1. **The Law**

Kenya Revenue Authority (KRA) wishes to inform taxpayers and the general public that the **Finance Act 2015** has introduced a new **Section 123C** in the Income Tax Act Cap 470 Laws of Kenya which provides for Tax Amnesty for landlords (individual or company).

2. **Period Covered by the Tax Amnesty**

The tax amnesty runs for a period of 12 months starting **1st July 2015 to 30th June 2016**.

3. **Eligibility for Amnesty**

Landlords, who will fully declare their undisclosed rental income for years 2014 and 2015, submit **tax amnesty returns** and pay **principal tax** on or before 30th June 2016 will be eligible for amnesty. The Landlords will be eligible for 100% amnesty on principal taxes, penalties and interest for the year 2013 and prior period. Further, waiver on penalties and interest for the years 2014 and 2015 will be granted.

Note : This is on condition that they fully declare their undisclosed rental income and pay principal taxes due.

The following individuals will also qualify for amnesty;

a) **Deceased Landlords**

   All deceased landlords are eligible for the amnesty. The estate administrator or legal personal representative is allowed to account for tax on rental income on behalf of the deceased and therefore can apply for the amnesty.

b) **Kenyan Living in Diaspora**

   Kenyans living in the Diaspora and earning rental income from a property in Kenya are eligible for the amnesty provided they voluntarily declare and pay the taxes for year 2014 and 2015.

   Any Kenyan living out of the country but owns property in Kenya is required to pay tax in Kenya on the rent earned at the graduated rate scale on net rent income.

c) **Non residents**

   Those earning rental income from property in Kenya

4. **Amnesty Exceptions**

The tax amnesty shall not apply in any cases where;

a) The person has already been assessed or is currently under tax compliance check, audit or investigation as at 30th June 2015.

b) If, to the best judgment of the Commissioner, a full disclosure and declaration of the rental income and tax due has not been made.

c) If principal tax declared has not been fully paid within the amnesty period or by 30th June 2016.

5. **Application for Tax Amnesty**
The online module for filing the Amnesty return has now been deployed on iTax system. All landlords wishing to take advantage of the Tax Amnesty on Rental Income are required to file the amnesty returns for years 2014 and 2015 through this module.

Please note that filing the amnesty returns and making full payment will serve as an amnesty application and therefore no separate application will be required.

The returns and payment of principal tax must be made within the amnesty period or before 30th June 2016.

**Note:** In cases where landlords’ fails to fully disclose tax due and KRA has evidence, further tax assessment shall be made and payment of tax due (including penalties and interest) shall be enforced.

### 6. Filing of Amnesty Return

The Amnesty Return must be filed online via iTax System.

**To file online, first register with iTax via link: [https://itax.kra.go.ke](https://itax.kra.go.ke).**

Once you log on to iTax using your KRA PIN and password, Go to ‘Returns’ menu, Select the ‘Tax Obligation’ as ‘Income Tax – Amnesty’ and indicate the return period appropriately. Download the return and proceed to complete other details, upload and submit return.

Note that Interest and penalty shall be waived automatically upon full payment of principal tax.

**NB:** A simplified step by step guide for Return filling, application and processing of tax amnesty on rental income is available at the KRA Website.

### 7. Amnesty Certificate

Upon satisfying all the requirements, including filing the tax amnesty returns for years 2014 and 2015 and paying all taxes thereof, the Commissioner shall issue an Amnesty Certificate from 1st July 2016.

Note: Applicants shall not be required to apply for the waiver of tax interest and penalties once they have filed return online and paid principal tax due in full.

**NB:** Please note that the deadline for the amnesty application is 30th June 2016.

### 8. Tax Computation

Taxpayers are required to prepare a Rent Schedule for all gross rental income; deduct all (supported) expenses wholly and exclusively incurred in the production of the income e.g. repairs, maintenance, caretaker costs, land rates, insurance, land rent, agent fees, grounds men, etc. Tax will be computed on net rent income.

Where a person has no documentation to support expenditure, a deduction of forty percent (40%) of gross rental income shall be allowed as expenses.

**Please note:** Once you file your amnesty return online in itax, the system will automatically compute tax due. The tax payable will be duly reflected in the E-slip generated.

### 9. Applicable Tax Rates

The taxation rates are dependent on whether the person is a resident or non-resident as follows;

1. For resident individuals, the annual tax rates (on Total Annual income including net rent income) are graduated and calculated on net rent based on the following current individual tax rates:

<table>
<thead>
<tr>
<th>Total Annual Income</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kshs. 121,968</td>
<td>10%</td>
</tr>
</tbody>
</table>

On the next Kshs. 114,912 ...................... 15%
On the next Kshs. 114,912 .................... 20%
On the next Kshs. 114,912 .....................25%
On all income over Kshs. 466,704.........30%

Personal tax relief of Kshs 13,944 p.a. will be applicable if not previously claimed.

2. For companies, the net rental income is taxed at 30%.
3. Non resident landlords are subject to a final withholding tax at 30% on gross rents.

10. How to Compute Income Tax on Rental Income

a) Prepare a rent schedule for all let property showing the number of properties, rent received per property, gross rent received and all expenses incurred per property.
b) Deduct only allowable and supported expenses to arrive at the net rent. **Examples of tax computations are provided below.**
c) Complete an amnesty tax return by declaring the gross rent and deductible expenses.
d) The system will compute the tax payable and generate an E-slip for payment.

