

## Residential Rental Income Tax

Beginning 1<sup>st</sup> January 2016, the Kenya Revenue Authority (KRA) placed into effect a simplified tax regime known as **Residential Rental Income Tax**, as proposed in the Finance Act 2015.

Covered by section 6A of the Income Tax Act, this tax regime levies a **10% tax on monthly gross rental income**, applicable to residents (companies and individuals) and will apply to rental income that is accrued or derived from Kenya from the use or occupation of residential property, provided that the rent income **does not exceed KShs. 10 million**.

Eligible persons, including partners earning residential income from partnerships where the individual Partners' Income is less than KShs 10 million, shall be required to file a tax return via iTax and pay **tax due on or before the 20th day** of the following month in which rent is received from the tenant.

**Due Date:** Accordingly, the first return for January 2016 shall be due by 20th February 2016.

The tax returns aforementioned must be filed monthly, regardless of whether residential rental income is earned annually, semi-annually or quarterly. For landlords not earning residential rental income on a monthly basis, a nil return should be filed before the due date for the months in which the rent is not received, and payments should be made when rent is received from the tenant.

Any tax not paid by the monthly due date will attract penalties and interest as specified in the Income Tax Act.

### **Exceptions to the Tax Regime**

The residential rental income tax does not apply in the following cases:

- 1) Landlords earning residential income over KShs. 10 million
- 2) Non-resident landlords
- 3) Rental income from commercial property

### **Conclusion**

The new tax regime is designed to simplify the process of determining and paying obligations on rental income by introducing a flat rate 10% on gross rental income. Due to the tax being charged on the gross rental income, landlords will no longer be required to produce records documenting

expenses. Furthermore, filing the returns via iTax should allow both users and the KRA to track their obligations on a convenient and timely basis. The residential rental income tax paid on a monthly basis shall be a **FINAL TAX**.

**Accounting:** Landlords shall not be required to provide records to account for expenses.

### **Disclaimer**

*While all reasonable care has been taken in preparation of this analysis, Thakrar Financial Consultants accept no responsibility for any error it may contain whether caused by negligence or otherwise, or for any loss, however caused, and sustained by any person that relies on it.*

*Thakrar Financial Consultants would be pleased to advise readers on how to apply the principles set out in this analysis to their specific circumstances. We recommend that professional advice is obtained as the analysis has been written in general terms and therefore cannot be relied on to cover specific situations. Application of the principles set out will depend on the particular circumstances involved.*

*The proposals listed above are based on the Finance Act and other information available to Thakrar Financial Consultants.*