EMPLOYER'S GUIDE

TO

PAY AS YOU EARN IN KENYA

Revised Edition - 2005

(NOTE:-THIS EDITION INCORPORATES (P38) MONTHLY TAX TABLES)

Form P.7
IMPORTANT:
The objective of this booklet is to explain the system of deducting income tax from employees' emoluments. It does not therefore in any way modify or replace the General Legislation. It may be some time before a further reprint is available therefore employers should carefully preserve this edition.

NOTE: (i) This issue contains many important amendments affecting P.A.Y.E. operations in the year 2005

(ii) This Edition Incorporates (P38) Monthly Tax Tables.

Form P.7
FORWARD NOTE
The Finance Act 2004 contains the following amendments to the Income Tax Act (Cap. 470) which affect PAYE tax operation.

Personal Relief
Monthly Personal Relief has been increased from Kshs. 1,056 per month to Kshs. 1,162 per month (or Kshs. 12,672 per annum to Kshs. 13,944 per annum) with effect from 1st January 2005.

Income Tax Brackets
The taxable income bands have been widened which means that an employee whose earnings is less than Kshs. 11,135 per month is not eligible for PAYE. Effective Date 1st January 2005.

Compensation for Loss of Office (Contract of Employment)
Section 5 (2) (c) of the Income Tax has been amended as follows:-

- In case the contract of employment is for a specified term, the lump sum payable shall be spread forward and assessed evenly over the unexpired period of the contract.
- Where the contract of employment is for unspecified term with no provision for compensation, the amount of compensation shall be deemed to have accrued evenly and assessed in the three years period immediately following termination of the contract.

The amendments are effective from 1st July 2004.

Tax Free Monthly Pension
The tax free limit of monthly pension has been increased from Kshs. 12,500 per month to Kshs. 15,000 per month (Kshs. 150,000 per annum to Kshs. 180,000 per annum) with effect from 1st July 2004.

Employers’ Contribution to Registered or Unregistered Pension Scheme or Provident Fund
Contributions paid by a non-taxable employer to unregistered pension scheme or excess contributions paid to a registered pension scheme, provident fund or individual retirement fund: shall be employment benefit chargeable to tax on the employee.

The amendment is effective from 1st July 2004.

Deductions in respect of registered individual retirement fund (Section 22B)
The percentage rate has been increased from 20% to 30% of pensionable income of the individual to be line with employer registered retirement schemes. The allowable deduction shall be: the lesser of:-

- The actual contribution made by the individual, or
- 30% of pensionable income, or
- Kshs. 17,500 per month (or Kshs. 210,000 per annum)

The amendment is effective from 1st January 2005.

You are further advised to kindly observe the due date for remittance of PAYE tax deductions, which is on or before the 9th day of the month following the Pay-roll month, and to take note of the important changes incorporated in the Guide Book. Please preserve your copy.

I wish to extend my appreciation for your continued co-operation in the operation of the PAYE tax scheme and look forward to your continued support.

J N RANGUMA
COMMISSIONER OF INCOME TAX
## P.38 TAX TABLES

### TAX TABLE FOR MONTHLY INCOME: YEAR 2005

<table>
<thead>
<tr>
<th>MONTHLY TAXABLE INCOME (INCOME BRACKETS)</th>
<th>TAX ON TAXABLE INCOME</th>
<th>TAX RATE PERCENTAGE (%) IN EACH SHILLING</th>
</tr>
</thead>
<tbody>
<tr>
<td>For Taxable Income under Kshs. 10165</td>
<td>Kshs. 1016 on Taxable Income of Kshs. 10164</td>
<td>10%</td>
</tr>
<tr>
<td>For Taxable Income from Kshs. 10165 but under Kshs. 19741</td>
<td>Kshs. 1016 plus Kshs. 1436 Tax on Taxable Income of Kshs. 9576</td>
<td>15%</td>
</tr>
<tr>
<td>For Taxable Income from Kshs. 19741 but under Kshs. 29317</td>
<td>Kshs. 2452 plus Kshs. 1915 Tax on Taxable Income of Kshs. 9576</td>
<td>20%</td>
</tr>
<tr>
<td>For Taxable Income from Kshs. 29317 but under Kshs. 38893</td>
<td>Kshs. 4367 plus Kshs. 2394 Tax on taxable Income of Kshs. 9576</td>
<td>25%</td>
</tr>
<tr>
<td>For taxable Income from Kshs. 38893 and above.</td>
<td>Kshs. 6761 plus Tax calculated at 30% on Taxable Income over Kshs. 38892</td>
<td>30%</td>
</tr>
</tbody>
</table>
EMPLOYER’S GUIDE TO “PAY AS YOU EARN”

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PART I
GENERAL

1. "PAY AS YOU EARN" APPLIES TO ALL EMPLOYMENTS

The "Pay As You Earn" method of deducting income tax from salaries and wages applies to all income from any office or employment. Thus "Pay As You Earn" applies to weekly wages, monthly salaries, annual salaries, bonuses, commissions, directors' fees (whether the director is resident or non-resident) pensions paid to pensioners who reside in Kenya, where the amount from a registered pensions funds exceeds Kshs. 180,000 per annum, and any other income from an office or employment. The system applies to all cash emoluments and all credits in respects of emoluments to employees' accounts with their employers, no matter to what period they relate.

It includes the value of housing where this is supplied by the employer.

It does not include earnings from "casual employment" which means any engagement with any one employer which is made for a period of less than one month, the emoluments of which are calculated by reference to the period of the engagement or shorter intervals. Regular part-time employees and regular casual employment where the employees are employed casually but regularly are not considered to be casual employees.

2. EMPLOYER'S DUTY TO DEDUCT INCOME TAX

It is the employer's statutory duty to deduct income tax from the pay of his employees whether or not he has been specifically told to do so by the Department.

The normal P.A.Y.E. year runs from 1st January to 31st December. The necessary P.A.Y.E. Stationery is issued to Employers before commencement of the year.

3. PURPOSE OF EMPLOYER'S GUIDE TO "PAY AS YOU EARN"

General instructions on the operation of "Pay As You Earn" accompany the documents sent to employers before each P.A.Y.E. period and there are further specific directions printed on the various forms issued by the Income Tax Office.

The purpose of this Guide is to assist employers in general operation of P.A.Y.E. system. Where a problem arises which is not covered in this Guide, then Employers should contact the Local Income Tax Offices for assistance.

4. REGULATIONS

This booklet is only a guide and in no way modifies the general legislation. The administration of the Law is vested in the Commissioner of Income Tax who may authorize other persons to perform the majority of the duties for which he is responsible.

The relevant legislation is contained in section 37 of the Income Tax Act and such rules as the minister may have made under section 130.

If any employer fails to comply with the provisions of section 37 and with the provisions of any rules made under section 130 which deal with the payment over of tax deducted and the accounting for it to the Commissioner, the Commissioner may by order impose a penalty equal to twenty five percent of the amount of tax involved or ten thousand shillings whichever is greater, and the provisions of the Act relating to the collection and recovery of the tax shall apply to the collection and recovery of any tax payable and such penalty as if it were tax due by the employer.
5. **DEFINITIONS OF TERMS USED**

(a) **Employer**

For "Pay As You Earn" purposes the term "employer" is to be taken, when necessary, to include:

(i) *any person having control of payment of remuneration;*

(ii) any agent, manager or other representative in Kenya of any employer who is outside Kenya;

(iii) *any paying officer of Government or other public authority;*

(iv) any trust or insurance company or other body or person paying pensions.

It may accordingly include the manager of a branch or farm as well as the main employer. The main employer must decide which offices, etc., are to be "pay point" (see below) and ensure that those in charge are adequately instructed in their duties under the scheme.

(b) **Employee**

This word is defined as inclusive of any holder of an appointment of office, whether public, private or calling, for which remuneration is payable. "Employee" should be read as including, for example, minister, chief, any public servant, company director (resident or non-resident), secretary, individuals working for any Religious Organization etc., in addition to those more commonly known as employees. It includes an employee who retires on pension and stays in Kenya where pensions received from a registered pension fund exceeds Kshs. 15,000 per month (Kshs. 180,000 per annum).

(c) **Paying Point**

A "paying point" is the place at which remuneration is paid.

If a non-resident employer calculates remuneration abroad and remits the remuneration direct to the employee then such remuneration should be notified to the Department through the employers local representative and P.A.Y.E. tax operated on the remuneration accordingly. Any cases of doubt should be referred to the Income Tax Office for advice.

(d) **Monthly Pay**

"Monthly pay" includes income in respect of any employment or service rendered, accrued in or derived from Kenya.

This will include:

(i) Wages, salary, leave pay, sick pay, payment in lieu of leave, directors' and other fees, overtime, commission, bonus, gratuity or pension whether payable monthly or at longer or shorter intervals.

(ii) Cash allowances, e.g. house or rent allowance.

(iii) The amount of any private expenditure of the employee paid by the employee otherwise than as a loan, e.g. house rent, grocery bills, electricity, water, telephone bills, school fees,

(iv) Non-cash benefits when the aggregate value exceeds Ksh.2000 per month.

(v) The value of housing, where provided by the employer.
Any amount which is mere reimbursement of expenses of employment, e.g. subsistence allowance when on duty away from home, mileage allowance for use of employee's car or for travelling expenses incurred in the course of employment will be excluded. Such amounts must, however, be shown on any return of wages called for by the Income Tax Office.

Round sum expenses allowances should be treated as pay, included on the Tax Deduction Card and taxed accordingly. Expenses incurred wholly and exclusively in the production of employment income out of such Round Sum Allowances should be claimed on completion of self-assessment return of income.

Any amount not paid in cash but credited to an employee's account with the employer is to be treated as paid and tax deducted accordingly.

(6) EMPLOYMENT BENEFITS

(i) VALUE OF BENEFIT – SECTION 5 (2) (b)

Where an employee enjoys a benefit, advantage or facility of whatsoever nature in connection with employment or services rendered; such value should be included in employee’s earnings and charged to tax. The minimum taxable aggregate value of a benefit, advantage or facility has been increased from Kshs. 1000 per month to Kshs. 2000 per month (or Kshs. 12000 to Kshs. 24000 per annum). This is with effect from 1st January 2004.

(ii) Following amendment to Section 5 (5) of the Income Tax Act through the Finance Act 2003: the chargeable value of a benefit, advantage or facility granted to employee by virtue of employment or services rendered should be taken as the higher of the cost to employer or fair market value of the benefit, provided that the Commissioner may from time to time prescribe rates of benefits where the cost or fair market value cannot be determined.

In line with the provisions of the law, the Commissioner has prescribed rates on the following:-

<table>
<thead>
<tr>
<th>Prescribed Rates</th>
<th>Monthly Rates</th>
<th>Annual Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A SERVICES</strong></td>
<td>(shs.)</td>
<td>(shs)</td>
</tr>
<tr>
<td>(i) Electricity – (communal or from a generator).</td>
<td>1500</td>
<td>18000</td>
</tr>
<tr>
<td>(ii) Water – (communal or from a borehole).</td>
<td>500</td>
<td>6000</td>
</tr>
<tr>
<td>(iii) Provision of furniture, 1% of cost to employer.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If hired the cost of hire should be brought to charge.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Telephone (Landline and Mobile Phones)</td>
<td>30% of bills</td>
<td></td>
</tr>
</tbody>
</table>

| **B AGRICULTURAL EMPLOYEES: REDUCED RATES OF BENEFITS** |
|-------------|---------------|
| (i) Water | 200 | 2400 |
| (ii) Electricity | 900 | 10800 |

Note: The above rates (A + B) are effective from 12th June 2003.

