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Payroll Compliance in Kenya

Overview

Nestled in the heart of East Africa, Kenya is known for its diverse landscapes, rich wildlife, and vibrant cultural heritage. Boasting Nairobi as its bustling capital, this country boasts an array of natural wonders, from sweeping savannahs to majestic peaks such as Mount Kenya, and a beautiful coastline along the Indian Ocean.

Notably, Kenya is the only country in Africa that has a national park in the city. The main local delicacy that defines Kenyan cuisine is the ugali and nyama choma (roast meat), a staple enjoyed by many across the country. With a population of 54 million people from diverse 42 tribes, Kenya unifies under the official languages of English and Kiswahili. Holding a Gross Domestic Product (GDP) of approximately USD 95 billion, Kenya's economic landscape reflects its resilience as a powerhouse in Africa.

Basic Country Facts



Capital
Nairobi



Population
54.027 million
[The World Bank](#)



Currency
Kenyan Shilling (KSh, also KES)



GDP per Capita
USD \$2,099.30 (as of 2022)
[The World Bank](#)

Emerging Industries in Kenya

Economic Landscape	Kenya boasts the largest and most diversified economy in East Africa, with agriculture, manufacturing, tourism, and technology sectors driving growth.
Investment Climate	The government has implemented various incentives to attract foreign investment, including tax breaks, investment guarantees, and special economic zones.
Infrastructure Development	Infrastructure development is a top priority in Kenya, with massive investments in roads, railways, ports, and energy projects.
Innovation and Technology Hub	With a burgeoning digital economy and a growing demand for innovative solutions, Kenya offers fertile ground for tech investors seeking high-growth opportunities.
Tourism Potential	Investors can capitalise on the tourism sector by developing luxury resorts, eco-lodges, and adventure tourism experiences.
Agriculture Opportunities	Agriculture is the backbone of Kenya's economy, employing a significant portion of the population and contributing to export earnings. Investors can explore opportunities in agribusiness, including horticulture, floriculture, dairy farming, and food processing.
Renewable Energy Potential	Kenya has immense potential for renewable energy development, particularly in geothermal, wind, and solar power.

Government Incentives to Investors

Tax Incentives

n 1

Corporate Tax Rate Reduction

The government has reduced the corporate tax rate to attract investors. For example, the standard corporate tax rate was lowered from 30% to 25% for resident companies.

n 2

Tax Holidays

Certain sectors or projects may qualify for tax holidays, during which they are exempt from corporate income tax for a specified period.

n 3

Investment Deductions

Investors may be eligible for investment deductions on qualifying capital expenditures, allowing them to reduce their taxable income.

Special Economic Zones (SEZs)

- The Kenyan government has established special economic zones in various regions to promote industrialisation, export-oriented production, and economic growth.
- Investors operating within SEZs benefit from incentives such as tax breaks, customs duty exemptions, streamlined regulatory processes, and access to supportive infrastructure.

Export Processing Zones (EPZs)

- Like SEZs, EPZs offer tax incentives and streamlined procedures for companies in export-oriented manufacturing and processing activities.
- EPZ enterprises enjoy benefits such as exemption from corporate income tax, withholding tax on dividends, and import duties on raw materials and capital goods.

Investment Guarantees

The Kenyan government provides investment guarantees to protect investors against non-commercial risks, including expropriation, currency transfer restrictions, and breach of contract.

Infrastructure Support

The government invests in infrastructure development to enhance connectivity and facilitate business operations. This includes road networks, ports, railways, energy infrastructure, and telecommunications.

Investment Promotion Agencies

Agencies such as the Kenya Investment Authority (KenInvest) provide support and assistance to investors throughout the investment process.

Sector-Specific Incentives

Depending on the sector, investors may qualify for additional incentives tailored to their specific industry. For example, incentives for agriculture may include land lease incentives, VAT exemptions on agricultural inputs, and access to credit facilities.

Employers in Kenya

Becoming an Employer in Kenya

It is important to seek professional advice from lawyers, accountants, and HR experts to ensure that you comply with all legal requirements and regulations when becoming an employer in Kenya.

