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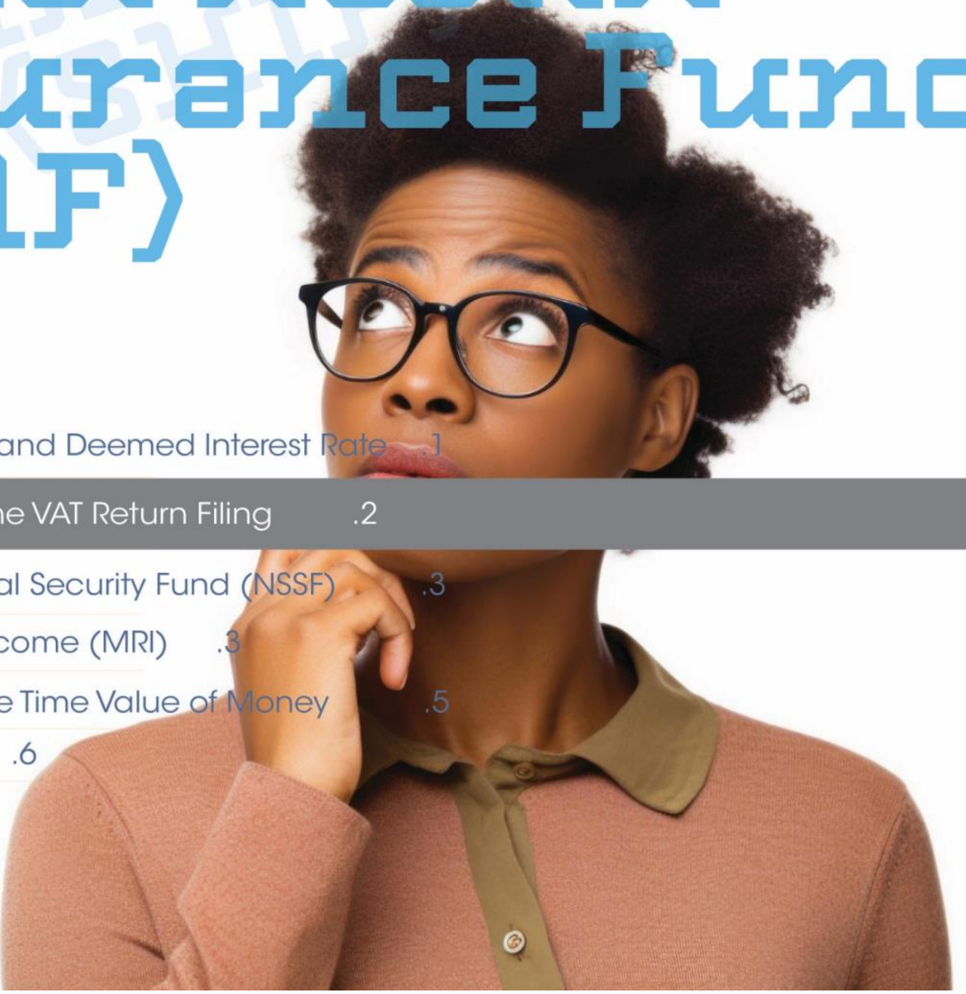
Mbaya and Associates LLP
CERTIFIED PUBLIC ACCOUNTANTS

Understanding the Social Health Insurance Fund

Understanding the Social Health Insurance Fund (SHIF)



Newsletter

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Introduction

We are pleased to release the second edition of our tax newsletter. We appreciate the lively feedback and fruitful engagement we have had in the previous editions of our newsletters. This issue will summarize the key aspects in changing tax matters in Kenya.

On the right column of the newsletter, you will find contact details for key members of our team who can help answer any questions you may have about the issues highlighted in this newsletter or any other matter.

We are interested in your feedback on the items covered and what topics you would like covered in the future.

Please provide any feedback at tax@mbaya.co.ke

In this issue

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» From the **TaxDesk** »

Fringe Benefit Tax and Deemed Interest Rate

Through a public notice dated 22nd January 2024, KRA notified the general public of the recent changes to the Fringe Benefit Tax and the Deemed Interest Rate as below. Low interest benefit results from the charging of a low rate of interest on an employment benefit as compared to the commissioner's prescribed marked rate of interest. The Low Interest Benefit has hit the highest @ 14%, after a long period without changing. This is applicable for the months of January, February to March 2024.

