

Turnover Tax





1. OLD TURNOVER TAX

Turnover tax was introduced in Kenya in 2007 (w.e.f. 1st January 2008) to enhance revenue collection, improve tax administration and reduce compliance and collection costs. Turnover Tax was introduced by the Finance Act 2007 through the provision of the Income Tax Act, Cap 470, **under section 12c.**

Turnover Tax was later replaced by Presumptive Income Tax through the Finance Act 2018 then reintroduced via Finance Act 2019 w.e.f 1st January 2020.



Attributes of the Old Turnover Tax

- Tax is Final
- Applies to resident individuals with less than 5m turnover

Exemptions

- I. Employment Income
- II. Businesses with turnover of Kshs. 500,000 and below
- III. Exempt income under the 1st Schedule of the Income Tax Act.
- IV. Business incomes subject to a final Withholding tax
- V. Limited companies
- VI. Rental Income
- VII. Professional, management fees

Benefits of Turnover Tax

- I. Simplifies the tax procedure.
- II. Simplifies tax computation.
- III. Makes returns filing easier.
- IV. Simplifies record keeping.
- V. Reduces cost of compliance

TOT was charged at the rate of 3% on gross sales per annum.

Books to maintain

- I. Cash books
- II. Sales receipts and invoices (Daily Sales Summary)
- III. Purchases invoices
- IV. Bank statements

Payment and Return

- I. Submit Quarterly Return
- II. Make Quarterly payments i.e. 20th day of the month immediately following the end of the quarter.





2. NEW TURNOVER TAX (ToT) REGIME w.e.f. April 2020

President Uhuru Kenyatta assented the Tax (Amendment) Bill, 2020 bill into law with a view of cushioning Kenyans against the adverse effects of COVID-19. Turnover tax experienced major transformation especially by setting the new threshold to cover entities earning annual revenue between Kshs. 1m to Kshs. 50m.

Attributes of the New ToT (COVID Times)

- I. Turnover Tax new threshold to cover entities earning an annual revenue between Kshs. 1m to Kshs. 50m. Income below Kshs. 500,000 is exempt for ToT.
- II. Reduction of the turnover tax rate from 3% to 1% on income Net of VAT.
- III. Expenses are not deductible.
- IV. Entities opting for Turnover Tax must also register for VAT if they meet the criteria.
- V. Entity opting for ToT shall initiate and complete the registration on ITAX to migrate.
- VI. Entities shall file the last Audited account and tax returns up to 31st March 2020.
- VII. Those with brought forward taxable losses as at 1st April 2020 to forfeit.
- VIII. ToT will be chargeable regardless whether the entity is making profits or not.
- IX. The removal of Presumptive Tax (w.e.f. 25.04.2020)
- X. Entities within turnover between Kshs.1m to 50m shall be deemed to have informed the commissioner of their choice stay under Income Tax regime by not registering for TOT.
- XI. Expansion of the Turnover Tax regime to incorporated entities i.e. companies
- XII. The payment and filing due date is on or before 20th of the following month
- XIII. Reduction of the penalty for late filing of Turnover Tax return from Kshs 5,000 to Kshs 1,000.





Exemptions of TOT are as follows;

- Rental Income (MRI)
- Management, Professionals, Training fee.
- Income subjected to a final withholding tax
- Exempt income under the Income Tax Act.
- Employment Income

Disclaimer

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