To become an employer in Kenya, there are several legal requirements and procedures that you must follow.

Mandatory Registrations of an Employer

Step 1	Registering Your Business Name / Company The first and most critical step while setting up your business is to register your business name and to secure an identity/ domain name.
Step 2	Kenya Revenue Authority (KRA) PIN Kenya Revenue Authority PIN is defined in the Tax Procedure Act 2015. (11), (12) and (13) and have made Taxpayer PIN mandatory when setting up a new business, opening bank accounts for the business in addition to filing of returns etc.
Step 3	Registration with National Social Security Fund National Social Security Fund (NSSF) is the statutory retirement benefits scheme and operates as a public trust. Its mandate is to offer social security protection to workers in the formal and informal sectors by providing retirement benefits to members.
Step 4	Registration with National Hospital Insurance Fund (NHIF) National Hospital Insurance Fund (NHIF) is a statutory retirement benefit scheme which provides limited in-patient medical insurance cover at accredited health facilities to eligible members from both the formal and informal sectors.
Step 5	Business Permit Business permits are a mandatory requirement for one to be able to conduct your business legally and with ease both in the capital city and in other towns.
Step 6	Registration with National Industrial Training Authority (NITA) It is a requirement for all employers to register with NITA. Registration as an employer is a legal requirement as per Section 5B of the Act and the Levy order.

Obligations of an Employer

Employers in Kenya are encouraged to promote employee development and provide a positive work environment that fosters employee productivity and job satisfaction.

- Registration and Compliance with Labour Laws
- Payment of Wages and Benefits
- Provision of a Safe Working Environment
- Non-discrimination and Equal Opportunity
- Respect for Employee Rights
- Proper Record-keeping and Reporting

Kenya Economic Outlook

Inflation

According to the Kenya Statistics Bureau, the overall year on year inflation rate as measured by the Consumer Price Index (CPI) was 6.9 per cent, in January 2024. This means that in January 2024, the general price level was 6.9 per cent higher than that of January 2023. The Inflation rate for January 2023 was sitting at 9.0 per cent.

GDP

In 2022 Kenya was ranked among 10 highest economies in Africa at USD 106 billion. On the regional side, Kenya is considered a powerhouse in Eastern Africa.

The country’s GDP performance strengthened in 2023 moving from 4.8% in 2022 to an estimated of 5% in 2023. According to the International Monetary Fund, the growth in GDP is expected to be at an estimated 5.83% in 2028.

Minimum wage in Kenya (compared to other East African Countries)

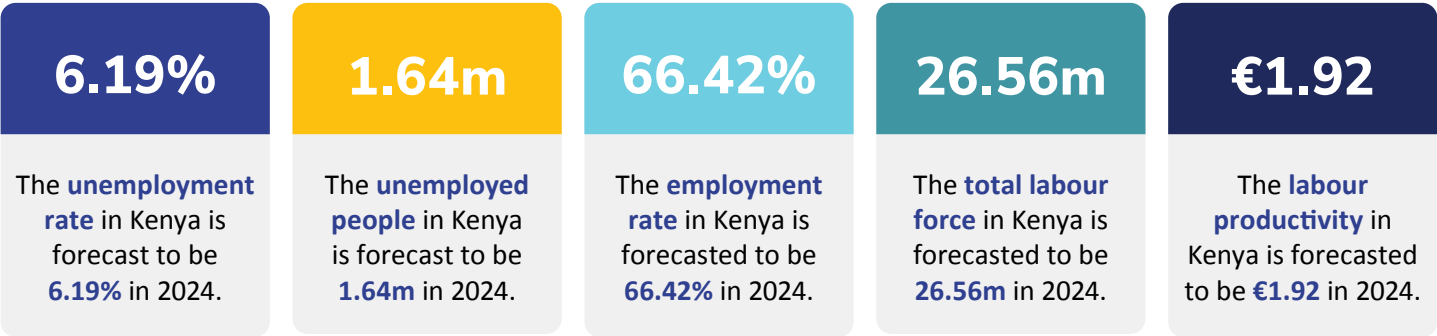
Here’s how the minimum wage in Kenya compares to other east African countries:

