



PAYE AS YOU EARN (PAYE)

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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 Ksh 3,000 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 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 (effective 1st July 2023);

Monthly Pay Bands (Ksh.)	Annual Pay Bands (Ksh.)	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
Personal Tax Relief		
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.

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:

- Where an employee is provided with a motor vehicle by his employer i.e. car benefit
- Provision of housing by the employer
- Loans at interest rates that are lower than the prevailing market rate
- Household utilities – including telephone, electricity, water, security, domestic expenses in excess of the allowable limit of KShs 3,000 per month.
- 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 20,000 or KShs 240,000 per year.

Employment Income not Chargeable to PAYE

- Meals provided by the employer up to a maximum of KShs 4,000 per month or KShs. 48,000 per year.
- Night-out of KShs. 2,000 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.
- 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. 20,000 per month or KShs. 240,000 per year.

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

- 1. Mortgage Interest Deduction** - Interest paid on an amount borrowed from the first five financial institutions specified in the fourth Schedule of the Income Tax Act, either for the purchase or improvement of premises occupied by a person during that year of income for residential purposes is deductible against employment income, up to a maximum of Kshs 300,000/- per annum.
- 2. Pension contributions by an employee to a registered pension fund** - The allowable deduction is limited to a maximum of Ksh 20,000 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. Tax relief on post retirement medical fund contribution

- The Finance Act, 2023 has introduced a new tax relief on post-retirement medical fund. The post-retirement medical fund relief shall be 15% of the amount of contribution paid or KES 60,000 p.a whichever is higher. W.e.f 1st January, 2024

3. 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 60,000 per annum.
- For education and health, the policy has a maturity period of at least 10 years.
- From 1st January, 2022, contributions to National Hospital Insurance Fund (NHIF) qualifies for insurance relief.

4. Employment Act, 2007 (Affordable Housing Levy)

1. Each employee and employer shall pay the Affordable Housing Levy at a rate of 1.5% of the employee's gross monthly salary;
2. Remit the amount comprising the employee's and the employer's payment within 9 working days after the end of the month in which the payment is due.

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 <https://itax.kra.go.ke>.
- If you have no PAYE to declare, you are required to submit a nil return.
- Log in to iTax itax.kra.go.ke using your 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**.

PAYE Return Filing

- 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..
- You will receive an acknowledgement receipt to confirm successful filing of your PAYE return.

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.

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 Paybill number 222222, 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 interest at 1% interest per month or part of a month on the unpaid tax until the tax is paid in full.

3. Penalty for failure to deduct and account for tax 25% of Tax Involved or KShs. 10,000.00 whichever is higher.



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