



## **TAX ALERT: UPDATED KENYA NSSF CONTRIBUTIONS EFFECTIVE FEB. 2023**

There have been legal impediments since the National Social Security Fund (NSSF) Act No. 45 of 2013 (“the Act”) was enacted in Dec. 2013, giving rise to new NSSF rates.

In Feb. 2023, the Court of Appeal found that The Employment and Labour Relations Court (ELRC) erred in pronouncing the Act illegal. It determined that ELRC had no authority to do so, as that was a preserve of the High Court. Consequently, the Act is now legal, allowing the government to enforce it.

The updated NSSF rates will take effect from the payroll month of February 2023.

There will be a lower earnings limit (LEL) for employees who make less than KES. 6,000, with an upper earnings limit (UEL) for employees who earn KES. 18,000 or above.

The monthly matching contributions by both employees and employers will rise from the current KES. 400 to 12% of a worker's monthly pensionable income (6% from the employee and 6% from the employer - both contributing an equal amount), with a maximum contribution of KES. 2,160 for workers earning more than KES. 18,000 per month. Employee contributions will still be drawn directly from their salaries and wages while employer contributions will still come directly from the employer.

Contributions relating to the earnings below the LEL of the earnings (a maximum of KES. 720) will be credited to what will be known as a Tier I account while the balance of the contribution for earnings between the LEL and the UEL (up to a maximum of KES 1,440) will be credited to what will be known as a Tier II account.

Sample computations are indicated in the following table:

Sample Scenarios (in KES.)	Employee Earnings	Pensionable Earnings	Tier I Pensionable Earnings	Tier I Employee Deduction	Tier I Employer Deduction	Tier I Total Contribution	Tier II Pensionable Earnings	Tier II Employee Deduction	Tier II Employer Deduction	Tier II Total Contribn.	Total NSSF Contribn.
1	3,000	3,000	3,000	180	180	360	-	-	-	-	360
2	4,500	4,500	4,500	270	270	540	-	-	-	-	540
3	6,000	6,000	6,000	360	360	720	-	-	-	-	720
4	10,000	10,000	6,000	360	360	720	4,000	240	240	480	1,200
5	14,000	14,000	6,000	360	360	720	8,000	480	480	960	1,680
6	18,000	18,000	6,000	360	360	720	12,000	720	720	1,440	2,160
7	20,000	18,000	6,000	360	360	720	12,000	720	720	1,440	2,160
8	100,000	18,000	6,000	360	360	720	12,000	720	720	1,440	2,160
9	500,000	18,000	6,000	360	360	720	12,000	720	720	1,440	2,160

Further, the Act's Third Schedule also contains the following provisions, indicating a planned progression of contribution rates:

1. The Lower Earnings Limit and the Upper Earnings Limit shall, for the first four years after the commencement date, be in accordance with the Table below.
2. After the fourth year and thereafter:
  - a) the Lower Earnings Limit shall be, for each financial year, the amount gazetted by the Cabinet Secretary from time to time as the average statutory minimum monthly basic wage for the top urban centres, second tier urban centres and rural areas for the year; and
  - b) the Upper Earnings Limit shall, for each financial year, be the level of earnings equal to four times National Average Earnings.

Year	Lower Earnings Limit	Upper Earnings Limit
1	6,000	50% of National Average Earnings
2	7,000	1x National Average Earnings
3	8,000	2x National Average Earnings
4	9,000	3x National Average Earnings
Year 5 onwards	Lower earnings limit as provided in Regulation 2(a) of the Schedule	4x National Average Earnings

## IMPLICATIONS

1. Payroll and accounting systems/ records will need to be updated for the Feb. 2023 payroll onwards, to appropriately calculate the new contributions.
2. Employers need to budget appropriately for the increased employer NSSF contribution amounts.
3. Employees need to take note of their new pay slip computations as the additional monthly employee payments will lower an employee's net pay after all deductions. However, the increased contributions to the NSSF Fund should be a welcome option for employees who are not part of a private pension scheme, as this will help them save more for their retirement. Employees should also note that there will be a slight drop in PAYE tax, as NSSF employee contributions are allowable deductions before arriving at one's taxable pay.

Sample our free UPDATED monthly PAYE calculator on the following link;

<https://www.pna.co.ke/resources/payee-tax-calculator/>

For further information or assistance, please get in touch with us through any of the contacts below:

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