



TAX ALERT: JULY 2023 KENYA EMPLOYMENT INCOME TAX (PAYE) CHANGES

Effective 1st July 2023, the Government, through the Kenya Finance Act 2023 (“the Act”), has introduced new PAYE bands of 32.5% for monthly incomes between KES. 500,000 to KES. 800,000 and 35% for incomes above KES. 800,000, as per the table below:

Monthly Gross Pay (KES.)	Annual Gross Pay (KES.)	Tax Rate (%)
Up to 24,000	Up to 288,000	10
24,001 - 32,333	288,001 - 388,000	25
32,334 - 500,000	388,001 - 6,000,000	30
500,001 - 800,000	6,000,001 - 9,600,000	32.5
Above 800,000	Above 9,600,000	35

Also effective from 1st July 2023, the Act has amended the Kenya Employment Act 2007 to introduce an Affordable Housing Levy, deducted at 1.5% of the employee’s gross monthly pay, with the employer 100% matching the employee’s contribution as part of the total monthly levy contributions.

Further, effective from 1st July 2023 (except the last change below), the Act has made the following changes related to employment income:

- Employee mileage reimbursements at the prevailing AA Kenya approved rates will not be a taxable benefit on the employee, except reimbursements higher than the AA rates, which will be taxable.
- Club entrance and subscription fees paid by the employer for an employee and allowed against the employer’s income shall be a taxable benefit on the employee.
- There is an amendment to the definition of 'market value' for ESOP plans, set to the exercise date for tax purposes.
- There will be tax exemption on income earned by a non-resident contractor, sub-contractor, consultant or employee in a project financed through a 100% grant under an agreement between the Government and the development partner.
- Effective 1st Jan. 2024, an additional relief of the lower of 15% for contributions or KES. 60,000 to a post-retirement medical fund for tax resident individuals.

NB: In early July 2023, the High Court of Kenya had issued conservatory orders suspending the 2023 Kenya Finance Act. On 28th July 2023, the Court of Appeal lifted those orders, pending the hearing and determination of the appeal. Consequently, as at 28th July 2023, the 2023 Kenya Finance Act is now

operational. However, some provisions on the employment income tax calculation that is effective July 2023 might change, especially on the Affordable Housing Levy, based on the appeal's final determination.

IMPLICATIONS

1. Starting with the payroll processing for July 2023 and the PAYE and Housing Levy returns due on or before 9th August 2023, employers, employees and the general public are advised to implement the above changes to their payroll processing.
2. Payroll and accounting systems/ records will need to be updated for the July 2023 payroll onwards, to appropriately calculate the new contributions.
3. Employers need to budget appropriately for the new employer Housing Levy contribution amounts.
4. Employees need to take note of their new pay slip computations as the additional monthly PAYE bands (applicable to monthly incomes above KES. 500,000) and Housing Levy contributions (applicable to all employees, with no capping) will lower an employee's net pay after all deductions.

Sample our free UPDATED monthly PAYE calculator on the following link;
<http://www.pna.co.ke/resources/payee-tax-calculator/>

For further information and assistance, including queries from employers who had already processed the July 2023 payroll before the Court of Appeal decision on 28th July 2023, please get in touch with us through any of the contacts below:

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