**Worked out Example 1: Resident Individuals**

Mr. Landlord has two properties from which he is earning rents as follows:

- Property A with 5 units, at Kshs. 20,000 per month per unit.
- Property B with 10 units at Kshs. 15,000 per month per unit.

Assumptions:
1. All units were occupied by tenants throughout the accounting period of 2014.
2. During the accounting period, he incurred the following expenses:
   - i) Land Rates – Kshs.10,000
   - ii) Property insurance – Kshs. 20,000
   - iii) Agents fees – Kshs. 30,000
   - iv) Repairs – Kshs. 160,000
   - v) School fees – Kshs. 120,000*
   - vi) Loan interest – Kshs. 85,000
   - vii) Electricity – Kshs. 60,000
   - viii) During the year, his principal loan repayment amounted to Kshs. 250,000**
3. His accounting period ended on 31st December 2014.

Computation of taxable rent income is as follows:

**Gross Rent income for the year:**

Property A - 5 units x Kshs. 20,000 x 12 months = 1,200,000
Property B – 10 units x Kshs. 15,000 x 12 months = 1,800,000
Total Rent income in Kshs = 3,000,000
Less: Allowable expenses (Kshs.):

- Land Rates: 10,000
- Insurance: 20,000
- Agent’s fees: 30,000
- Repairs: 160,000
- Loan interest: 85,000
- Electricity: 60,000

**365,000**

Net taxable rent income (Kshs.) 2,635,000

Notes:

* School fees is a personal expenditure therefore is not an allowable deduction.

** Principal Loan repayment is a capital item and not an allowable deduction.

a) Computation of Mr. Landlord’s tax for the year (on the assumption that he does not have any other incomes):

Taxable annual net rent income for the year - Kshs. **2,635,000**

- The first Kshs. 121,968 @ 10% 12,197
- The next Kshs. 114,912 @ 15% 17,237
- The next Kshs. 114,912 @ 20% 22,982
- The next Kshs. 114,912 @ 25% 28,728
- The balance Kshs. 2,168,296 @ 30% **650,488**

Total tax Payable 731,632

Less: Personal relief 13,944

Net tax payable 717,688

b) During the amnesty period, if he had not paid any instalments in advance, then the total principle tax to pay will be Kshs. **717,688** in 2014 return.

c) The amount should be paid upon filing of the amnesty return.

d) This computation will apply to year 2015 as well.

Note: Once you file your Amnesty return online in iTax, the system will automatically compute tax due. The tax payable will be duly reflected in the E-slip generated.

11. Tax Payment Process

Through iTax system, taxpayers shall generate electronic payment slip (E-Slip) to use in paying taxes due to Commissioner, Domestic Taxes at their bank or via Mpesa or Airtel money.

To generate the E-slip click on the ‘Payment’ tab displayed immediately after uploading and submitting your tax return and proceed to fill the details.

Otherwise, if you did not generate an E-slip immediately after uploading your return, go to ‘Payments’ menu, select ‘Payment Registration’, choose the ‘Tax Head’ (Income Tax) and ‘Tax Sub Head’ (Income Tax - Amnesty). Using the PRN No, Pay in full the declared principal tax at your bank; or via Mpesa or Airtel money.

To pay via Mpesa, taxpayers shall use the KRA Pay Bill Number **572572** and the Account Number is the Payment Registration Number quoted at the top right corner of
the electronic Payment Slip generated via iTax system upon successful online filing of the return. 

Pay via Airtel Money: Dial KRA USSD code *572# to access the menu and select the E-slip generation self-service menu. Proceed to make payment using the E-slip number. 

**Note:** A simplified step by step guide for Return filling, application and processing of tax amnesty on rental income is available at the KRA Website (web page named: 2015 Landlords Legislation)

12. **Note**

*Please note that no other tax amnesty shall be granted to landlords. This is the only opportunity available to landlords who wish to break away from the past back taxes baggage and comply moving forward. Once the amnesty period is over, KRA shall aggressively audit all non compliant landlords and enforce payment of full taxes including penalties and interest as per the current tax regime.*

For more details on the Tax amnesty on rental income visit the KRA website; [www.kra.go.ke](http://www.kra.go.ke) (web page named: 2015 Landlords Legislation)

**Further Clarification**

For further clarification, please contact the KRA Call Centre; Tel: +254 (020)4999999/ +254 (0711) 099 999 or via email: callcentre@kra.go.ke. You may also contact the KRA Help Desk on Tel: +254 (020) 2816095 or visit the Desk at Times Tower Building, Ground Floor or the nearest KRA Station for assistance. You can also communicate with us via email; rentalincome@kra.go.ke

*Note that the Income Tax Act Cap 470 of the laws of Kenya is available at KRA website: [www.kra.go.ke](http://www.kra.go.ke):*

**Disclaimer:** Taxpayers are notified that if there is any inconsistency between the provision of the Revenue Laws and the information contained herein, then the Revenue Laws shall prevail.

April 2016

**Enquiries**

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Email: callcentre@kra.go.ke

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http://www.kra.go.ke/portal