REFER TO APPENDIX 7 SHOWING DETAILS OF BENEFITS.
NOTE: **School fees:** Education fees of employee's dependants or relatives will not be taxed on the employees hand provided the same has been taxed on the employers!

(7) **LOW INTEREST RATE EMPLOYMENT BENEFIT/FRINGE BENEFIT**
When employer provides loan to an employee and charges interest which is below the prescribed rate of interest, then the difference between the prescribed rate and employer's loan rate is a benefit from employment chargeable to tax on the employee. The benefit is computed as the difference between the interest charged by employer and prescribed rate of interest. Low interest rate employment benefit provisions will also apply to a director and will continue to apply even after the employee or director has left employment as long as the loan remains un-paid.

However, following amendment to the law by the 1998 Finance Act and introduction of "FRINGE BENEFIT TAX" which is payable by employers, the determination of the chargeable benefit is now in two categories i.e. for loans provided on or before 11th June, 1998 and loans provided after 11th June, 1998.

(i) **Low Interest Rate Benefit**
Employees will continue to be taxed on low interest rate benefit in respect of loans provided by the employer on or before 11th June, 1998 as before. The low interest benefit chargeable on the employees is calculated as the difference between interest charged to the employee and the prescribed rate of interest of 15% per cent, or such interest rate based on the Market Lending Rates prescribed by the Commissioner; whichever is lower.

**Example**

- Loan provided by employer - KShs.1,500,000
- Employer's Loan Interest Rate - NIL (interest free)
- Prescribed Rate of Interest - 2%

**Calculation of Low Interest benefit:**

- Low Interest Benefit is (2%-NIL=2%): KShs.1,500,000 x 2%  
  = KShs.30,000 per annum  
  i.e. KShs.2,500 per month

*The prescribed rate of interest for the year of income commencing on or after 1st January, 1995 is 15 per cent (15%) or such interest rates based on the market lending rates as the Commissioner may prescribe from time to time.

**YEAR 2004:** For the year 2004, the Commissioner prescribed the following interest rates:

(a) January – June 2004 - 1%
(b) July – December 2004 - 2%

(ii) **Fringe Benefit Tax Payable By Employer (Section 12B) Effective Date 12th June, 1998**
Tax known as Fringe Benefit tax was introduced by new provisions under Section 12B of the Income Tax Act and is payable by employer's commencing on the 12th June, 1998 in respect of loan provided to employee, director or their relatives at an interest rate lower than the market interest rate. The taxable value of Fringe Benefit is determined as follows:

In case of loans provided after 11th June, 1998 or loan provided on or before 11th June, 1998 whose terms and conditions have changed after 11th June, 1998, the value of Fringe Benefit shall be the difference between the interest that would have been payable on the loan, if calculated at the market interest rate and the actual interest paid.
Example

Employer's loan amount - KShs.2,100,000
- Interest charged to employee - NIL
- Market Interest rate for the month - 2%

Calculation of Fringe Benefit Tax:-
Fringe Benefit is (2% - NIL = 2%) KShs.2,100,000 x 2%
= KShs.42,000 per annum
i.e. KShs.3,500 per month.
Fringe Benefit tax payable by employer is Ksh. 3,500 x 30% = KShs.1050/- (for the month).

YEAR 2004: For the year 2004 the Commissioner published the following prescribed rates of interest:-

(1) January – March - 1%  (3) July – September - 2%
(2) April – June - 1.5%  (4) October – December - 2%

NOTES
- Fringe benefit is taxable at corporation rate of tax of 30% in each shilling.
- Fringe benefit tax shall be charged on the total taxable value of Fringe benefit each month and the tax is payable on or before the 10th day of the following month to the Pay-Master General in the same way as normal P.A.Y.E. remittance. Employers will therefore pool together all the Fringe benefits for the employees in each month.
- The provision of loans shall include a loan from an unregistered pension or provident fund.
- Fringe benefit tax charged prior to 1st January, 1999 is due and payable on or before 10th January, 1999.
- "Market Interest Rate" means the average 91 days Treasury Bill rate of interest for the previous quarter.
- The above provisions will continue to apply even after employee leaves employment as long as the loan remains un-paid.
- Fringe benefit tax is payable even where corporation tax is not due by the employer in question.
- The provisions of the act relating to fines, penalties, interest charged, objections and appeals shall apply to the fringe benefit tax.

(8) HOUSING - SECTION 5(3)
The value of housing provided by the employer is determined as follows:-

a) Director
In the case of a director of a company other than whole time service director, an amount equal to 15% of his total income excluding the value of those premises.
Provided that:--

(i) where the premises are provided under an agreement with a third party which is not at arm’s length, the value of quarters determined shall be the fair market rental value of the premises in that year or the rent paid by the employer, whichever is the higher, or;

(ii) where the premises are owned by the employer, the fair market rental value of the premises in that year is to be taken.

b) **A Whole Time Service Director**

Taxable benefit shall be an amount equal to 15% of the gains or profits from his employment, excluding the value of those premises.

Provided that:--

(i) where the premises are provided under an agreement with a third party which is not at arm’s length, the value of quarters determined shall be the fair market rental value of the premises in that year or the rent paid by the employer whichever is the higher or;

(ii) where the premises are owned by the employer, the fair market rental value of the premises in that year is to be taken.

c) **Agricultural Employee**

( Including a whole time service director) who is required by terms of employment to reside on a plantation or farm;-  

10% of his gains or profits from employment minus any rent charged to the employee. This is subject to employer obtaining prior approval from Income Tax Office (see also reduced rates of benefits for agricultural employees – Appendix 5).

- Agricultural employee shall not include a director other than a whole-time service director.

d) **Any other Employee**

The taxable value shall be the higher of an amount equal to 15% of the gains or profits from employment or services rendered, excluding the value of those premises, or the rent paid by the employer if paid under an agreement made at arm’s length with a third party:

Provided that:--

(i) If employer pays rent under an agreement not made at arm’s length with a third party, the value of quarters shall be; the fair market rental value of the premises in that year or rent paid by the employer; whichever is higher or

(ii) Where the premises are owned by employer; the fair market rental value of the premises in that year is to be taken.

**NOTES**

- In calculating the housing benefits employer is required to deduct rental charges recovered from the employee or director. The amount remaining is the chargeable value to be included in the total taxable pay.

- If the premises are occupied for part of the year only, the value is 15% of employment income relative to the period of occupation less any rental charges paid by employee/director. Chargeable value shall be reduced by rent paid by an employee.

- Any employer who provides other than normal housing to an employee should consult his local Income Tax office for advice regarding the value of such housing.
Example:
A Manager who earns basic salary of Kshs. 30,000 per month plus other benefits – (e.g. Motor Car, House Servants e.t.c) – Kshs. 15,000/= is housed and the employer pays to the Landlord rent of Kshs. 20,000 per month (i.e Shs. 240,000 per annum) under an agreement made at arms’s length with the third party.

Calculation For Value of Quarters

<table>
<thead>
<tr>
<th>Basic Salary</th>
<th>-</th>
<th>Kshs. 30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add: Benefits</td>
<td>-</td>
<td>Kshs. 15,000</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>Kshs. 45,000</td>
</tr>
</tbody>
</table>

15% Value of quarters there of = Kshs. 45,000 x 15 / 100 = Kshs. 6,750

*Rent paid by the employer Kshs. 20,000/= per month is the amount to be brought to charge and not 15% value of quarters. REFER TO P9A – APPENDIX 1A.

(9) CAR BENEFIT – SECTION 5 (2B)
Where an employee is provided with a motor vehicle by employer, the chargeable benefit for private use shall be the higher of the rate determined by the Commissioner and the prescribed rate of benefit. The “prescribed rate of benefit” means the following rates for each month of the initial cost of the vehicle:-

- 1996 - 1% per month of initial cost of the vehicle
- 1997 - 1.5% per month
- 1998 et seq - 2% per month.

Example:
X employee who is employed as a Financial Controller is provided with a car – Mitsubishi Pajero (cc rating 2400) which was bought in July 2001 for Kshs. 2,500,000.

- Car benefit is calculated as follows:-
  - 2% x Kshs. 2,500,000 = Kshs. 50,000 per month
  - Commissioner’s fixed monthly rate cc. rating 2,400 = Kshs. 8,600
  - The chargeable car benefit is therefore Kshs. 50,000 per month.

(10) TAX FREE REMUNERATION
There are certain instances when an employer wishes to pay his employees salaries negotiated net of tax. In such circumstances the employer bears the burden of tax on behalf of such employees. The tax so paid by the employer for the employee becomes a benefit chargeable to tax (P.9B Card as shown in Appendix 4A is to be used for this purpose).

(11) PASSAGES
When an employer himself pays for or reimburses the cost of tickets for passages, including leave passages for his employee and family, the value of the passages is a non-taxable benefit of the employee if the employee is recruited outside Kenya and is in Kenya solely for the purpose of serving his employer and he is not a citizen.
Where, however, such employee receives a cash sum either periodically or in one amount which he is free to save or spend on whatever passages he chooses or for any other purposes and for the expenditure of which he does not have to account to the employer, the amount received is a taxable cash allowance. Passages paid for by the employer in circumstances other than those in italic above are a taxable benefit on the employee.

(12) MEDICAL

Where an employer has a written plan or scheme, or by practice, provides free medical services to all his employees (excluding a director, other than a whole-time service director) the value of such medical services is a non-taxable benefit of full-time employees and whole time service directors. However, where there is no plan or scheme, the payments made to employees towards medical is a taxable cash payment and must be included in the employees pay for the month in which payment is made and taxed accordingly.

(13) DEFINED BENEFIT FUND OR DEFINED CONTRIBUTION FUND

An employee's contribution to any registered defined benefit fund or defined contribution fund is now an admissible deduction in arriving at the employee's taxable pay of the month. The employee's deductible contribution is the lesser of:

(a) 30% of pensionable pay.
(b) employee's actual contribution.
(c) Ksh.17,500/- per month

NOTE

Maximum allowable Pension/Provident Fund contribution had been increased from Kshs.15,000/- per month to Kshs.17,500/- per month (i.e. Kshs.210,000/- per annum), effective 1st January 2001.

- National Social Security Fund

Contribution made to the National Social Security Fund (NSSF) qualify as a deduction with effect from 1st January, 1997.

Where an employee is a member of a pension scheme or provident fund and at the same time the National Social Security Fund (N.S.S.F.) the maximum allowable contributions should not exceed Kshs.17,500/- per month in aggregate.

- Contributions to Individual Retirement Fund

The percentage rate has been increased from 20% to 30% of pensionable income of the individual to be line with employer registered retirement schemes. The allowable deduction shall be the lesser of:-

- The actual contribution made by the individual.
- 30% of pensionable income.
- Kshs. 17,500 per month (or Kshs. 210,000 per annum)

The amendment is effective from 1st January 2005.

