Libra Consulting

Tax Update February 2021

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Tax Update

1.Introduction

As Kenya Revenue Authority (KRA) seek to enhance its collections, they have introduced new taxes such as Digital Tax and altered tax rates in others. Below are the tax changes effected on 1st January 2021.

2.Individual Income Tax

The following Pay As You Earn (PAYE) tax rates shall apply to individual income with effect from 1st January 2021.

AnnualTax Bands	Monthly Tax Bands	Tax Rate
0 -288,000	0 -24,000	10%
On the next 10,000	On the next 8,333	25%
Amount above 388,000	Amount above32,333	30%
Personal Relief: 28,800 annually or 2,400 per month		

3.Value Added Tax

Effective January 1st, 2021 Value Added Tax rate reverted to 16% from the previous rate 14% meant to cushion business from adverse effects of Covid-19.

4.Minimum Tax

The minimum tax is a tax payable at a rate of 1% on gross turnover effective 1st January 2021. The tax is payable on 20th day of the 4th,6th, 9th,and 12thmonth of the financial year. The minimum tax will be an alternative tax to instalment tax and will only be payable when it exceeds the instalment tax. In the case where instalment tax is higher than the minimum tax, the former will be due.

I**ncomes exempt from minimum tax are:**

1.Employment income

2.Income subject to residential rental income

3.Income subject to Turnover Tax

4.Income subject to capital gains Tax

5.Income from the mining sector

6.Persons engaged in business whose retail price is controlled by the government.

7.Persons engaged in the insurance business.

The taxpayers affected by the minimum tax include:

1.Companies making losses.

2.Businesses with low margins

3.New businesses

4.Businesses that are Capital intensive with significant tax incentives.

5.Digital Service Tax

Digital Service Tax is a tax payable on income derived or accrued in Kenya from services offered through a digital marketplace at the rate of 1.5% on the gross transactional value. Payment of this tax is effective from 1st January 2021.

Some of the services where the tax applies include digital marketplaces that connect buyers and sellers, streaming and downloading of digital content such as music, media-based subscriptions, online ticketing, among others.

For non-residents, this tax will be final. For Kenyan residents, the tax is treated as an advance tax to be offset against taxes payable in the financial year.

Incomes subject to withholding tax are exempt from digital tax.

6.Voluntary Tax Disclosure Programme

This is a programme that allows relief on penalties and interest, subject to the commissioner's approval, on any diclosed tax liability previously undicslosed in the 5 years period- 1st July 2015 to 30th June 2020.

The programme started on 1st January and shall run for three years to 31st December, 2023. Taxpayers who make full payment of the disclosed taxes in 2021 will get 100% relief in penalties and interest while those who pay in 2022 and 2023 relief at a rate of 50% and 25% respectively.

Taxpayers not eligible for the programme if:

1.They are under audit, compliance verification or investigation.

2.They have been served with a notice to investigate or carry out a compliance check.

3.Party to ongoing legal process concerning tax

You are welcome to contact any of us on these or any other tax issues.

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