Kenya	± 101.505 USD/Month	Minimum salary wage in Kenya is 15120 KES/Month (101.505 USD/Month).
Tanzania	± 60 USD/Month	Employers who are in other sectors not provided for in the sectoral minimum wage board should pay their employees a minimum monthly wage of 150,000 TZS (Tanzanian Shillings) which is approximately 60 USD .
Uganda	± 33 USD/Month	As of 2024, the government proposed a bill that the minimum wage in Uganda was set at 130,000 UGX (Ugandan Shillings) per month for most sectors. This equates to approximately 33 USD per month . The same is yet to be approved for implementation.
Rwanda	± 1.84 USD/Day	Rwanda introduced a minimum wage in 2013. As of 2021, the minimum wage in Rwanda was set at 1000 RWF (Rwandan Francs) per day for non-agricultural workers, which is approximately 1.84 USD per day .

The Work Culture in Kenya

- The languages used at work in Kenya are **Swahili** and **English**.
- Kenyan worker generally works **8 am – 5 pm**, with a **one-hour lunch break**.
- Workers also receive at least **21 annual leave days per year** and approximately **12 public holidays**.
- In banking jobs, **banks** tend to be open from **9 am – 3 pm**, and sometimes on **Saturday mornings**.
- **Discrimination** of any kind and **sexual harassment** is **prohibited** in the workplace in Kenya.

Working Population in Kenya



Sources: [Statista Market Insights](#)

Employment Terms in Kenya

Types of Contract

Permanent Contract	These are long-term contracts where the employment relationship is indefinite. They outline the terms and conditions of employment, including salary, benefits, working hours, and termination procedures.
Fixed-Term Contract	These contracts have a defined duration, specifying the start and end dates of employment. They are used for temporary or project-based work and often include terms similar to permanent contracts but for a specified period.
Casual Contract	This type of contract is for irregular or sporadic work arrangements where the employee is engaged on an ad-hoc basis. Casual employees often have fewer benefits and limited job security compared to permanent or fixed-term employees.
Part-Time Contract	These contracts outline terms for employees working fewer hours than full-time employees. Part-time employees are entitled to benefits on a proportional basis compared to full-time staff.
Consultancy Contract	For specialised services, individuals or firms may be engaged under consultancy contracts, which differ from traditional employment contracts. These agreements often focus on specific tasks or projects for a specified period.

Probation Period & Working Hours

Probation Period	The probation period in Kenya is between 3 months to 6 months maximum as per the Kenyan employment labour law.
Working Hours	In Kenya, the standard maximum working hours for employees in most industries are 44 hours per week. This typically translates to eight hours per day, Monday through Friday, and four hours on either Saturday or Sunday. However, certain industries or specific job roles may have different working hour arrangements, such as shift work or alternative schedules, based on the nature of the work.
Night Shift	In Kenya, night shift working hours are typically defined as any period that includes at least three hours of work between 10:00 pm and 6:00 am.
Overtime Payment	According to Kenyan labour laws, overtime is usually calculated at a rate of at least 1.5 times the normal hourly rate for the additional hours worked.

Annual Leave

- The leave cycle in Kenya starts on the employment commencement date.
- The leave year is from 1st January to 31st December.
- Employees have the right to 1.75 days of annual leave per month, which equates to **21 days** of annual leave **per year**.
- Annual leave accrues progressively during the employment year. After the completion of each month of service, an employee earns a fraction of their annual leave entitlement.
- Rollover of leaves is at the discretion of the Employer Policy and will be provided to employees in case this is agreed in the Employment Contract.
- If an employment contract does not contain a leave rollover clause and an employee has, for example, 10 days of leave left at the end of the year, then the leaves will be forfeited.