(14) EMPLOYERS CONTRIBUTIONS TO REGISTERED OR UNREGISTERED PENSION SCHEME OR PROVIDENT FUND

Contributions paid by a non-taxable employer to unregistered pension scheme or excess contributions paid to a registered pension scheme, provident fund or individual retirement fund; shall be employment benefit chargeable to tax on the employee. The amendment is effective from 1st July 2004.
(15) **HOME OWNERSHIP SAVINGS PLAN**
A depositor (employee) shall in any year of income commencing on or after 1st January, 1999 be eligible to a deduction upto a maximum of Kshs. 4000/- (Four thousand shillings) per month or Kshs. 48,000/- per annum in respect of funds deposited in approved Institution under "Registered Home Ownership Savings Plan", in the qualifying year and the subsequent nine years of income; provided that:-

- Employer has evidence to confirm that the approved Institution with which employee wants to save is registered by the Commissioner of Income Tax.
- Employer will be the one to deduct and remit the amount to the Institution on behalf of the employee.
- Employers will attach to form P9A (HOSP) a declaration duly signed by the eligible employee. The declaration so signed will serve as verification and confirmation by the employer that the employee does not directly or indirectly own interest in a permanent house. -P9A (HOSP) CARD as shown in Appendix 3A is to be used for this purpose.

**NOTE**

"Approved Institution" - Means a Bank or financial institution registered under the Banking Act, an Insurance Company licensed under the Insurance Act or a Building Society registered under the Building Societies Act".

(16) **OWNER OCCUPIED INTEREST - SECTION 15(3)(b)**
In ascertaining the total income of a person for a year of income interest paid on amount borrowed from specified financial institution shall be deductible. The amount must have been borrowed to finance either:-

(i) the purchase of premises or

(ii) improvement of premises - which he occupies for residential purposes.

The amount of interest allowable under the law must not exceed Kshs.100,000/- per year (equivalent to Kshs. 8,333/- per month).

If any person occupies any premises for residential purposes for part of a year of income the deduction shall be reduced accordingly.

On the other hand no person may claim a deduction in respect of more than one residence. Following amendment to Section 45 of the Income Tax Act through the 1999 Finance Act, a married woman can now file her own separate return of income and declare income from employment, professional or self-employment income.

In view of this, she has the option to claim for deduction of interest paid provided that the property is registered in her name.

Employer must obtain a signed declaration to the effect that she is the one claiming the deduction to avoid her husband making a similar claim.

The financial institution specified under the fourth schedule of the Income Tax Act includes:-

- A bank or a financial institution licenced under the Banking Act.
- An insurance company licenced under the Insurance Companies Act.
- A building society registered under the Building Societies Act.
Employers will be required to ascertain and allow interest paid on money borrowed to finance owner occupied residential premises under the PAYE system subject to the following conditions:-

- The employer should allow actual interest paid by eligible employee on production of proof from the lending institution confirming interest payable on the loan for that particular year. The amount of interest to be allowed as ascertained under this condition must not exceed Kshs. 8,333 per month and Kshs. 8,337 for the month of December.
- Where the employee redeems such loan in the course of the year and no interest is subsequently payable such allowable deduction shall cease forthwith upon redemption of loan.
- The employee shall sign a declaration indemnifying employer against any false claim in this respect.
- Employers are expected to review their pay-rolls starting from the month of September and make necessary adjustment to ensure that by the end of the year correct amount of interest have been allowed.
- The employer shall attach to Form P9A photostat copy of interest certificate and statement of account from the specified lending institution.

**NOTE:** Interest which has accrued but not paid does not rank as an allowable deduction for this purpose.

*Form P9A has been designed to accommodate the changes – See appendix 2A. The example given under Appendix 2A assumes that an employee paid interest amounting to Kshs. 100,000 or more during the year.*

(17) **PERSONAL RELIEFS**

(a) **Monthly Personal Relief – Shs. 1162/- (with effect from 1st January 2005)**

A resident individual with taxable income is entitled to a personal relief of Shs. 1162/- per month (i.e Shs. 13,944/- per annum). This is a uniform relief and employers are advised to automatically grant personal relief to all employees irrespective of their marital status.

Individuals serving several employers qualify for personal relief from only one employer (i.e, main employment).

(b) **Insurance Relief with effect from 1st January 2003**

A resident individual shall be entitled to insurance relief at the rate of 15% of premiums paid subject to maximum relief amount of Kshs. 3000 per month (or Kshs. 36000 per annum) if he proves that:-

- he has paid premium for an insurance made by him on his life, or the life of his wife or of his child and that the Insurance secures a capital sum, payable in Kenya and in the lawful currency of Kenya; or
- his employer paid premium for that insurance on the life and for the benefit of the employee which has been charged to tax on the hands of that employee; or
- both employee and employer have paid premiums for the insurance:
No relief shall be granted in respect of part of premium for an insurance which secures a benefit which may be withdrawn at any time at the option of the insured.
- premiums paid for an education policy with a maturity period of at least 10 years shall qualify for relief.
- Only premiums paid in respect of an insurance policy taken on or after 1st January, 2003 shall qualify for relief.

Notes:
(i) Employees must avail to the employer a certificate from insurer showing particulars of the policy e.g. name of insured, type of policy, capital sum payable, maturity date, premiums payable and commencement date of the policy.
(ii) Employers should review their pay-rolls towards the end of the year and make necessary adjustments to ensure that the correct relief had been granted. No relief is available in respect of insurance policy that elapsed in the course of the year.
(iii) Employer shall attach a copy of the certificate furnished by insurer confirming premiums paid and that the policy was still in force to the employee’s P9A, P9B, P9A (HOSP) Tax deduction Card for that year.
(iv) For the purposes of insurance relief “child” include a step child and an adopted child who was under the age of eighteen year on the date the premium was paid.

Example
An employee X has furnished a Life Assurance Policy Certificate showing annual premiums payable of Kshs. 48,000. The commencement date of the policy is 1st January, 2003.

The insurance relief allowable in the payroll from the month of January will be calculated thus:-
Kshs. 48000 x 15% = 7200 per annum i.e 600 per month which will be entered in the appropriate column of Tax Deduction Card (P9A).

(18) MONTHLY TAX TO BE DEDUCTED
To arrive at monthly tax to be deducted:-

(i) charge tax on chargeable monthly pay per monthly tax tables
(ii) deduct from tax charged monthly personal reliefs.

Example
“B” whose monthly chargeable pay for January, 2005 is Kshs. 40,000 his PAYE is calculated as follows:-

<table>
<thead>
<tr>
<th>Tax charged on chargeable pay</th>
<th>Kshs. 40,000</th>
<th>Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>* First Kshs. 10164 at 10% in each shilling</td>
<td>1016</td>
<td></td>
</tr>
<tr>
<td>* Next Kshs. 9576 at 15% “ “ “</td>
<td>1436</td>
<td></td>
</tr>
<tr>
<td>* Next Kshs. 9576 at 20% “ “ “</td>
<td>1915</td>
<td></td>
</tr>
<tr>
<td>* Next Kshs. 9576 at 25% “ “ “</td>
<td>2394</td>
<td></td>
</tr>
<tr>
<td>* Balance at Kshs. 1108 at 30% “ “ “</td>
<td>332</td>
<td></td>
</tr>
<tr>
<td>TOTAL KSHS. 40000</td>
<td>7093</td>
<td></td>
</tr>
<tr>
<td>Less Monthly Personal Relief</td>
<td>1162</td>
<td></td>
</tr>
<tr>
<td><strong>PAYE to be deducted</strong></td>
<td><strong>5931</strong></td>
<td></td>
</tr>
</tbody>
</table>

(19) MONTHLY PAY SLIP
Every employer is required to provide each liable employee on payment of remuneration with a written statement showing:

(i) Monthly pay.
(ii) Income Tax deducted.
This formal notification is known as the "Monthly Pay Slip" and may be in any form convenient to the employer provided that the above information is given.

(20) TAX DEDUCTION CARDS

This form is supplied to the employer by the Income Tax Office and one must be prepared for every employee liable to tax (see Part III, paragraph 1). It provides for the recording, among other things of gross pay; housing, chargeable monthly income and monthly personal relief, and income tax deducted each month throughout the P.A.Y.E. year. Upon final completion after the year end, it will be returned to the Income Tax Office.

Specimen cards can be found at No.1A, 3A and 4A of the Appendix. Details of the operation of the card are found at 1C, 2C, 3C and 4C of the Appendix.

(21) PROCEDURE ON LUMP SUM PAYMENTS (Gratuities, Bonuses, etc.)

A:- Notification

Employers are no longer required to notify the Income Tax Department before making payments of terminal benefits to the employees upon leaving their employment. Every Employer has an obligation under section 37 of the Income Tax Act to recover appropriate tax from any lump sum amount before releasing the same to the employee. The following is a Guide to Employers on how to compute tax on lump sum payments:-

EMPLOYMENT INCOME TREATMENT - GENERAL

Employment income is assessable on accrual basis; that is over the period it has been earned and become due for payment. The time the Income is received is, therefore, immaterial.

Income from employment or services rendered is chargeable to tax under section 3(2)(a)(iii) of the Income Tax Act. This is expounded by section 5(2) which spells out that gains or profits from employment includes: wages, salary payment in lieu of leave, fees, commission, bonus, gratuity subsistence, travelling, entertainment or any other allowance received in respect of employment or services rendered.

Where an amount is received in respect of employment or services rendered in a year of income different from the year of accrual, such income is deemed to be income of the year of accrual. However, there is a provision which states that where the year of accrual is earlier than 4 years prior to the year of receipt, the income is to be treated as that of year of income which expired 5 years prior to the year in which the income is received or prior to the year of income in which employment ceased.

Example (Terminal Dues)

1. Mr. Peter Bakari left employment in September 2004 after 30 years of service and was paid severance pay/service gratuity of Kshs. 660,000; three months notice pay Kshs. 90,000 and Kshs. 25,000 for his 20 leave days not taken for the year 2004. For the purposes of calculation of tax payable, the lump sum amount is to be spread backwards and taxed together with income earned in the relevant years but notice pay is assessable in the period immediately after date of leaving employment and pay in lieu of leave should be taxed in the year to which it relates (i.e. 2004).
The procedure on how tax should be calculated is outlined below:

### Breakdown of Lumpsum payment

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxable Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Service gratuity: 22,000</td>
</tr>
<tr>
<td>2003</td>
<td>Service gratuity: 22,000</td>
</tr>
<tr>
<td>2002</td>
<td>Service gratuity: 22,000</td>
</tr>
<tr>
<td>2001</td>
<td>Service gratuity: 22,000</td>
</tr>
<tr>
<td>2000</td>
<td>Service gratuity: 22,000 plus Kshs. 550,000 for 1999 &amp; prior years.</td>
</tr>
</tbody>
</table>

**Calculation of Tax on Lump Sum**

1. Take total taxable pay for the year as per the Tax Deduction Card (P9A).
2. Add Lump Sum amount for that year.
3. Calculate tax chargeable on the revised total taxable income – (i) + (ii). Use annual individual rates of tax.
4. Deduct personal relief for the year.
5. Deduct total PAYE deducted and already paid – (per P9A).
6. The balance is tax payable on the Lump Sum.

