



## Staff Payroll

PAYE



Affordable Housing Levy



Digital Content Monetisation

# *G.K NAHASHON & COMPANY*

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## *FINANCE ACT, 2023*

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Simplified Analysis

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# Preamble

The Finance Act, 2023 (the Act) was signed into effect on the 26<sup>th</sup> June 2023.

Majority of the amendments provided by the act will take effect starting 1<sup>st</sup> July 2023, while others will start on 1<sup>st</sup> September 2023 and 1<sup>st</sup> January 2024.

Some of the major changes introduced by the Act affected individual income tax, social contribution, and VAT compliance for businesses.

The Act introduced new tax bands and rates for the Pay As You Earn income tax so that a monthly income of between Ksh 500,000- Ksh 800,000 will pay PAYE at a rate of 32.5% and for any income exceeding Ksh 800,00 at 35%.

The Act also introduced changes to the social contribution regime by introducing the Affordable Housing Levy payable on all gross incomes at a rate of 1.5%.

Other major changes include the provisions netting into tax, the digital content business by defining “digital content monetization” and providing for digital asset tax.

In this document, a summarized analysis of the Act has been provided.

# Income Tax

Tax Area Affected	Effectuated Changes	Effective Date
Turnover Tax (ToT)	Rate to increase from 1% to 3%.	1 <sup>st</sup> July 2023
Turnover Tax (ToT) Bands	Band to fall to turnover not exceeding Ksh. 25M.	1 <sup>st</sup> July 2023
Members' club & Trade Associations	Entire income now taxable excluding joining fees, welfare contributions & subscriptions.	1 <sup>st</sup> July 2023
Club Fees & subscription	Not allowable for deduction.	1 <sup>st</sup> January 2024
Gains by Partnerships	Now subject to CGT (Capital Gains Tax).	1 <sup>st</sup> July 2023
CGT Due Date	Transferors to pay CGT on the earlier of when they receive full purchase price or when transfer is registered.	1 <sup>st</sup> July 2023
eTIMS Compliance	Disallow expenses not supported by eTIMS invoices.	1 <sup>st</sup> January 2024
Monthly Rental Income Tax (MRI)	Rate to reduce to 7.5% from 10%.	1 <sup>st</sup> January 2024
Loose tools/implements	100% tax deduction on the cost.	1 <sup>st</sup> July 2023
Advanced tax Motor Vehicles (Cargo Vehicles)	To increase to a higher of Kes 3,000/ton/yr or Kes 5,000 /yr.	1 <sup>st</sup> January 2024
Digital Asset Tax	Introduced; rate at 3%	1 <sup>st</sup> September 2023

# Withholding Tax

Tax Area Affected	Effectuated Change	Effective Date
WHT due date	Due date for WHT changed to 5 working days after payment made	1 <sup>st</sup> July 2023
WHT on sales promotion, marketing, and advertising	WHT introduced: 5% of gross amount paid in excess of Kes24,000/month	1 <sup>st</sup> July 2023
Property Management Companies	To become withholding tax agents (to remit with a return MRI with 5 working days	1 <sup>st</sup> July 2023

# Pay As You Earn

Tax Area Affected	Effectuated Changes		Effective Date
Mileage (as approved by cards from Automobile Associate of Kenya Kenya)	Exclusion from tax (travel & mileage claims incurred in the performance of official duties).		1 <sup>st</sup> July 2023
PAYE Bands	<b>Amount (per month)</b>	<b>PAYE Rate</b>	1 <sup>st</sup> July 2023
	On the first Ksh 24,000	10%	
	On the next Ksh. 8,333	25%	
	On the next Ksh. 467, 666	30%	
	On the next Ksh. 300,000	32.5%	
	On all income over Ksh.800,000	35%	
Employees Share Ownership Plan (ESOP): For <b>start-ups</b>	Taxable benefits: taxation deferred until the expiry of 5 years.		1 <sup>st</sup> January 2024

(businesses with an annual turnover of not more than Ksh. 1M, in existence for not more than 5 Years.		
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## Value Added Tax (VAT)

Tax Area Affected	Effected Change	Effective Date
eTIMS Compliance	Disallow expenses not supported by eTIMS invoices.	1 <sup>st</sup> January 2024
Input VAT Claims	Supply must have been declared by the supplier.	1 <sup>st</sup> July 2023
VAT Act on refund of tax on bad debts	Extension of the time period to apply for a refund from 3-4 years to 3-10 years.	1 <sup>st</sup> July 2023
VAT on imported digital services.	Suppliers are required to register for VAT irrespective of their turnover.	1 <sup>st</sup> July 2023
Pump Prices	Petroleum products are to be subjected to 16% VAT.	1 <sup>st</sup> July 2023
LPG (Liquefied Petroleum Gas)	Exempted from VAT.	1 <sup>st</sup> July 2023

# Excise Duty

Tax Area Affected	Effectuated Changes		Effective Date
Offence relating to excise stamps introduced	Fine of Kes 5 Million or jail term not exceeding 3 years or both.		1 <sup>st</sup> July 2023
Rates changes for excisable services	<b>Services</b>	<b>Rate</b>	1 <sup>st</sup> July 2023
	Telephone and Internet data services	15%	
	Money transfer services by banks & other agencies	15%	
	Money transfer by cellular	15%	
	Betting	12.5%	
	Gaming	12.5%	
	Prize competition	12.5%	
	Lottery (exclude charitable lotteries)	12.5%	
	Fees on ads on alcoholic beverages, betting, gaming, lotteries and prize competitions	15%	

# Tax Procedures Act

Tax Area Affected	Effectuated Changes	Effective Date
Amnesty on interests, penalties, and fines on unpaid tax	100% waiver (principal tax settled before 31st December 2022, and taxes agreed on and settled before 30th June 2024)	1 <sup>st</sup> September 2023
No more relief or abandonment on unpaid tax.	No more relief/ abandonment on account of hardship, equity, or difficulty in recovering the tax	1 <sup>st</sup> July 2023
Real Estate Agents	The Commissioner allowed to appoint Real Estate Agents as Withholding Agents.	1 <sup>st</sup> July 2023
Overpaid Tax-Refund	Taxpayer to offset outstanding and future tax liabilities against overpaid taxes.	1 <sup>st</sup> July 2023
Refunds processing timeline	Timeline to reduce to 6 Months from the current 2 years.	1 <sup>st</sup> July 2023
Objection decision	Introduce a 7-day timeline to provide information & documents, failure to which the Commissioner can issue an objection decision within 60 days.	1 <sup>st</sup> July 2023
Alternative Dispute Resolution timeline	Timeline increased to 120 days from the current 90 days.	1 <sup>st</sup> July 2023

## Other Acts

Tax Area Affected	Effectuated Change	Effective Date
Affordable Housing Levy	Mandatory affordable housing levy payable by the employer and employees at 1.5% of the employee's gross salary.	1 <sup>st</sup> July 2023