Fringe Benefit Tax (FBT)

This is a tax applicable when employers provide loans to their employees and charge an interest lower than the prescribed rate (ITA-section 12(b)). This becomes a benefit to the employee, for which the employer needs to file and pay Fringe Benefit Tax. FBT is paid by the employer at the corporate tax rate of 30 % on total taxable value each month. The tax is payable to KRA on or before the 9th day of the month following the month of contribution. For the purposes of Section 12B of the Income Tax Act, the Market Interest Rate is 15%. This rate is applicable for the three months of January, February and March 2024.

Deemed Interest Rate

This is the amount of notional interest assumed to be payable by a resident person in relation to any outstanding loan provided or secured by a non-resident person, where such loan has been provided interest free. For purposes of section 16(2) (ja), the prescribed rate of interest is 15%. This is applicable for the months of January, February and March 2024.

Withholding tax rate of 15% on the deemed interest shall be deducted and paid to the Commissioner by the 20th day of the month following the month of computation.

An example of a Fringe Benefit Tax Computation

On 4th January 2024, an employee gets a loan of Ksh 5 million from his/her employer at a rate of 12 %. FBT will be calculated as follows:

Loan amount:	**Ksh. 5,000,000**
Interest charged:	12% per annum
Market Interest rate for the month:	15% per annum
Fringe Benefit Rate on saving by the employee = 15%-12% = 3%	
Fringe Benefit = 5,000,000 x 3% = 150,000 per Annum. i.e. Ksh. 12,500 per Month.	

Fringe Benefit tax payable by the employer for the month of January 2024 is therefore Ksh. 3,750 (12,500 x 30%). The tax should be payable by the 9th of February 2024 together with the PAYE for the same month of January 2024.

The FBT computation should be done and tax paid monthly using the applicable rates until the loan has been paid in full.

Simplification of the VAT Return Filing

Through a public notice dated 12th February 2024, The Kenya Revenue Authority (KRA) wishes to update all VAT registered Taxpayers that further to the public Notice on "*Simplification of the VAT Return Filing*" the VAT return will now be pre-filled with tax information available to KRA with effect from the **February 2024** tax period and not the January 2024 tax period as earlier communicated.

This adjustment is intended to prevail upon VAT registered Taxpayers to ensure that **ALL** their input VAT claims are supported by valid TIMS/eTIMS generated tax invoices since any input VAT claim that is not validated through TIMS/eTIMS or against existing customs import declarations for import VAT claims will not be allowed.

In this regard, KRA reminds all Taxpayers of their obligation to **issue** electronic tax invoices and **transmit** the invoice details to KRA.

We therefore advise all VAT registered Taxpayers to proceed and file their **January 2024** VAT self-assessment returns by 20th February 2024. Further, we remind Taxpayers that upon roll out of the simplified VAT return, they will be required to confirm the accuracy of the declaration before submission of the return.

We further advise the VAT registered taxpayers that they are required to confirm the accuracy of the declaration before submission of the return since the pre-filled VAT return is a self-assessment return as prescribed in Section 28(4) of the Tax Procedures Act, CAP 469B. A step-by-step guide on filing of the auto-populated VAT return is available on the KRA website for reference.

The National Social Security Fund (NSSF)

NSSF offers social protection to all workers in Kenya, both in the formal and informal sectors. It is mandated to implement the NSSF Act, 2013 and Article 43 of the Kenya constitution on Economic and Social rights.

NSSF has introduced new contribution rates for 2024, marking the second year of implementation under the NSSF Act, 2013.

The lower earnings limit (Tier 1) or the amount that is considered the lowest pensionable salary has been raised to Kshs. 7,000 up from the current Kshs. 6,000. This category of employees will now contribute Kshs. 420 from the current Kshs. 360. The Upper Earnings Limit (Tier 2) has also been raised to Kshs. 29,000 from the current Kshs. 18,000, meaning employees under this category will contribute Kshs. 1,740 up from Kshs. 1,080.

Remittances to the fund should be made by the 9th day of each subsequent month.

Monthly Rental Income (MRI)

The Finance Act 2023 introduced new rate of seven point five per centum (7.5%) of the gross rental receipts of a taxable resident person, thereby deleting the current rate ten per centum (10%). The rate applies to all residential rent income earners.

The effective date to this new rate is 1st January 2024, payable by the 20th day of every subsequent month.