This method of calculating the tax should be followed for all the years involved so as to arrive at the total tax due and payable on the terminal dues.

**IMPORTANT**

- Pay in lieu of notice (i.e. notice pay) is assessable in the period immediately after the date of termination of employment.
- Leave pay should be assessed in year to which it relates.
- If termination of employment occurs in the course of the year, the portion of lumpsum payment for that period is taxable in that particular year.
- Calculate the tax for each year using annual rates of tax and then add up tax for all the years involved to arrive at total tax to be deducted from the lumpsum payment. It should be noted that any lumpsum payment relating to the year of income 1998 and prior years is assessable in 1999 being the 5th year prior to the year of receipt (2004) as exemplified in Table (i) above).

2. **Compensation for Termination of Employment**

Liability extends to any payment, whether voluntary or obligatory made to a person to compensate him for the termination of his contract of employment or services, whether the contract is written or verbal and whether or not there is provision in the contract for such payment.

Following the amendment to proviso (i) and (iii) to section 5 (2) (c) the determination and method of assessing compensation received on termination of contract shall be as follows:-
A. Methods of Spreading Compensation

(i) Where the contract is for a specified term, amount received as compensation on termination of contract shall be deemed to have accrued evenly and assessed over the unexpired period.

The amendment is effective from 1st July 2004.

Example

A contract for five years is terminated on 31/12/2004 after it has run for 3 years. Compensation of Kshs.1,100,000 is paid. The amount will be spread evenly and assessed in the remaining period of 2 years as follows:-

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxable Amount (kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>550,000</td>
</tr>
<tr>
<td>2006</td>
<td>550,000</td>
</tr>
</tbody>
</table>

(ii) Where the contract is for an unspecified term and provides for terminal payment, the amount paid as compensation is to be spread forward and assessed at the rate equal to employee's remuneration per annum from the contract received immediately before termination.

Example

A contract for an unspecified term provides for payment of shs. 700,000 as compensation in the event of termination. It is terminated on 31/12/2004 and the employee's rate of earning was shs. 300,000 per annum. The compensation is spread forward and shs. 300,000 is assessed in the year 2005 shs.300,000 in year 2006 and balance shs.100,000 in year 2007.

(iii) Where the contract is for unspecified term and does not provide for compensation, amount received as compensation shall be deemed to have accrued evenly over three years period immediately following termination of contract. The effect of the amendment is that any amount paid as compensation on termination of contract shall be taxed in full.

- Effective Date – 1st July 2004.

Example

A contract is for an unspecified term with no provision for payment of compensation. The contract is terminated on 31/12/2004 and shs. 1,500,000 compensation is paid, the amount is to be spread forward and assessed evenly in three years as follows:-

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxable amount (Kshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>500,000</td>
</tr>
<tr>
<td>2006</td>
<td>500,000</td>
</tr>
<tr>
<td>2007</td>
<td>500,000</td>
</tr>
</tbody>
</table>

NOTES

- The methods outlined above apply to all employees including whole time service directors.
- If an Ex-gratia is paid it would be assessable in the year of receipt.
- Use the current rates of tax (i.e. 2005) until further years rates are enacted.
- Personal Relief should not be granted in advance before commencement of any year of income.
(B) Employers are required to submit a list of names of all the employees who have received lump sum payments within 14 days after making payment indicating:-

(i) Names of employees.
(ii) Gross amount paid to each employee.
(iii) Nature of payment and the period to which it relates.
(iv) Amount of tax deducted and paid (attach a "Lump Sum" photostat copy of the relevant P11 see C below).
(v) Employees last date of service.
(vi) Employees gross earnings per annum and P.A.Y.E. deducted for the period to which the lump sum payment relate (subject to a limit of 5 years).
(vii) In respect of compensation for loss of office, Employer should state the employee's rate of earning per month/per annum for the period immediately prior to termination of employment.

_N.B:_

Other advances of cash, e.g. salary advances to an employee, will not normally be subject to deduction of tax when made; in the month when such advances are recovered, however, the tax deductions will be calculated on the full pay of the month before deduction of the amount to be recovered.

_C:- Payment of Tax deducted from lump sum payments_

Tax deducted from the lump sum payment must be paid to the Pay-Master General using Paying-In Credit slip- P11 as the normal PAYE remittances. However, the amount of tax involved should be shown separately from the normal PAYE deductions and the nature of payment also indicated in the space provided in the P11.

**(21) HOW P.A.Y.E. IS WORKED**

The broad outline of the scheme is illustrated by the following two examples:

(i) "B" is employed as an Accountant at a salary of Kshs. 20,000 per month. His personal relief is Kshs.1162 per month.

The employer enters on a Tax Deduction Card Chargeable monthly pay Kshs.20000.

\[
\begin{align*}
\text{Ksh.} & \\
\text{Tax charged on chargeable pay Ksh. 20,000} & \text{.................................} \\
\ast & \text{First Kshs. 10164 at 10%} \text{.............................................} \quad 1016 \\
\ast & \text{Next Kshs. 9576 at 15%} \text{.............................................} \quad 1436 \\
\ast & \text{Balance Kshs. 260 at 20%} \text{.............................................} \quad 52 \\
\text{Total} & \text{Kshs. 20,000} \quad 2504 \\
\text{Less monthly personal relief} & \text{.............................................} \quad 1162 \\
\text{PAYE to be deducted} & \text{.............................................} \quad 1342
\end{align*}
\]
(ii) "X" is employed as a general manager at a Basic salary of Kshs 40,000 per month. In addition his employer provides him with the following benefits:

(a) Night watchman
(b) House Servant
(c) Datsun Saloon car 1591 cc
(d) Free electricity
(e) Free water

The employer has also provided housing – (leased premises – monthly rent Shs. 20,000).

The entries on a Tax Deduction Card, form P.9A

<table>
<thead>
<tr>
<th>Kshs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly cash pay</td>
</tr>
<tr>
<td>Add benefits</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Housing at 15% x 55600 = 8340 (charge actual rent paid Shs. 20000) 20000

Taxable pay of the Month 75600

Kshs.

Tax charged on chargeable pay Kshs. 75600

* First Kshs. 10164 at 10% 1016
* Next Kshs. 9576 at 15% 1436
* Next Kshs. 9576 at 20% 1915
* Next Kshs. 9576 at 25% 2394
* Balance Kshs. 36708 at 30% 11012
* Total Kshs. 75600 17773

Less monthly personal relief 1162

PAYE to be deducted 16611

Show Computation of Benefits on the reverse side of P.9A. as follows:-

<table>
<thead>
<tr>
<th>Kshs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watchman (Night)</td>
</tr>
<tr>
<td>Car</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Water</td>
</tr>
<tr>
<td>House Servant</td>
</tr>
</tbody>
</table>

Total Benefits per month 15600

The Tax Deducted is paid over by the employer before the 10th day of the month following the payroll month using P.A.Y.E. credit slip paying-in-Book - P.11 (see Part iv). "B" and "X" are given Monthly Pay Slips showing their monthly income and amount of tax deducted.
PART II
WHAT THE EMPLOYER SHOULD DO BEFORE 1ST JANUARY, EACH YEAR

1. DOCUMENTS TO BE SENT TO EMPLOYERS

Before commencement of each year, every known employer will be expected to collect sufficient quantity of PAYE stationery which are necessary for the operation of the PAYE scheme.

2. CHECK OF DOCUMENTS RECEIVED

The PAYE documents received from the Income Tax Office should be checked properly to ensure that the quantity supplied is adequate and that none is missing. If any of the forms are missing or additional supplies are required, then Income Tax Office should be notified immediately.

3. WHO IS LIABLE FOR P.A.Y.E.

Any individual whose gross pay plus benefits including housing provided by employer exceeds Kshs.11135/- per month is liable to PAYE. However, if employer is aware that the employee has income from main employment elsewhere, then PAYE should be deducted even though the earnings are less than Shs.11135/- per month.

PART III
TAX DEDUCTION CARDS

1. P9A,P9A (HOSP), P9B

There are three types of tax deduction cards:-

(i) Form P.9A

a) All employees whose earnings in cash exceed KSh.11135/- per month and who are in receipt of non-cash benefits, valued at Ksh. 2000 or more per month in aggregate.

b) All Company Directors, whether receiving benefits or not (if not receiving benefits a "NIL" certificate is required on the reverse side of the card at the end of the year)

(ii) FORM P9A (HOSP)

This card is used where employee is eligible for a deduction in respect of funds deposited in approved Institution, under "Registered Home Ownership Savings Plan". In addition to the conditions for P9A (No. (i) above).

(iii) FORM P9B

This card is used in circumstances where the employer bears the burden of tax on behalf of the employee. In addition to the conditions for P9A (No. (i) above).

Completed examples of the cards, with notes are illustrated at Appendix 1A and 1B for P.9A and Appendix 3A and 3B for P.9A (HOSP) and Appendix 4A and 4B for P.9B.
2. EMPLOYER WISHING TO USE OWN TAX DEDUCTION CARDS

When an employer wishes to use his own tax deduction cards, he must apply to the Commissioner of Income Tax, Head Office, P.O. Box 30742, Nairobi, for approval. A fresh application is not required on an annual basis.

An employer may use tax deduction cards which are marketed by any Business consultant firm provided that the Commissioner's approval reference has been printed on the card. It is not therefore necessary for such employers to file separate applications to the Commissioner.

3. LIABLE EMPLOYEE LEAVING

When an employee is leaving employment, his employer must complete the employee's Tax Deduction Card, up to the date of leaving and including the final payment of remuneration.

The employer should pay particular attention to No.1 of the questionnaire on the Tax Deduction Card.

The Tax Deduction Card should be retained by the employer until the end of the year. Any late payment of emoluments, e.g. arrears of pay, bonus, commission made in a month after the employee has ceased should be taxed without any monthly personal relief.

Where an employee retires on pension and continues to reside in Kenya he should not be treated as leaving the employment, if the pension is paid by the former employer. However, it should be noted that the first K.shs. 15,000 per month (or Kshs. 180,000 per annum) from a registered pension fund is free of tax and should not be entered on the Tax Deduction Card.

• This is effective from 1st July 2004.

4. EMPLOYERS CERTIFICATE OF PAY AND TAX (P9A,P9A (HOSP) & P9B)

At the end of the year employer should give to the employee a certified copy of tax deduction card - P9A, P9A (HOSP), P9B which will serve as a "Certificate of Pay and Tax deducted". When a liable employee leaves employment the employer should prepare and hand over to the employee certificate of pay and tax showing details of pay and tax deducted up to the date of cessation.

NOTE:
- Date of cessation is the last day up to which the employee has been paid.
- Employers are reminded that Form P39 are no longer in use.

5. NEW EMPLOYEE

For a new employee whose emoluments exceed the amounts stated in Paragraph 3 of Part II, the employer should grant personal relief effective from the month of commencement of employment.

6. TAX TABLES

Monthly Tax Tables (Revised 2005) contained in this Edition will be used for all months.

PART IV

REMITTANCE OF TAX

1. HOW TO PAY-IN THE TAX DEDUCTED

The Law requires an employer to pay-in the income tax deducted from his employees' pay on or before the 9th day of the month following pay-roll month. Late P.A.YE payments will incur penalty at the rate of 20 per cent of amount paid late as per Section 72D.
Each employer is supplied with a P.A.Y.E. Credit Slip Paying-in Book (Form No. P11). The mechanics of paying-in are summarized on the cover of each Paying-in Book to remind employers of what has to be done.

