

Application of Corporation Tax Rates for 2020 and 2021

Introduction of corporation tax rates changes

The Tax Laws Amendment Act 2020 published on 25th April 2020 introduced a reduced corporate tax rate of 25% effective from 25th April 2020. The Tax Laws Amendment Act (No.2) 2020 reverted the corporation tax rate to the old rate of 30% effective from 1st January 2021.

Following clarification by Kenya Revenue Authority (KRA) through their 19th January 2021 Public Notice, income earned by companies will be taxed as follows:

Corporation tax rates for the year 2020

The corporation tax rates shall be applicable as follows:

Accounting period ended	Rate – %
On or before 31 st March 2020	30%
30 th April 2020 to 31 st December 2020	25%

The above effectively means that any company with a year ended on 30th April 2020 to 31st December 2020, will be subject to 25% tax for the period ended on that date. This is in line with RSM's interpretation

Corporation tax rates for the year 2021

For companies whose accounting period ends after 1st January 2021, the corporation tax rates shall be applied as follows:

Period ended	25% tax rate	30% tax rate
31 st Jan 2021	1 st Feb 2020 to 31 st Dec 2020 (11 months)	1 st Jan 2021 to 31 st Jan 2021 (1 month)
28 th Feb 2021	1 st Mar 2020 to 31 st Dec 2020 (10 months)	1 st Jan 2021 to 28 th Feb 2021 (2 months)
31 st Mar 2021	1 st April 2020 to 31 st Dec 2020 (9 months)	1 st Jan 2021 to 31 st Mar 2021 (3 months)
31 st Dec 2021	None	1 st Jan 2021 to 31 st Dec 2021 (12 months)

In apportioning the income, the taxpayer shall work out the annual taxable income and apportion this based on the number of months' the accounting period straddles between 2020 and 2021, and apply the tax rates applicable to each year of income.

Instalment taxes payable quarterly will continue to be calculated at 110% of the tax liability of the preceding year if using prior year basis.

However, if current year basis is lower, then quarterly instalment tax will be calculated using estimated taxable income for the year and the tax rate applicable for the purposes of computing current year instalment taxes will be 30% for ease of administration. Since the 4th instalment tax falls due at the end of a company's financial year, the company is in a better position to determine the total tax liability payable. Therefore, the tax liability can be computed using the different rates as provided in the above table, and any overpayments that may have resulted from paying instalment taxes using current year basis can be used to reduce the tax payable towards the 4th instalment tax.

Please note that minimum tax at 1% of gross turnover also needs to be considered from 1st January 2021 against the instalment taxes payable in 2021. Where minimum tax for the quarter is higher than instalment tax, minimum tax shall be payable.

KRA is in the process of changing the iTax system to incorporate the new rates effectively. Any erroneous penalties and interest if validated shall be corrected when the rates are fully effective.