Sick Leave

- The Employment Act also awards an employee a maximum of **7 days** of sick leave (fully paid) if they have worked for 2 months uninterrupted.
- To avoid abuse, the employer has a right to demand a medical certificate signed by a licensed medical practitioner to confirm the health status of the concerned employee.
- It's the duty of the employee to notify the employer of their sickness in a timely manner.
- If they do not recover fully, the employee may further earn a sick leave of 7 days with half pay for each period of 12 consecutive working months.
- He/she should, however, provide a certificate (signed by a licensed medical practitioner) to prove their incapacitation.

Maternity Leave

- Pregnant women are entitled to maternity pay of 100% of their salary for a maximum of **90 days** (equivalent to 3 months).

Paternity Leave

- Fathers are entitled to **14 days** paid paternity leave for the birth of a child.

Additional Leave

The following leaves are available in some organisations but are not provided for in the governing labour laws:

Study Leave	Example: 7 working days per year
Compassionate Leave	Example: 3 days per event
Sabbatical Leave	Example: Between one to a year
Leave of Absence	Example: 7 days per year
Special Leave	Example: 3 days per year

Termination

Termination by Mutual Agreement	Both the employer and the employee can mutually agree to terminate the contract. This often involves the terms of separation and any compensation to be paid, as agreed upon by both parties.
Termination by Notice	Either party can terminate the contract by providing notice as stipulated in the employment agreement or as prescribed by the law. The notice period varies based on the length of service and the terms agreed upon, typically ranging from one to three months.
Termination for Just Cause	Either party can terminate the contract for just cause, such as serious misconduct, repeated violations of company policies, gross negligence, incapacity to perform the job, or criminal behaviour.
Redundancy	Employers may terminate employment due to redundancy or restructuring of the organisation. This should follow due process and may involve providing compensation or alternative arrangements for affected employees.
Expiration of Contract	Fixed-term contracts naturally terminate upon the expiration of the agreed-upon term, without the need for notice unless specified otherwise in the contract.
Force Majeure	Termination due to circumstances beyond the employer's or employee's control, such as acts of nature or unforeseen events that make it impossible to continue the employment relationship.
Summary Dismissal	(Section 44 of the Employment Act) states that when an employer terminates the employment of an employee without notice or with less notice than that to which the employee is entitled, the basis for summary dismissal is that the employee has fundamentally breached their obligations arising under the contract of service.

Process of Dismissal

Process of Dismissal (Section 41 of the Employment Act - Notification and hearing before termination on the following grounds):



Notice Payment



Notice Requirement

Termination of employment is regulated under the Employment Act. A worker may be terminated after serving due notice or paying in lieu of notice. The length of the notice period depends on the type of employment contract.

- Notice period is not provided for a worker hired on daily basis; contract may be terminated at the end of working day without any prior notice.
- At least **7 days' notice** for workers during the probationary period (or payment in lieu of notice).
- Workers who get paid periodically for intervals shorter than one month (e.g. on weekly or fortnightly basis), a notice of equivalent period (a week or 15 days) may be served prior to contract termination.
- If workers are paid on a monthly basis or longer intervals, a 28-day notice must be served before contract termination.
- If an employer fails to give the termination notice, he/she must provide the wages and benefits that the employee would have earned during the notice period on the basis of average daily earnings over the past 12 months (provision of compensation in lieu of notice).
- If the termination was unjust, he/she may recommend the employer to pay wages for the notice period required to be given; the proportion of wages due for the period the employee has worked and any other loss consequent upon dismissal arising between the date of dismissal and the date of expiry of the notice period; and the equivalent of a number of months' wages or salary for a period not exceeding 12 months based on the gross monthly wage or salary of the employee at the time of dismissal. All the amounts are subject to statutory deductions.

Service Pay

- An employee who is employed under a contract of employment for more than 1 month is entitled to Service Pay at the end of the contract either by termination or by expiry.
- Service Pay is payable for each year worked and the terms shall be fixed in the contract of employment, internal policies, or collective bargaining agreements.
- An Employer who contributes NSSF is not required to pay Service Pay to its employees as the NSSF is recognised as a registered Pension Scheme by the Retirement Benefit Authority in Kenya.