If the total amount of tax deducted from all employees in any month is less than hundred shillings or when no tax has been deducted, the employer must complete the relevant portions of the top copy of a Credit Slip and send it direct to his Income Tax Office before the tenth day of the month following. The remaining two copies in the monthly set should be left in the Paying-in Book. (Where the total amount is less than KSh.100, it should be carried forward to later months until it exceeds KSh.100 or until December, whichever is the earlier, and then paid-in).

Save as described in the preceding paragraph, an employer should pay the tax deducted in respect of his staff once monthly, to the branch bank at which he maintains an account. If he has no bank account, he may pay in to any bank but such payments will only be accepted in cash. Subject to any special arrangement, credits will be accepted by banks if supported either by cash or by a cheque drawn on the accepting branch.

Cheque should be drawn payable to "Paymaster-General, Kenya". All three copies of the monthly set should be completed in every detail and signed by the employer, using carbon paper. Bank tellers will stamp all three copies and remove the top two, leaving the last copy in the book as acknowledgement to the employer for his records. Employer's Personal Identification Number (PIN) must be shown on all the three copies of P11s.

NOTE: a) Show the following information at the bottom right hand side of the P.11:
   i) Employer's Name
   ii) Current Postal Address
   iii) Telephone Number

   b) Show at the Top Right Hand Side of the P.11:
   i) Payroll month or whatever payment is applicable.
   ii) P.I.N. (PERSONAL IDENTIFICATION NUMBER).

2. SPECIAL ARRANGEMENTS FOR REMOTE AREAS

If an employer finds that he is unable to make his monthly payments by the due date - namely before the tenth day of the month following the month of deduction - for reasons of remoteness or distance from a bank, he should make full representations setting out all the relevant facts to the appropriate Income Tax Office.

3. PAYMENT OF TAX DEDUCTED FROM LUMP SUM, P.A.Y.E. AUDIT TAX, INTEREST AND PENALTY

Employers are required to make payments of tax recovered from Lump Sum amounts, tax established through P.A.Y.E. Audits, penalty or interest imposed for P.A.Y.E. offences to the Pay-Master General using Paying-In-Credit Slip - P11 in the usual way as normal monthly P.A.Y.E. remittances.

In such cases, the amount of tax involved should be shown separately from normal P.A.Y.E. deductions and the nature of payment stated in the space provided on the P11. The penalty/interest notice number should also be quoted where applicable.
4. EXTENT OF PENALTIES AND INTEREST

a) PAYE Offences - Section 37 (2)

The Commissioner may impose a penalty under Section 37 (2) of the Income Tax Act if an employer fails:

i) to deduct tax upon payment of emoluments to an employee

ii) to account for tax deducted

iii) to supply the Commissioner with a certificate prescribed under PAYE Rules.

The penalty is at the rate of 25% of the amount of tax involved or Kshs. 10,000, whichever is greater.

b) Penalty on Unpaid Tax – Section 72D

A penalty of 20% will be levied on PAYE tax remaining unpaid after due date.

c) Interest on Unpaid Tax – Section 94 (1)

A late payment interest of 2% per month or part thereof shall be charged on amount of PAYE tax, including the penalty remaining unpaid for more than one month after the due date until the full amount is paid.

5. APPEAL BY EMPLOYERS AGAINST P.A.Y.E. PENALTIES

An employer may appeal to the Income Tax Local Committee against imposition of P.A.Y.E. penalty by the Commissioner within 30 days after the date of service of the notice; PROVIDED THAT:

i) Employer shall first pay all the tax due plus the penalty imposed prior to lodging the appeal.

ii) The determination of the appeal shall be limited to the question of whether or not employer had complied with the provisions of Section 37 of the Income Tax Act and the P.A.Y.E. Rules relating to the deduction of tax from employees' emoluments.

NOTE

The Income Tax (Local Committee) Rules shall be applicable in this respect.

PART V

END OF THE MONTH PROCEDURE

1. LIST OF EMPLOYEES

The employer should at each month-end list the names of employees from whose pay he has deducted tax together with the respective amount of tax. The total of this list should agree with amount remitted by the employer as recorded on his copy of Form P.11. This list should either be in pay-roll number or alphabetical order and should be retained in case it is required for any purpose including Income Tax Audit.

2. ARITHMETICAL OR OTHER ERRORS ON TAX DEDUCTION CARD

Entries made on the Tax Deduction Card cannot be altered in any manner. Corrections can be made in the following months in the same year as follows:

(a) Place an asterisk (*) next to the correct entry and explain the error in the margin or
overleaf.

(b) Place an asterisk (*) next to correcting entry in the following months and explain how the error was corrected in the margin or overleaf.

If the employer discovers the error after the end of the year or if for any other reason he cannot correct the mistake, then the attention of the Income Tax Office should be specifically drawn to the fault. Spoiled cards should not be destroyed but should be attached to the new card.

3. OBJECTION BY EMPLOYEES

If an employee is not satisfied that the amount of tax deducted by his employer is not correct, he should be advised to seek advice from the Income Tax Department. The employer will continue to deduct tax on the basis of his calculations until the Commissioner rules on the objection.

PART VI
END OF THE YEAR PROCEDURE

1. COMPLETION OF P.A.Y.E. DOCUMENTS

(a) TAX DEDUCTION CARDS - (P9A, P9A (HOSP), P9B

At the end of each year employers should fully complete the questionnaire on every tax deduction card showing:

i) Dates of commencement and leaving of employment.

ii) Names and address of old and/or new employer: if known.

iii) Details of benefits provided, if any, at the back of the tax deduction cards.

(iv) The amounts and details of any pay from which tax was deducted which relates to an earlier period (i.e. previous year(s) e.g. gratuities, Bonuses, Compensation for loss of office e.t.c. Details of rent paid by employee towards housing.

(b) EMPLOYERS CERTIFICATE - FORM P10

Employers should give details of normal monthly P.A.Y.E. remittances, separately from other payments made at the Pay-Master General relating to tax on lump sum payments, Audit tax, Interest and penalty. Dates on which the relevant payments were made to the bank must also be shown on the space provided (Appendix 5).

(c) SUPPORTING LIST - FORM P10A

In addition to giving details of tax deducted for each employee per the tax deduction cards - P9A (HOSP) or P9B, Employers are required to show the total tax paid in respect of:

- Tax on lump sum payments, Tax determined through P.A.Y.E. Audit, Interest and penalty (Appendix 6).

(d) FORM P.10B – FRINGE BENEFIT TAX RETURN

Since Fringe Benefit Tax is payable by employer, the details of the fringe benefits and tax paid thereon should not be reflected on the employee’s Tax Deduction Card – P.9A.

Employers are therefore required to submit a return to the Department at the end of the year using Form P.10B to show names of the employees involved, loan amounts, rate of interest charged by employer, taxable fringe benefit values and amount of tax paid. The fringe benefit tax return – (P.10B) should be submitted by employer together with other P.A.Y.E. End of Year documents.
2. RETURN OF DOCUMENTS TO INCOME TAX OFFICES ON OR BEFORE 28TH FEBRUARY

The following documents which comprise P.A.Y.E. end of year Return should be submitted to the relevant Income Tax Office on or before 28TH FEBRUARY

(a) Employer's Certificate - P.10 (2 Copies)
(b) Supporting list to End of Year Certificate (P.10A in duplicate)
(c) Fringe Benefit Tax Return – (P.10B).
(d) Tax deduction cards (9A, P9A(HOSP)P.9B) for all the employees whom tax had been deducted from their pay during the year.
(e) A list of all the employees who received lump sum payments during the year indicating their full names, gross amount received, relevant years and amount of tax deducted.
(f) The photostat copies of ALL the pay in credit slips (P11s) for the year.

NOTE:
All Employers are notified that only ONE set of P.A.Y.E. END OF YEAR RETURN in respect of all employees, wherever they may be, should be submitted. The Department therefore expects all branch returns to be forwarded to the company's Head Office from where one consolidated return will be made.

3. CALCULATION OF BENEFITS ON REVERSE SIDE OF P.9A

The calculation of benefits on the reverse side of each P9A (Tax Deduction Card-Benefit Cases) must be completed and signed by the employer at the end of the year.

The total benefit as calculated should agree with the total at column "B" of P9A Where it does not agree a written explanation should be attached to P.9A.

It should be noted that in the case of a director who is not receiving benefits a "NIL" entry should be made by the employer against each item on the "Benefit Calculation".

An example of the reverse side of P.9A is shown at Appendix 1B - continuation.

4. CERTIFICATE OF PAY AND TAX (P9A,P9A(HOSP) & P9B

Immediately after 31st December each year the employer should prepare a Tax Deduction Card (P9A/P9AHOSP/P9B for each employee from whose salary P.A.Y.E. tax was deducted at any time during the year. Certified copies of P9 Forms should be distributed to the employees representing certificate of Pay and Tax for the year.

5. AUDIT PROCEDURE

The Income Tax Department may send officers to employer's paying points during the year to check that they are operating the scheme correctly and to give guidance to employers if they are in difficulties. Any such officer will produce a signed authority. Employers will be expected to make all records connected with P.A.Y.E. available for inspection.

The audit process will include inter alia, a check that:

a) The employer has brought into the payroll all the employee's emoluments, cash allowances and benefits.
b) The employer has deducted correct amount of P.A.Y.E. tax.
c) The tax deducted has all been paid over to the bank.

d) The pay shown in employer's salary records has correctly been transferred to the Tax Deduction Cards.

e) The Tax Deduction Card has in all other respects been correctly completed.

PART VII
SPECIAL CASES

1. ARRIVAL, DEPARTURE OR DEATH DURING THE YEAR
(a) Where a person becomes resident in Kenya during the year he is given a proportion of the year's personal reliefs to which he is entitled commencing from the first day of the month in which he becomes resident.

Thus, if an employee arrives in Kenya on 15th August, and enters employment, he will be entitled to a whole month's relief against any emoluments paid in August.

(b) A resident individual who dies, leave Kenya permanently or proceeds on leave pending permanent departure from Kenya will, during the year of income in which death or departure occurs, be deemed to have been resident in Kenya only for the number of months up to and including the month in which death, departure or expiration of leave occurs.

2. CHANGE OF PERSONAL CIRCUMSTANCE DURING THE YEAR
The amount of personal relief to which an individual is entitled for any one year will remain the same throughout the year regardless of the employee's change of marital status since the personal relief is uniform to all individuals with taxable income.

3. MULTIPLE P.A.Y.E. SOURCES OF INCOME
There are employees who have two or more sources of income which fall within P.A.Y.E. provisions, e.g. a person with several directorships or a person with several part-time employments not falling within the definition "casual employment" (see Part 1, paragraph 1, etc).

Such employees should be granted monthly personal relief by the employer at their main source of employment income.

