

# MARKETING & COMMUNICATION DEPARTMENT

**Tax Education Division**

**The Surgical Society Conference**

**Pride Inn Shanzu, Mombasa**

**By**

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# SCOPE

- ❖ Income Tax .
- ❖ Types of Doctor's income chargeable to tax
- ❖ Compliance
- ❖ Tax incentives (Reliefs)
- ❖ Penalties and interest
- ❖ PAYE
- ❖ Ease of Paying Taxes

# TYPES OF INCOME CHARGEABLE TO TAX

- ❖ Income Tax is a direct tax on income and is charged for each year of income upon all the income of a person, whether resident or non-resident, which accrued in or was derived from Kenya.
- ❖ Income tax is payable by individuals and non-individuals on all incomes
- ❖ Business income from any trade
- ❖ Income from employment or from services rendered
- ❖ Professional Income
- ❖ Rent Income

# OTHER INCOMES CHARGEABLE TO TAX

- ❖ Pension Income
- ❖ Capital Gains.
- ❖ Investment Income - dividends and interest among others.

## Professional fees

- ❖ Income tax is charged on fees net of allowable expenses incurred in earning the professional fees

# INCOME FROM BUSINESS

- ❖ Doctors running own clinics need to account for business income on profit basis
- ❖ Clinics which are 'Incorporated' Companies need to keep proper books of accounts as per Sec. 8 of TPA
- ❖ Care needs to be taken so that expenses and losses from one line of business is not claimed from another unrelated source of income e.g. Employment Income; Professional Income

# Value Added Tax (VAT)

- ❖ Medical services are exempt from VAT as well as some equipment and drugs.  
Hence Input Tax cannot be claimed for the exempt portion
- ❖ Certain cosmetics and food supplements attract VAT.
- ❖ Construction of Hospitals attract favorable VAT treatment on an approval by the Cabinet Secretary & KRA
- ❖ Construction services can be sourced without VAT after getting exemption

# INCOME TAX – ALLOWABLE EXPENSES TO DOCTORS

- ❖ They have to be wholly and exclusively incurred in the production of the income.
- ❖ Examples of allowable expenses include;
  - Salaries and wages paid to assistants and employees
  - Cost of medicine, syringes and other disposables
  - Subscriptions to Professional bodies
  - Cost of medical journals, Telephone and Internet expenses
  - Rent paid for the office/premises
  - Wear and Tear of medical equipment and other fixed assets

# INDIVIDUAL INCOME TAX RETURNS

- ❖ Return of income and accounts is due on/or before the last day of the sixth month after the end of the accounting period-*(what many refer to as the June return)*
- ❖ This is done through the iTax Portal which is very convenient as it is simple, swift and secure



# INCOME TAX - INSTALLMENTS

- ❖ Tax is payable in four installments by both individuals and corporate bodies with tax payable in any year.
- ❖ Individuals whose tax liability for a particular year is wholly paid under PAYE or whose final Tax does not exceed Ksh.40,000 are excluded.

# INCOME TAX - INSTALLMENTS

- ❖ Installments are spread evenly at 25% of estimated tax due
- ❖ These are payable on or before the 20<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, 9<sup>th</sup>, 12<sup>th</sup> months of the year of income for all taxpayers
- ❖ Failure to file income tax return or failure to pay the tax due attracts legal sanctions.

# OTHER TAXES

❖ The Domestic Taxes Department also administers the following taxes:

-Value Added Taxes

-Excise Duty

-Capital Gains Tax

❖ Tax incentives include;

-Personal Relief

-Insurance Relief

-Mortgage Relief

# COMPLIANCE

- Areas of concern:
  - Understatement of income
  - Non disclosure of incomes
  - Non- Filing of Returns

N.B.

- Failure to comply attracts penalties and interests at various rates as stipulated in the Tax Procedure Act.

# Key Risk Areas

## 1. Honoraria

- This is a payment in recognition of acts or professional services for which ordinarily no price tag is set.
- It is taxed at the time of receipt

## 2. Locum

- A locum is a person who temporarily fulfils the duties of another e.g. a locum doctor or nurse. This is mostly done as part time engagement.
- It is taxable at the relevant top rate of 30%

### 3. Employment versus Consultancy

- ❖ Most doctors ordinarily operate their clinics from where they would treat their patients and at times refer them for admission to specific hospitals.
- ❖ The hospital in the above scenario in consultation with the doctor would bill the patient and withhold tax at 5% for consultancy services.
- ❖ The same doctor may be having an arrangement (written or unwritten) with the hospital to go and treat the hospital's patients once a week say for 3 hours for an agreed payment.
- ❖ This second scenario would be treated as an employment case **due to the element of control.**

**END OF PRESENTATION**

**THANK YOU**