Severance Pay

- There is no provision for severance pay in legislation for reasons other than redundancy.
- Severance pay, paid by the employer, in Kenya, is equivalent to **15 days' basic wages** for each completed year of employment.

Tax & NSSF Updates in Kenya

Finance Act 2023

Prior to Finance Act 2023

Monthly Pay Bands (KES)	Rate of Tax (%)
KES 0 – 24,000	10%
Next KES 8,333	25%
Income in Excess of KES 32,333	30%
Personal Relief	KES 2,400 monthly

Following Finance Act 2023

Monthly Pay Bands (KES)	Rate of Tax (%)
KES 0 – 24 000	10%
Next KES 8,333	25%
Next KES 467,667	30%
Next KES 300,000	32.5%
Above KES 800,000	35%
Personal Relief	KES 2,400 monthly

NSSF Changes

- Effective February 2024, the **Lower Earnings limit** has **increased** from KES 6,000 **to KES 7,000**. Simultaneously, the **Upper Limit** has increased from KES 18,000 **to KES 36,000**.
- The new changes have increased the NSSF contribution for both employee and employer as well as reduced the Taxable Earnings for the employee.

Description	Employee (KES)	Employer (KES)	Total Contribution Employee (KES)	Total Contribution Employer (KES)v
Lower (Tier 1) Before February 24	6,000	6,000	360	360
Lower (Tier 1) After February 24	7,000	7,000	420 (a)	420(b)
Upper (Tier 1) Before February 24	18,000	18,000	720	720
Upper (Tier 1) After February 24	36,000	36,000	1,740(c)	1,740(d)
Total Contribution effective February 24			840 (a+b)	3,520 (c+d)

Social Charges

Social Charges	Employee	Employer
National Hospital Insurance Fund (NHIF)	Vary at different salary levels with the lowest contribution being for those earning under KES 5,999 paying KES 150 monthly and those earning KES 100,000 and above monthly paying KES 1,700	N/A
National Industrial Training Authority	N/A	KES 50
Housing Levy *Refer to Notes	1.5% of the Gross Salary	1.5% of the Gross Salary

Notes:

- Kindly note that the Housing Levy was declared unconstitutional until the case is heard and determined.
- A change in the NHIF rate is under consideration, making it a fixed percentage of the employee salary at 2.75%.
- Stipend for interns is taxable when it is above KES 24,000.

Taxable and Non-taxable Allowances in Kenya

All cash allowances, such as house benefits and transport allowances, are taxable to the employees, whereas non-cash allowances, such as airtime, electricity, and water, are only taxable to the employees if the benefit exceeds KES 3,000.

Kindly note the following:

1. Telephone benefits are taxed at 30% of bills monthly. Taxed if 30% of the phone bill exceeds KES 3,000/= in a month unless private usage is isolated and charged to the individual taxable.
2. Per diem -the first KES 2,000 expended per day for the duration of time spent out of a normal workstation is not taxable; any amount above KES 2,000 will be taxable. However, one is allowed to apply to KRA at a higher rate than KES 2,000.
3. Motor vehicle benefit – An employee who has been provided with a motor vehicle is deemed to have received a benefit. The value of the motor vehicle benefit chargeable to the employee in each month shall be the higher of 2% of the initial capital expenditure incurred by the employer on the vehicle and the CC Rating of the vehicle.

KRA will consider applications for a lower rate of vehicle benefit where an employee has restricted use of an office vehicle allowances.

Payroll Administration in Kenya

Period	Employer Returns	Authority	Period	Due Date
Monthly	PAYE (Pay As You Earn)	KRA	1 st of month to end of month	9 th of the following month
Monthly	NSSF	NSSF	1 st of month to end of month	9 th of the following month
Monthly	NHIF	NHIF	1 st of month to end of month	9 th of the following month
Monthly	NITA	NITA	1 st of month to end of month	9 th of the following month

**At end of each year, an employer is obliged to provide an employee with a P9 Form that will allow the employee to file his annual return before the 30th of June.*

***Salary payments must be made latest by the 5th of the following month to all employees in Kenya.*

Workman Compensation and Medical Insurance

Workman Injury Benefit Act (WIBA)

WIBA policy covers employees of the Insured whilst on duty and engaged in the execution of the Insured's business and/or any project undertaken by the insured against accidental bodily injury, disablement, death, or occupational illness.