4. IRREGULARLY PAID EMPLOYEES
P.A.Y.E. tax basically falls to be deducted from all payments made in any month. Thus if employees are paid weekly, fortnightly or at any other interval, the entry for pay on the Tax Deduction Card for the month will be the total of payments in the month and will be made on the occasion of the last payment. Tax due on the whole of the monthly pay will be deducted from the last payment. Where exceptionally the last payment of salary, etc., to an employee in the month is less than the whole of the tax for the month, the employer will recover the balance of tax from the next payment of salary, etc. to the employee. The employer should write a covering note on the back of the Tax Deduction Card showing how the tax deducted at the later date has been computed and accounted for.

Example
Employee is a commercial traveller paid on a salary plus commission basis. He is a resident
individual entitled to monthly relief of KSh.1162-. No housing is provided.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1.2005</td>
<td>December 2003 commission (no tax deducted)</td>
<td>10,000</td>
</tr>
<tr>
<td>15.1.2005</td>
<td>Fortnightly salary (no tax deducted)</td>
<td>8,000</td>
</tr>
<tr>
<td>31.1.2005</td>
<td>Fortnightly salary (tax to be deducted)</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>28,000</strong></td>
</tr>
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</table>

**Tax Deduction Card Entries:**
Enter column (A) for January (monthly pay) shs. 28,000

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<th>Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter column (J) tax charged</td>
</tr>
<tr>
<td>Enter column (K) for January (monthly personal relief)</td>
</tr>
<tr>
<td>Enter column (L) for January (P.A.Y.E.)</td>
</tr>
</tbody>
</table>

Employer will recover **KSh. 2,942** from salary payable on 31st January and account for this tax in his January payment.

5. **PENSIONERS**

Where an employee retires on pension from his employer and continue to reside in Kenya, he should not be treated as leaving the employment P.A.Y.E. should continue to be operated in the normal manner substituting "pension" for "pay" on the Tax Deduction Card.

However, the first KSh.15,000 per month of pension is free of tax and should not be included on the Tax Deduction Card. The tax free monthly pension has been increased monthly from Kshs. 12,500 per month to Kshs. 15,000 per month with effect from 1st July 2004.

6. **APPLICABLE TO CIVIL SERVANTS/MEMBERS OF PARLIAMENT**

The Kenya Revenue Authority Act was amended to include responsibilities to assess, Collect and Account for revenue under the Widows and Children Pension Act Cap 195 and the Parliamentary Pensions Act Cap 196.

The Government Ministries and National Assembly have so far been preparing cheques and list of contributions for both payment and transmission of information to the Pensions Department of the Treasury. With effect from January, 1999 payroll month the procedure of payments and returns to account for the money contributed will change.

As a first step in the direction the Kenya Revenue Authority decided to monitor the remittances and operations of the two pension funds under P.A.Y.E. system of collection of tax. This means that effective from 1st January, 1999 the remittances and accounts for the two funds will adopt the following procedure.

(a) **REMITTANCES OF CONTRIBUTION UNDER CAP 195 AND 196 OF LAWS OF KENYA**

The Government Ministries and National Assembly will continue to deduct contributions towards the funds as in the past. However the Revenue Authority requires that such contributions be remitted through revised Form P.11 alongside P.A.Y.E. tax deducted.

Form P.11 has been revised to accommodate the change and separate column for remittances have been provided for the purpose.
NOTE:
Quite apart from contributions towards the funds the new P.11 specifically provides for separate remittances of both penalties and interest imposed under the Income Tax Act. This column will affect all employers.

The cheques for the contributions will be drawn in favour of Paymaster Generals Accounts.

(b) RETURNS OF CONTRIBUTIONS

(i) FORM P10 (EMPLOYERS CERTIFICATE)
Employers Certificate will follow the same pattern of P.A.Y.E. monthly summary remitted. Here the total monthly remittances of the contributions will be listed to cover the return period normally for 12 months in a calendar year. Thus the twelve months total will be entered at the bottom of the relevant column on Form P10 certificate for payments by employers.

(ii) FORM P10A (SUPPORTING LIST TO EMPLOYERS CERTIFICATE)
An additional column introduced to cater for total annual contribution towards the fund by individual contributors will be incorporated under the Form P10A supporting list. This means against each name in the list there shall be total P.A.Y.E. tax deducted and alongside there shall also be separate amount of contributions under the funds.

The respective total for the year shall appear at the end of the listing.

7. RECONCILIATION OF RETURNS
For the purpose of accurate returns to the Department, Employers reconciliation of the End of Year Documents must be carried out to cover the two respective deductions and any shortcoming rectified well in advance of submission of the documents.

PART VIII
MISCELLANEOUS

1. COMPLETION OF FORMS
All information, etc, written upon P.A.Y.E. documents should be shown in permanent manner, i.e. pencil markings which soon rub out with constant handling of the document, should not be used.

2. DEATH OF AN EMPLOYER
If an employer dies, anything which he would have been liable to do under the P.A.Y.E. regulations must be done by his personal representative. In the case of the death of an employer's agent (see definition of an employer Part 1, para.6(a), who is deemed to be the employer for "Pay As You Earn" purposes, the liability falls upon the person succeeding him or, if no person succeeds him, the person on whose behalf he paid the emoluments.

3. CHANGE IN EMPLOYER
This rule only applies where there is a change in the ownership of the business and where the
employment continues, e.g. conversion of an individual's business to a partnership, limited company, changes in partnership, etc. It does not apply where an employee changes his employment by moving from one firm to another.

Where this rule applies the employer after the change shall, in relation to any matter arising after the change be liable to do anything which the employer, before the change, would have been liable to do if the change had not taken place provided that the employer, after the change, shall not be liable for the payment of any tax which was deductible from emoluments paid to the employee before the change took place.

In particular the rule provides that the same Tax Deduction Card is used throughout the continuity of the employment.

4. CESSATION OF BUSINESS

Where a business ceases during the year, the employer must carry out the end of year procedure and submit all documents as instructed in Part VI within thirty (30) days from the date of cessation.

APPENDICES
<table>
<thead>
<tr>
<th>MONTH</th>
<th>Basic Salary</th>
<th>Benefits – Non-Cash</th>
<th>Value of Quarters</th>
<th>Total Gross Pay</th>
<th>Defined Contribution Retirement Scheme</th>
<th>Owner-Occupied Interest</th>
<th>Retirement Contribution &amp; Owner Occupied Interest</th>
<th>Chargeable Pay</th>
<th>Tax Charged</th>
<th>Personal Relief</th>
<th>Insurance Relief</th>
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<td><strong>164316</strong></td>
<td><strong>21144</strong></td>
<td><strong>143172</strong></td>
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To be completed by Employer at end of year

TOTAL CHARGEABLE PAY (COL. H) Kshs. 744000...

TOTAL TAX (COL. L) Kshs. 143172

(b) Attach

(i) Photostat copy of interest certificate and statement of account from the Financial Institution.

(ii) The DECLARATION duly signed by the employee to form P9A.

**NAMES OF FINANCIAL INSTITUTION ADVANCING MORTGAGE LOAN**

L R NO. OF OWNER OCCUPIED PROPERTY: 

DATE OF OCCUPATION OF HOUSE: (See back of this card for further information required by the Department).
APPENDIX 1B

INFORMATION REQUIRED FROM EMPLOYER AT END OF YEAR

(1) Date employee commenced if during Year. .................................................................
Name and address of old employer. .............................................................................
(2) Date left if during Year. ............................................................................................
Name and address of new employer. .............................................................................
(3) Where housing is provided, state monthly rent:
Charged Kshs. .................. per month
(4) Where any of the pay relates to a period other than this year, e.g. gratuity,
Give details of Amounts, Year and Tax.

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<tr>
<th>Year</th>
<th>Amount</th>
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<tbody>
<tr>
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FOR MONTHLY RATES OF BENEFITS PLEASE REFER TO EMPLOYERS GUIDE TO P.A.Y.E SYSTEM - P7.

CALCULATION OF TAX ON BENEFITS

<table>
<thead>
<tr>
<th>BENEFIT</th>
<th>TOTAL AMOUNT</th>
<th>RATE</th>
<th>NO. OF MONTHS</th>
</tr>
</thead>
<tbody>
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<td>COOK/HSE.</td>
<td>Kshs.</td>
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<td></td>
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<tr>
<td>SERVANT</td>
<td>X 2250</td>
<td>X</td>
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<td>GARDENER</td>
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Where actual cost is higher than given monthly rates of benefits then the actual cost is brought to charge in full.
LOW INTEREST RATE BELOW PRESCRIBED RATE OF INTEREST.

EMPLOYERS LOAN = Kshs. .................. @ ............ RATE

RATE DIFFERENCE
(PRESCRIBED RATE – EMPLOYERS RATE) = .......... %
MONTHLY BENEFIT (RATE DIFFERENCE X LOAN) = % Kshs. =

12

12

MOTOR CARS
Up to 15000 c.c. X =

1501 c.c. - 1750 c.c. 10750 x 12 =

120000 =

1751 c.c. - 2000 c.c. =

2001 c.c. - 3000 c.c. =

Over 3000 c.c. =

Total Benefit in Year =

180000

If this amount does not agree with total of Col. B overleaf, attach explanation.
FOR PICK-UPS, PANEL VANS AND LAND-ROVERS REFER TO APPENDIX 5 OF EMPLOYER’S GUIDE.
CAR BENEFIT – The higher amount of the fixed monthly rate or the prescribed rate of benefits is to be brought to charge.
PRESCRIBED RATE:
1996 – 1% per month of the initial cost of the vehicle.
1997 – 1.5% per month of the initial cost of the vehicle.
1998 – 2% per month of the initial cost of the vehicle.

EMPLOYERS CERTIFICATE OF PAY AND TAX

NAME ............................................................................................................................... |
ADDRESS ........................................................................................................................... |
SIGNATURE......................................................................................................................... |
DATE & STAMP ..................................................................................................................... |

NOTE: Employer’s certificate to be signed by the person who prepares and submits to the PAYE End of Year Returns and copy of the
P9A be issued to the employee in January.
### HOW TO FILL IN THE TAX DEDUCTION CARD P9A
#### (BENEFITS AND QUARTERS)

1. **MONTHLY PERSONAL RELIEF:**
   Monthly personal relief is with effect from 1\textsuperscript{st} January, 2005 Kshs. 1,162/- per month due to any resident individual.

2. **BENEFITS:**
   Rates of benefits are to be found on Appendix 5 of the Guide Book.

3. **VALUATION OF QUARTERS:** is explained as item (g) on page 7 of the Guide Book.

### ENTRIES:

| COLUMN A | - | Enter Basic salary plus all cash allowances. |
| COLUMN B | - | Enter Benefits (if applicable) calculated on the reverse side of P9A applying rates of benefits found on Appendix 5 of the Guide Book. |
| COLUMN C | - | If housing is provided by employer enter 15 per cent of the amount in Column A & B less the amount of monthly rent paid by employee or actual rent paid (see example in Part I – How PAYE is worked). |
| COLUMN D | - | Enter total Gross pay of column A + Column B + Column C. |
| COLUMN E | - | Enter defined contribution/benefits calculation per column (e\textsuperscript{1}), (e\textsuperscript{2}), (e\textsuperscript{3}). |
| Column e\textsuperscript{1} | - | Enter 30 per cent (30\% of pensionable monthly pay per Column (D)). |
| Column e\textsuperscript{2} | - | Enter actual amount of contribution made by the employee. |
| Column e\textsuperscript{3} | - | Enter the fixed monthly limit which is Kshs. 17,500/- per month. |
| COLUMN G | - | Enter the lesser of Column (e\textsuperscript{1}), (e\textsuperscript{2}), (e\textsuperscript{3}). |
| COLUMN H | - | Enter balance pay of month after contribution/defined benefit i.e. Column D less Column G. |
| COLUMN J | - | Enter tax calculated in accordance with the Rates of tax provided in this Guide Book. |
| COLUMN K | - | Enter monthly personal Relief. |
| COLUMN L | - | Enter PAYE tax less relief (Column J – K). |

### END OF YEAR
Finally enter the total of column (H) and (L) into space provided.
KENYA REVENUE AUTHORITY
INCOME TAX DEPARTMENT
TAX DEDUCTION CARD YEAR ...2005.........

