined as above in Line 32.

**4. PENSION CONTRIBUTIONS**

- Contributions made by an individual to any registered pension fund, to a registered provident fund or to a registered individual retirement fund are allowable deductions in arriving at the individual's taxable pay. The deductible contribution is the lesser of:-
- (a) 30% of pensionable pay in the year.
  - (b) Individual's actual contributions in the year
  - (c) Kshs.240, 000/= in the year, restricted to Shs.20,000 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:
- a. Bank or financial institution registered under the Banking Act,
  - b. Building Society.
  - c. Central Bank of Kenya. This will not include interest from:-
    - i. Housing bond in excess of Ksh 300,000
    - ii. Co-operative Societies

**6. RELIEFS**

**(a) Personal Relief**

A resident individual in receipt of taxable income shall be entitled to a tax relief referred to as the personal relief. The personal relief for the year of income 2014 amounts to Ksh 13,944. However the relief should be restricted to the number of months from the date an individual arrived in the country or to the date of departure from the country or date of death at the rate of Kshs.1, 162 per month.

**(b) 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. If it is an education policy, it is for a minimum of ten years.
  - iv. The term of the life or education policy commenced on or after 1st January 2003.
  - v. The insurance relief shall not exceed Ksh 60,000 or Kshs. 5,000 per month

**7. NON ARM'S-LENGTH EMPLOYMENT INCOME**

This is income received by an employee who is connected with or related to his employer by shareholding, blood, marriage or other family ties. In the case of a married woman living with her husband, this includes income received from a company, the voting power of which is held to the extent of twelve and one-half percent or more at any time during the year of income by her or by her husband or by both jointly, either directly or through nominees.

**8. RATES OF TAX**

Individual rates of tax shall be:-

<b>Rate in each Ksh 20</b>	<b>Self</b>	<b>Wife</b>
First Ksh 121,968	10%	10%
Next Ksh 114,912	15%	15%
Next Ksh 114,912	20%	20%
Next Ksh 114,912	25%	25%
All income over Ksh 466,706	30%	30%

Enter the income in line 45 of the Return for self and line 41 for wife.