Compensation is payable under the provisions of WIBA Act 2007. The maximum benefit is set at 96 months' salary. The WIBA Plus policy cover, in addition to the above, also extends coverage to 24 hours.

Benefits to the Company

Costing of WIBA in Kenya is subject to many considerations involving, nature of work, annual salary and place where the employee is travelling to. **Medical Insurance is not mandatory but rather an agreement between the Employer and the Employee.**

Death	Compensation is equivalent to a maximum of 8 years earnings or 96 months earning.
Permanent Total Disability	Compensation is equivalent to a maximum of 8 years earnings or 96 months earning.
Temporary Total Disability	Compensation is equivalent to weekly earnings up to a maximum of 52 weeks.
Medical Expense	The policy provides for a free cover limit up to KES 100,00/- per employee. However, the insured may opt for an upper limit.
Funeral / Last Expense Cover	The policy provides for a free cover limit up to KES 30,000/- per employee. However, the insured may opt for an upper limit.

Immigration / Work Permits / Visas

- A Work Permit is a document issued by the Director of Immigration Services, under the provisions of section 40 of the Kenya Citizenship and Immigration Act, 2011, to enable foreign national(s) enter Kenya and engage in trade, prospecting, farming, business, professional employment, missionary activities in Kenya.
- The Director issues Work/Residence permits upon the recommendation of the Permit Determination Committee, an inter-ministerial Committee appointed by the Cabinet Secretary Ministry of Interior and Coordination of National Government under Section 40(1) of the Kenya Citizenship and Immigration Act, 2011.
- Kenya emphasises hiring locals over foreign nationals.
- Any person aggrieved by the decision of the Director regarding work/residence permit applications, may appeal to the Cabinet Secretary, for review of the decision (section 22(1) of Kenya Citizens and Foreign Nationals Management Service Act, 2011).
- All work permits are typically valid for two years, with the option to renew for an extra two years. Your employees can renew their work permits an unlimited number of times, but they must do it at least three months before the permit expires.

Here are some general documents and fees required when applying for a work permit in Kenya:

- Application form
- Passport
- 2 Passport-sized photographs
- Police clearance certificate
- Curriculum Vitae (CV) and educational certificates
- Employer's letter
- Proof of payment

Work permit application fees for Class D is:

Processing: KES 10,000 non-refundable

Issuance: KES 200,000 per year

Further information on work permit application can be found on:

<https://immigration.go.ke/work-permits-passes/class-d-employment/>

Note

The government made a proposal to increase the processing fees to KES 50,000 and issuance fee to KES 500,000 for two years.

Public Holiday

Date	Public Holiday
1 January	New Year's Day
Varies	Good Friday
Varies	Easter Monday
May 1	Labour Day
June 1	Madaraka Day
Depends on the sighting of the moon	Eid al-Fitr
Depends on the sighting of the moon	Eid al-Adha
October 10	Utamaduni Day
October 20	Mashujaa Day
December 12	Jamhuri Day
December 25	Christmas Day
December 26	Boxing Day

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Around the World with BIPO

At BIPO, we are committed to facilitating international business growth. Here's a quick look at how we foster discussions with the business community, sharing our expertise at local events across the region!

The Netherlands

2 Apr

Beyond Borders Singapore
Tech Showcase
with Roland Brouwer



Philippines

16 Apr

Ask Our Experts: Employee
Relations Matters in the Philippines
with Romano Kris Beler



Singapore

2 Apr

BIPO x SHCX Retail HR Salon
with Shirman Li & Henry Liew



3 Apr

NUS Program:
Understand Human Resource
Management System
with Karen Lee & Henry Liew



24-25 Apr

HR Tech Festival Asia 2024
with Rex Eng



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