Advance Tax

Effective 1st January 2024 the new rates for advance tax will be as follows as per the Finance Act 2023 amendment.

Vans, pickup trucks, prime movers, trailers and lorries to Kshs 2,500 per tonne of load capacity per year or Kshs 5,000 per year whichever is higher.

Saloons, station wagons, mini-buses, buses and coaches to Kshs 100 per passenger capacity per month or Kshs 5,000 per year whichever is higher.

Understanding the Social Health Insurance Fund (SHIF)

Social Health Insurance Fund (SHIF) is here to address gaps in health coverage. The recent green light given by the Court of Appeal for the implementation of the Social Health Insurance Act (SHIA), Primary Health Care Act (PHCA), and Digital Health Act (DHA) marks a pivotal moment in Kenyan healthcare.

As organizations gear up to adapt to the changes, we aim to provide our clients with valuable insights into the shift from the National Health Insurance Fund (NHIF) to the Social Health Insurance Fund (SHIF)

This initiative (SHIF) replaces the 57-year-old NHIF and addresses gaps in coverage especially for Kenyans in the informal sector. It aims to revolutionize healthcare accessibility in Kenya.

Under SHIF, the contribution structure undergoes significant adjustments. All workers are now expected to contribute 2.75% of their gross pay towards the health fund, eliminating the previous cap of Sh1,700 for higher earners.

Understanding the new deduction rates is crucial. SHIF introduces a progressive system, ensuring affordability and equity. We see adjustments for various income brackets, with a notable shift in deductions for each salary range as follows.

GROSS PAY (KSHS)	CURRENT NHIF (KSHS)	SHIF (KSHS)
20,000	750	550
50,000	1,200	1,375
100,000	1,700	2,750
200,000	1,700	5,500
500,000	1,700	13,750
1,000,000	1,700	27,500

SHIF makes contribution mandatory for all adults seeking government services. Furthermore, it requires foreigners staying for over 12 months to enrol, emphasizing the universal nature of the health insurance scheme.

As organizations brace for the transition from NHIF to SHIF, HR professionals play a pivotal role in implementing these changes seamlessly. There will be a transition that allows Kenyans to make their contributions to NHIF for a one-year period. The NHIF fund will cease to be operational in December this year and the Social Health Insurance Fund (SHIF) will take over.

Understanding the Time Value of Money

The time value of money is a financial concept that holds that the value of a dollar today is worth more than the value of a dollar in the future. This is true because money you have now can be invested for a financial return, also the impact of inflation will reduce the future value of the same amount of money.

This philosophy holds true because money today can be invested and potentially grow into a larger amount in the future.

The present value of a future cash flow is calculated by dividing the future cash flow by a discount factor that incorporates the amount of time that will pass and expected interest rates. The future value of a sum of money today is calculated by multiplying the amount of cash by a function of the expected rate of return over the expected time period.

The time value of money is used to make strategic, long-term financial decisions such as whether to invest in a project or which cash flow sequence is most favourable.

Why Does Time Value of Money Matter?

The time value of money helps decision-makers select the best option. It equalizes options based on timing, as absolute dollar amounts spanning different time spans should not be valued equally.

Businesses often use time value of money to compare projects with varying cashflows. Businesses also use time value of money to determine whether a project with an initial cash outflow and subsequent cash inflows will be profitable. Companies may also be required to use time value of money principles for external reporting requirements.

Individual investors use time value of money to better understand the true value of their investments and obligations over time. The time value of money is used to calculate what an investor's retirement balance will be in the future.

As indicated earlier, we are interested in your feedback on the items covered and what topics you would like covered in the future. Please provide any feedback at **tax@mbaya.co.ke**

Tax Due Dates

Withholding Tax | 20th Day of the following month

Pay as You Earn | 9th Day of the following month

VAT | 20th Day of the following month

Balance of Tax on Self-Assessment | 4th Month after year end

Monthly Rental Income | 20th Day of the following month

Instalment Tax

1st Instalment | 20th day of the 4th month after year end

2nd Instalment | 20th day of the 6th month after year end

3rd Instalment | 20th day of the 9th month after year end

4th Instalment | 20th day of the 12th month after year end

Kindly note that all the returns must be filed on I tax while the payments e-slips must be generated from the I-Tax platform.

Digital Service Tax (DST)

20th day of the following month