Employers Name.................................................................

Employee’s Main Name....................................................

Employee’s Other Names.................................................

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<th>Owner-Occupied Interest</th>
<th>Retirement Contribution &amp; Owner Occupied Interest</th>
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To be completed by Employer at end of year

TOTAL CHARGEABLE PAY (COL. H) Kshs. 744000...

To (a) For all liable employees and where director/employee received benefits in addition to cash emoluments.

IMPORTANT
1. (a) Deductible interest in respect of any month must not exceed Kshs. 8,333/= except for December where the amount shall be Kshs. 8,337/=.
2. (See back of this card for further information required by the Department).
MONTHLY PERSONAL RELIEF:
Monthly personal relief is with effect from 1st January, 2005 Kshs. 1,162 per month due to any resident individual.

BENEFITS:
Rates of benefits are to be found on Appendix 5 of the Guide Book.

ENTRIES ON P9 CARD:

COLUMN A  - Enter Basic salary plus all cash allowances.
COLUMN B  - Enter Benefits (if applicable) calculated on the reverse side of P9 applying rates of benefits found on Appendix 5 of the Guide Book.
COLUMN C  - Enter Housing Benefit where applicable.
COLUMN D  - Enter total Gross pay of column A + Column B + Column C (if applicable).
COLUMN E  - Enter defined contribution/benefits calculation per column (e\(^1\)), (e\(^2\)), (e\(^3\)).

Column e\(^1\) - Enter 30 per cent (30%) of pensionable monthly pay per Column (D).
Column e\(^2\) - Enter actual amount of contribution made by the employee.
Column e\(^3\) - Enter the fixed monthly limit which is Kshs. 17,500/- per month.
COLUMN F  - Enter the standard amount of allowable interest of Kshs. 8333/- per month and Kshs. 8337/- for the month of December only.
COLUMN G  - Enter the lowest amount of Retirement Contribution under Column plus interest under column F.
COLUMN H  - Enter balance pay of month after Retirement contribution and owner occupied interest i.e Column D less Column G.
COLUMN J  - Enter tax calculated in accordance with the Rates of tax provided in this Guide Book.
COLUMN K  - Enter monthly personal Relief
COLUMN L  - Enter PAYE tax less relief (Column J – K).

END OF YEAR
Finally enter the total of columns (H) and (L) in the space provided.
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<td>1333900</td>
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</table>

Total Tax (COLL) Kshs. 327342.
To be completed by Employer at end of year.

Total Chargeable Pay (COL. H) Kshs. 1333900.

Name of Approved Institution

Registration Number of Approved Institution

Date of Registration

P. 9A (HOSP)
MONTHLY PERSONAL RELIEF:

Monthly personal relief is with effect from 1st January, 2005 Kshs. 1,162/- per month due to any resident individual.

BENEFITS: Rates of benefits are to be found in Appendix 5 of the Guide Book.

VALUATION OF QUARTERS: Is explained as item (g) on Page 7 of the Guide Book.

ENTRIES ON P9A (HOSP)

COLUMN A  - Enter Basic salary plus all cash allowances.

COLUMN B  - Enter Benefits (if applicable) calculated on the reverse side of P9A (HOSP) applying rates of benefits found in the Guide Book.

COLUMN C  - If housing is provided by employer enter 15% (percent) of the total amount in Column A + Column B less the amount of monthly rent paid by employee (see example in Part I ("HOW PAYE IS WORKED").

COLUMN D  - Enter total Gross Pay of Column A + Column B + Column C.

COLUMN E  - Enter defined contribution/defined benefit calculation per columns (e1), (e2), (e3).

Column e1  - Enter 30 per cent (30%) of pensionable monthly pay per Column (D).

Column e2  - Enter actual amount of contribution made by the employee.

Column e3  - Enter the fixed monthly limit which is Kshs. 17,500/- per month.

COLUMN F  - Enter the allowable monthly deposit of funds subject to a maximum of Kshs. 4000/- per month or Kshs. 48,000/- in a year.

COLUMN G  - Enter the lowest amount of Column E plus Column F.

COLUMN H  - Enter balance pay of month after deduction of contribution/defined benefit and deposit on Home Ownership Saving Plan that is Column D less Column G.

COLUMN J  - Enter tax calculated in accordance with the Rates of tax provided in this Guide Book.

COLUMN K  - Enter monthly personal Relief.

COLUMN L  - Enter PAYE tax less relief (Column J-K).

END OF YEAR

Finally enter the total of columns (H) and (L) in the spaces provided.
APPENDIX 4A

TABLE I

HOW TO FILL IN TAX DEDUCTION CARD P.9B (TAX-FREE REMUNERATION)

USE TABLE 1 AND TABLE 2 EXAMPLES (APPENDIX 4D)

Where an employer pays the tax liability due on an employee's earning such that the employee receives income free of tax; then the employer shall calculate the monthly tax liability as follows:-

A. Where the employee does NOT receive housing benefits, calculate the tax liability for the month as following:-

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<thead>
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<th>Step</th>
<th>Description</th>
<th>Amount</th>
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</thead>
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<td>1</td>
<td>Monthly cash income before pension deduction</td>
<td>KSh.15,000</td>
</tr>
<tr>
<td>2</td>
<td>Deductible pension contribution</td>
<td>KSh. 630</td>
</tr>
<tr>
<td>3</td>
<td>Monthly cash income after pension deductions</td>
<td>KSh.14,370</td>
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<tr>
<td>4</td>
<td>Monthly benefits</td>
<td>KSh.10,000</td>
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<td>5</td>
<td>Monthly taxable income</td>
<td>KSh.24,370</td>
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<td>6</td>
<td>Tax on monthly taxable income</td>
<td>KSh. 3,378</td>
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<tr>
<td>7</td>
<td>Monthly personal relief</td>
<td>KSh. 1,162</td>
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<td>8</td>
<td>Tax net of relief</td>
<td>KSh. 2,216</td>
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<td>9</td>
<td>Factor without housing</td>
<td>KSh. 1.250</td>
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<tr>
<td>10</td>
<td>Monthly tax payable</td>
<td>KSh. 2,770</td>
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<tr>
<td>11</td>
<td>Chargeable income</td>
<td>KSh.17,770*</td>
</tr>
</tbody>
</table>

*See Jan-May entries - (APPENDIX 4A)

Normally an employer pays an employee a gross salary out of which tax is deducted. When employer pays an employee a net-of tax salary, then tax has to be paid by the employer on top of his salary.
TABLE 2

TAX FREE REMUNERATION

B. Where the employee received housing benefits, calculate the tax liability for the month as follows:-

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
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<td>(1) Monthly cash income before pension deductions</td>
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<td>(2) Deductible pension contributions</td>
<td>KSh. 956</td>
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<td>(3) Monthly cash income after tax deductions (1)-(2)</td>
<td>KSh.17,044</td>
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<td>(4) Monthly benefits</td>
<td>Ksh.10,000</td>
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<td>(5) Income including benefits (3)+(4)</td>
<td>Ksh.27,044</td>
</tr>
<tr>
<td>(6) Housing benefit 15% of (5) or monthly fair rent</td>
<td>Ksh.30,000*</td>
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<td>(7) Taxable income (5)+(6)</td>
<td>Ksh.27,044</td>
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<tr>
<td>(8) Tax on monthly taxable income (calculate from Table 1, column (b))</td>
<td>KSh. 3,912</td>
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<tr>
<td>(9) Monthly tax reliefs</td>
<td>KSh. 1,162</td>
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<tr>
<td>(10) Tax net of reliefs (8)-(9)</td>
<td>KSh. 2,750</td>
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<td>(11) Factor with housing Table 1, column (e) for taxable income in row 7 above</td>
<td>KSh. 1.250</td>
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<tr>
<td>(12) Monthly tax payable multiply (10 by 11)</td>
<td>KSh. 3,437</td>
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<td>(13 Chargeable income (12)+(1) Enter gross pay in column (A) of P.9B)</td>
<td>KSh.21,437**</td>
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* Fair market value
** See month of June-September entries – (APPENDIX 4A)  
*** See months of October-December
# TABLE 1

**(TAX FREE REMUNERTION)**

**TAX TABLE FOR MONTHLY INCOME YEAR 2005**

<table>
<thead>
<tr>
<th>Taxable Income Range (monthly) (a)</th>
<th>Tax on Taxable Income (b)</th>
<th>Marginal Tax Rate (c)</th>
<th>Factor Without Housing (d)</th>
<th>Factor With Housing (e)</th>
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<td>Ksh. 1016 tax on taxable Income of shs. 10164</td>
<td>10%</td>
<td>1.111</td>
<td>1.130</td>
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<td>For taxable income from shs. 10165 but under shs. 19741</td>
<td>Kshs. 1016 plus Ksh. 1436 Tax on taxable income of Kshs. 9576</td>
<td>15%</td>
<td>1.176</td>
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<tr>
<td>For taxable incomes from shs. 19741 but under shs. 29317</td>
<td>Kshs. 2452 plus Kshs. 1915 on taxable income of Kshs. 9576</td>
<td>20%</td>
<td>1.250</td>
<td>1.299</td>
</tr>
<tr>
<td>For taxable incomes from shs. 29317 but under shs. 38893</td>
<td>Kshs. 4367 plus Kshs. 2394 on taxable income of 9576</td>
<td>25%</td>
<td>1.333</td>
<td>1.404</td>
</tr>
<tr>
<td>For taxable incomes From shs. 38893 and above</td>
<td>Kshs. 6761plus tax @ 30% on taxable income over Kshs. 38892</td>
<td>30%</td>
<td>1.429</td>
<td>1.527</td>
</tr>
</tbody>
</table>
TABLE 2

