

TAX ALERT

Tax changes effective 1st January 2021

1. Vat Tax Rate Reversal & Income Tax rate change.

a. Vat Tax Rate Reversal

Effective 1st January 2021, the Kenya government confirmed that it will be reversing the VAT rate to 16% through the special issue of Kenya Gazette Notice no.214 of December 2020. The rate had, effective 1st April 2020, been reduced from 16% to 14% through tax amendment act 2020 to mitigate the adverse effects of Covid-19.

b. New PAYE rates

The PAYE rates have been changed effective 1 January 2021 to affect January pay through tax Laws amendment bill published on 24th December 2020. The applicable monthly personal relief will remain Kshs. 2,400 and yearly Kshs. 28,800. The new brackets are as follows,

	Monthly	Yearly	Rate
on the first	24,000	288,000	10%
on the next	8,333	100,000	25%
in excess of	32,333	388,000	30%

c. Corporate Tax

Effective 1 January 2021 the corporate tax rate has been increased from 25% to 30% of taxable income.

2. Minimum Tax

Minimum tax was introduced by the Finance Bill 2020 to be effective from 1 January 2021. The rate will be at 1% of the total turnover payable in installments similar to installment tax. One will be subject to either minimum tax or installment tax, whichever is higher. The following persons are however exempt from minimum tax:-

- a) Persons engaged in business whose retail price is controlled by the government.
- b) Persons involved in insurance business.

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3. Digital Service Tax

Digital Service Tax was introduced by Finance Bill 2020 and effective 1 January 2021 will be payable by businesses and companies who derive income in Kenya through provision of digital market services.

4. Monthly Rental Income (MRI) Threshold Changes

Effective 1 January 2021, the monthly rental residential income lower and upper thresholds have been changed. Persons subject to monthly rental residential income will be those whose annual residential rental income is in excess of Kshs. 288,000 but does not exceed Kshs. 15 million.

5. Voluntary Tax Disclosure Programme

The Finance Bill 2020 introduced this programme to last for 3 years from 1 January 2021. This is a programme where a person discloses his tax liabilities to the commissioner for purposes of being granted relief on penalties and interest on the tax disclosed.

6. Turnover Tax changes

The Amendment Act 2020 had a complete overhaul of the turnover tax. Turnover tax is now payable by businesses including incorporated companies whose annual turnover is more than one million shillings but does not exceed or is not expected to exceed five million shillings during any year of income. The rate is at one percent and the returns are done monthly on or before the 20th day of the following month.

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