(TAX FREE REMUNERATION)
TAX TABLE FOR ANNUAL INCOME YEAR – 2005

<table>
<thead>
<tr>
<th>Taxable Income Range (Annually) (a)</th>
<th>Tax on Taxable Income (b)</th>
<th>Marginal Tax Rate (c)</th>
<th>Factor Without Housing (d)</th>
<th>Factor With Housing (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>For taxable income Under Kshs. 121969</td>
<td>Kshs. 12192 tax on Taxable income of Kshs. 121968</td>
<td>10%</td>
<td>1.111</td>
<td>1.130</td>
</tr>
<tr>
<td>For taxable income Kshs. 121969 but under Kshs. 236881</td>
<td>Kshs. 12192 plus Kshs. 17232 tax on taxable income of Kshs. 114912</td>
<td>15%</td>
<td>1.176</td>
<td>1.208</td>
</tr>
<tr>
<td>For taxable incomes from Kshs. 226881 but under Kshs. 351793</td>
<td>Kshs. 29424 plus Kshs. 22980 tax on taxable income of Kshs. 114912</td>
<td>20%</td>
<td>1.250</td>
<td>1.299</td>
</tr>
<tr>
<td>For taxable incomes from Kshs. 351793 but under Kshs. 466705</td>
<td>Kshs. 52404 plus Kshs. 28728 tax on taxable income of Kshs. 114912</td>
<td>25%</td>
<td>1.333</td>
<td>1.404</td>
</tr>
<tr>
<td>For taxable incomes from Kshs. 466705 and above</td>
<td>Kshs. 81132 plus tax @ 30% of taxable income over Kshs. 466704</td>
<td>30%</td>
<td>1.429</td>
<td>1.527</td>
</tr>
</tbody>
</table>
## COMMISSIONER’S PRESCRIBED BENEFIT RATES 2005

### A SERVICES

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Monthly Rates (shs.)</th>
<th>Annual Rates (shs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Electricity – (communal or from a generator)</td>
<td>1500</td>
<td>18000</td>
</tr>
<tr>
<td>(ii) Water – (communal or from a borehole)</td>
<td>500</td>
<td>6000</td>
</tr>
<tr>
<td>(iii) Provision of furniture (1% of cost to employer). If hired the cost of hire should be brought to charge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Telephone (Landline and Mobile Phones)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### B AGRICULTURAL EMPLOYEES: REDUCED RATES OF BENEFITS

<table>
<thead>
<tr>
<th>Service</th>
<th>Monthly Rates (shs.)</th>
<th>Annual Rates (shs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Water</td>
<td>200</td>
<td>2400</td>
</tr>
<tr>
<td>(ii) Electricity</td>
<td>900</td>
<td>10800</td>
</tr>
</tbody>
</table>

**Note:** The above rates (A + B) are effective from 12th June 2003.

### C MOTOR CARS

<table>
<thead>
<tr>
<th>Model Type</th>
<th>Monthly Rates (shs.)</th>
<th>Annual Rates (shs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Saloon Hatch Backs and Estates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 1200 cc.</td>
<td>3600</td>
<td>43200</td>
</tr>
<tr>
<td>1201 to 1500 cc.</td>
<td>4200</td>
<td>50400</td>
</tr>
<tr>
<td>1501 to 1750 cc.</td>
<td>5800</td>
<td>69600</td>
</tr>
<tr>
<td>1751 to 2000 cc.</td>
<td>7200</td>
<td>86400</td>
</tr>
<tr>
<td>2001 to 3000 cc.</td>
<td>8600</td>
<td>103200</td>
</tr>
<tr>
<td>Over 3000 cc.</td>
<td>14400</td>
<td>172800</td>
</tr>
<tr>
<td>(ii) Pick-ups, Panel Van Unconverted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upto 1750cc.</td>
<td>3600</td>
<td>43200</td>
</tr>
<tr>
<td>Over 1750 cc.</td>
<td>4200</td>
<td>50400</td>
</tr>
<tr>
<td>(iii) Land Rovers/Cruisers</td>
<td>7200</td>
<td>86400</td>
</tr>
</tbody>
</table>

**Note:**
1. Range Rovers and vehicles of similar nature are classified as saloons.
2. **Car Benefit**

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

- (a) Fixed monthly rate determined by the Commissioner as shown above or
- (b) The prescribed rate of benefits. In this case, the prescribed rate of benefit means:-
  - The proportion of the initial capital cost of the vehicle for each month as follows:-
    - 1996.................. 1% p.m
    - 1997.................. 1.5% p.m
    - 1998 et seq......... 2% p.m

Where such vehicle is hired form a third party, the higher of the cost of hiring the vehicle and Commissioner’s rates should be taken.
**APPENDIX 7A**

**TABLE 1**

**INDIVIDUAL RATES OF TAX/RELIEFS: YEARS 2003 – 2005**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th></th>
<th>2004</th>
<th></th>
<th>2005</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MONTHLY TAXABLE PAY KSHS.</td>
<td>ANNUAL TAXABLE PAY KSHS.</td>
<td>RATES OF TAX % IN EACH KSHS.</td>
<td>MONTHLY TAXABLE PAY KSHS.</td>
<td>ANNUAL TAXABLE PAY KSHS.</td>
<td>RATES OF TAX % IN EACH SHS. %</td>
</tr>
<tr>
<td></td>
<td>1-9680</td>
<td>1-111610</td>
<td>10%</td>
<td>1-9680</td>
<td>1-111610</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>9120</td>
<td>9120</td>
<td>15%</td>
<td>9120</td>
<td>9120</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>9120</td>
<td>9120</td>
<td>20%</td>
<td>9120</td>
<td>9120</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>9120</td>
<td>9120</td>
<td>25%</td>
<td>9120</td>
<td>9120</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>EXCESS OVER KSHS. 37,040</td>
<td>EXCESS OVER KSHS. 444,480</td>
<td>30%</td>
<td>EXCESS OVER KSHS. 37,040</td>
<td>EXCESS OVER KSHS. 444,480</td>
<td>30%</td>
</tr>
<tr>
<td>PERSONAL RELIEF: SHS. 1056 PER MONTH (SHS. 12672 PER ANNUM)</td>
<td>PERSONAL RELIEF: SHS. 1056 PER MONTH (SHS. 12672 PER ANNUM)</td>
<td>PERSONAL RELIEF: SHS. 1162 PER MONTH (SHS. 13944 PER ANNUM)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Table 2

**Individual Rates of Tax/Reliefs: Years 2000 – 2002**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th></th>
<th>2001</th>
<th></th>
<th>2002</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Month</strong></td>
<td><strong>Taxable Pay</strong></td>
<td><strong>Annual Taxable Pay</strong></td>
<td><strong>Rates of Tax</strong></td>
<td><strong>Monthly Taxable Pay</strong></td>
<td><strong>Annual Taxable Pay</strong></td>
<td><strong>Rates of Tax</strong></td>
</tr>
<tr>
<td>KSHS.</td>
<td>K£</td>
<td>Kshs.</td>
<td>%</td>
<td>K£</td>
<td>Kshs.</td>
<td>%</td>
</tr>
<tr>
<td>1-435</td>
<td>5220</td>
<td>2</td>
<td>10%</td>
<td>1-456</td>
<td>5472</td>
<td>2</td>
</tr>
<tr>
<td>435</td>
<td>5220</td>
<td>3</td>
<td>15%</td>
<td>456</td>
<td>5472</td>
<td>3</td>
</tr>
<tr>
<td>435</td>
<td>5220</td>
<td>4</td>
<td>20%</td>
<td>456</td>
<td>5472</td>
<td>4</td>
</tr>
<tr>
<td>435</td>
<td>5220</td>
<td>5</td>
<td>25%</td>
<td>456</td>
<td>5472</td>
<td>5</td>
</tr>
<tr>
<td>Excess</td>
<td>Excess</td>
<td>6</td>
<td>30%</td>
<td>Excess</td>
<td>Excess</td>
<td>6</td>
</tr>
<tr>
<td>OVER</td>
<td>OVER</td>
<td>OVER</td>
<td>OVER</td>
<td>OVER KHS.</td>
<td>OVER KHS.</td>
<td>OVER KHS.</td>
</tr>
<tr>
<td>K£1740</td>
<td>K£20880</td>
<td>K£1824</td>
<td>K£21888</td>
<td>K£37,040</td>
<td>K£444,480</td>
<td></td>
</tr>
</tbody>
</table>

**Personal Relief:**
- **SHS. 726 per month (SHS. 8712 per annum)**
- **SHS. 800 per month (SHS. 9600 per annum)**
- **SHS. 1056 per month (SHS. 12672 per annum)**
## LOW INTEREST RATES BENEFIT

### COMMISSIONER’S PRESCRIBED RATES OF INTEREST:
#### YEARS 2001 - 2004

<table>
<thead>
<tr>
<th>YEAR 2001</th>
<th>YEAR 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERIOD APPLICABLE</td>
<td>RATE APPLICABLE</td>
</tr>
<tr>
<td>January – June</td>
<td>11%</td>
</tr>
<tr>
<td>July – December</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>YEAR 2002</th>
<th>YEAR 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>January – June</td>
<td>12%</td>
</tr>
<tr>
<td>July – December</td>
<td>8%</td>
</tr>
</tbody>
</table>
**FRINGE BENEFIT TAX**

**MARKET INTEREST RATES: YEARS 2001 - 2004**

The Commissioner of Income Tax published the following Market Interest Rates to be applied for the years 2002 and 2003.

<table>
<thead>
<tr>
<th>YEAR 2001</th>
<th>YEAR 2002</th>
<th>YEAR 2003</th>
<th>YEAR 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>MONTH</td>
<td>RATE</td>
<td>MONTH</td>
<td>RATE</td>
</tr>
<tr>
<td>January</td>
<td>14%</td>
<td>January</td>
<td>11%</td>
</tr>
<tr>
<td>February</td>
<td>15%</td>
<td>February</td>
<td>11%</td>
</tr>
<tr>
<td>March</td>
<td>14%</td>
<td>March</td>
<td>11%</td>
</tr>
<tr>
<td>April</td>
<td>12%</td>
<td>April</td>
<td>10%</td>
</tr>
<tr>
<td>May</td>
<td>10%</td>
<td>May</td>
<td>10%</td>
</tr>
<tr>
<td>June</td>
<td>11%</td>
<td>June</td>
<td>10%</td>
</tr>
<tr>
<td>July</td>
<td>11%</td>
<td>July</td>
<td>8%</td>
</tr>
<tr>
<td>August</td>
<td>11%</td>
<td>August</td>
<td>8%</td>
</tr>
<tr>
<td>September</td>
<td>11%</td>
<td>September</td>
<td>8%</td>
</tr>
<tr>
<td>October</td>
<td>12%</td>
<td>October</td>
<td>8%</td>
</tr>
<tr>
<td>November</td>
<td>12%</td>
<td>November</td>
<td>8%</td>
</tr>
<tr>
<td>December</td>
<td>12%</td>
<td>December</td>
<td>8%</td>
</tr>
</tbody>
</table>
LIST OF P.A.Y.E FORMS USED BY EMPLOYERS

P7    EMPLOYERS GUIDE TO PAYE SYSTEMS
      (INCLUDES MONTHLY TAX TABLES)

P9A    TAX DEDUCTION CARD (BENEFITS/OWNER
       OCCUPIERS INTEREST/NORMAL CASES)

P9A (HOSP)    TAX DEDUCTION CARDS (HOME OWNERSHIP
              SAVINGS PLAN)

P9B    TAX DEDUCTION CARD (TAX FREE
       REMUNERATION)

P10    EMPLOYERS COVERING CERTIFICATES
       END OF YEAR RETURNS

P10A    SUPPORTING LIST TO END OF YEAR
        CERTIFICATE

P10B    FRINGE BENEFIT TAX RETURN

P10C    EMPLOYER’S CERTIFICATE (WCPS CASES ONLY)

P11    CREDIT SLIP PAY IN BOOK